SuMi TRUST
SUMITOMO MITSUI TRUST HOLDINGS

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ESG REPORT
2019/2020



Editorial Policy

Editorial Policy of the ESG Report

This report primarily brings together in one compilation our initiatives contributing to both the delivery of value to our stakeholders and the Sumitomo Mitsui Trust Group's (SuMi TRUST Group) pursuit of corporate value over the long term based on the concept of "Creating Shared Value" (CSV). The SuMi TRUST Group regards shared value as conceptually parallel to the environmental, social, and governance (ESG) concepts investors focus. In view of the surge in ESG investment in the past few years both in Japan and overseas, we have published the Integrated Report highlighting important linkages between ESG information and financial information since fiscal year 2017, upgrading our annual report. In contrast, the ESG Report is meant to provide comprehensive ESG information disclosures to investors and other stakeholders seeking more detailed ESG information. From this perspective, we view the ESG Report as having attributes that complement the Integrated Report.

The report is organized around six sustainability policies of the Group's basic policy regarding social responsibility (the "Sustainability Policy"). Themes introduced in Sustainability Policy 1 have been also featured in three booklets on Climate Change, Natural Capital, and Environmentally Friendly Property. We also publish the Stewardship Report and a digest report for seniors which contain their original information.

The report references GRI G4 standard.

Scope of This Report

Sumitomo Mitsui Trust Group (comprised of Sumitomo Mitsui Trust Holdings, Inc., Sumitomo Mitsui Trust Bank, Limited, and other group companies)

Target Readers

All stakeholders, including customers, shareholders and investors, employees, business partners, local communities, NPOs, governments, international institutions, etc.

Period Covered by This Report

October 1, 2018 to September 30, 2019

*This report also includes the most recent information on activities before fiscal year 2018 as well as after October 2019.

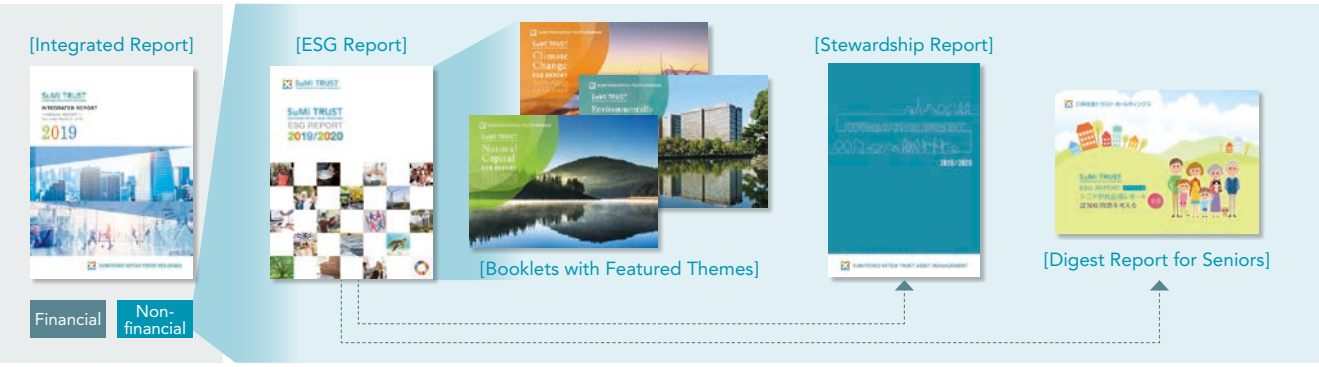
Reference Guidelines

GRI (Global Reporting Initiative) Standard

"Sustainability Reporting Standard"

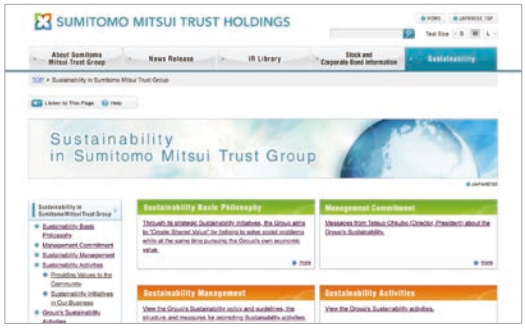
*For tables comparing GRI guidelines and information in our ESG report, please refer to the section from page 195.

We publish a variety of reports in several formats in response to reader needs.



Our website carries extensive information on the Sustainability activities that Sumitomo Mitsui Trust Group does not cover in this report.

Specifically, the website provides more detailed information on our initiatives related to issues such as successful aging and support for the environment and living creatures.



Sustainability in Sumitomo Mitsui Trust Group
https://www.smth.jp/en/csr/index.html

We issue a regular report on social contribution activities ("With You" activities).

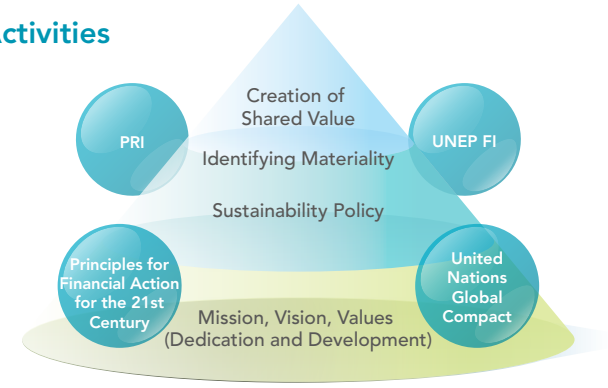
The quarterly journal "SuMi TRUST With You" reports on the "With You" social contribution activities of SuMi TRUST Bank (four issues per year).



Creating Shared Value through Sustainability Activities

"Creating Shared Value" (CSV) is the concept of companies creating social value by addressing society's needs and challenges while simultaneously creating their own economic value.

Sumitomo Mitsui Trust Group's (the "Group") pursuit of CSV is based on its Management Principles ("Mission"), Ideal Model ("Vision"), and Codes of Conduct ("Values"), as well as its Sustainability Policy—basic policy on the social responsibility of the Group. These policies identify our approach to creating economic value and social value.



Process of Creating Shared Value

While pursuing CSV, the Group aims to maximize the positive impact (and minimize the negative impact) across the three dimensions of the Sustainable Development Goals (SDGs): environmental, social, and economic. In this way, while creating a direct impact on our stakeholders, we indirectly support our stakeholders' impact on a sustainable society.

The Group is a signatory to the United Nations Global Compact, a global policy framework for corporate sustainability, and the "Principles for Financial Action towards a Sustainable Society (Principles for Financial Action for the 21st Century)," a set of voluntary guidelines established by Japan's major financial institutions. The Group aims to create shared value while respecting these principles and guidelines, including the above two, related to social responsibility.

Management Principles ("Mission")

(I) Swiftly provide comprehensive solutions to our clients by fully utilizing the significant expertise and comprehensive capabilities.

(II) Adhere to the principles of sound management based on a high degree of self-discipline with the background of fiduciary spirit and establish strong credibility from society.

(III) Strive to fulfill all shareholder expectations by creating distinct values through fusing the various functions featuring the trust bank group.

(IV) Offer a workplace where the diversity and creativity of its employees are more fully utilized to add value to the organization and where employees can have pride and be highly motivated in fulfilling their missions.

Ideal Model ("Vision")

—Towards "The Trust Bank"—

Based on the fiduciary spirit and with significant expertise and comprehensive capabilities, the Sumitomo Mitsui Trust Group will create distinct values by leveraging a new business model, combining its banking, asset management and administration, and real estate businesses, and will move onto the global stage as a leading trust bank group which boasts the largest and highest status in Japan.

Codes of Conduct ("Value")

In order to pursue the Management Principles of the Sumitomo Mitsui Trust Group, the executives and employees commit themselves to comply with the six Codes of Conduct described below.

Completely Client-oriented—Truthfulness and Loyalty
We will adhere to the highest degree of "Truthfulness and Loyalty" as well as credibility and sureness, and will carry out all our responsibilities for client satisfaction and comfort as our top priority.

Contribution to Society—Dedication and Development
We will remain dedicated in all our efforts, with "Frontier Spirit," and continue to contribute to society.

Realization of Organizational Capability—Trust and Creativity
We will realize our organizational capabilities with full of mutual trust and creativity through improvement by mutual learning and continuous personal transformation of various people who share the enthusiasm for trust.

Establishment of Individuality—Self-help and Self-discipline
With a spirit of self-help and self-discipline as well as a sense of ownership, we will carry out our responsibilities.

Strict Compliance with Applicable Laws and Regulations
We will strictly comply with all applicable laws, rules and regulations, and will ensure that all our corporate activities meet the highest standards of social norms.

Resolute Stance against Antisocial Forces
We will continue to take a resolute stance against antisocial forces, which may threaten public order and the security of civil society.

Sumitomo Mitsui Trust Group's

Basic Policy on Social Responsibility

(Sustainability Policy)

At Sumitomo Mitsui Trust Group, based on our Management Principles ("Mission"), our Ideal Model ("Vision") and our Codes of Conduct ("Value"), we respect dialogue with all stakeholders, such as clients, shareholders, investors, employees, business partners, local communities, NPOs, government authorities and international institutions, and play an active role in building a sustainable society.

1 Contribute to Solving Social and Environmental Problems through Business ▸010

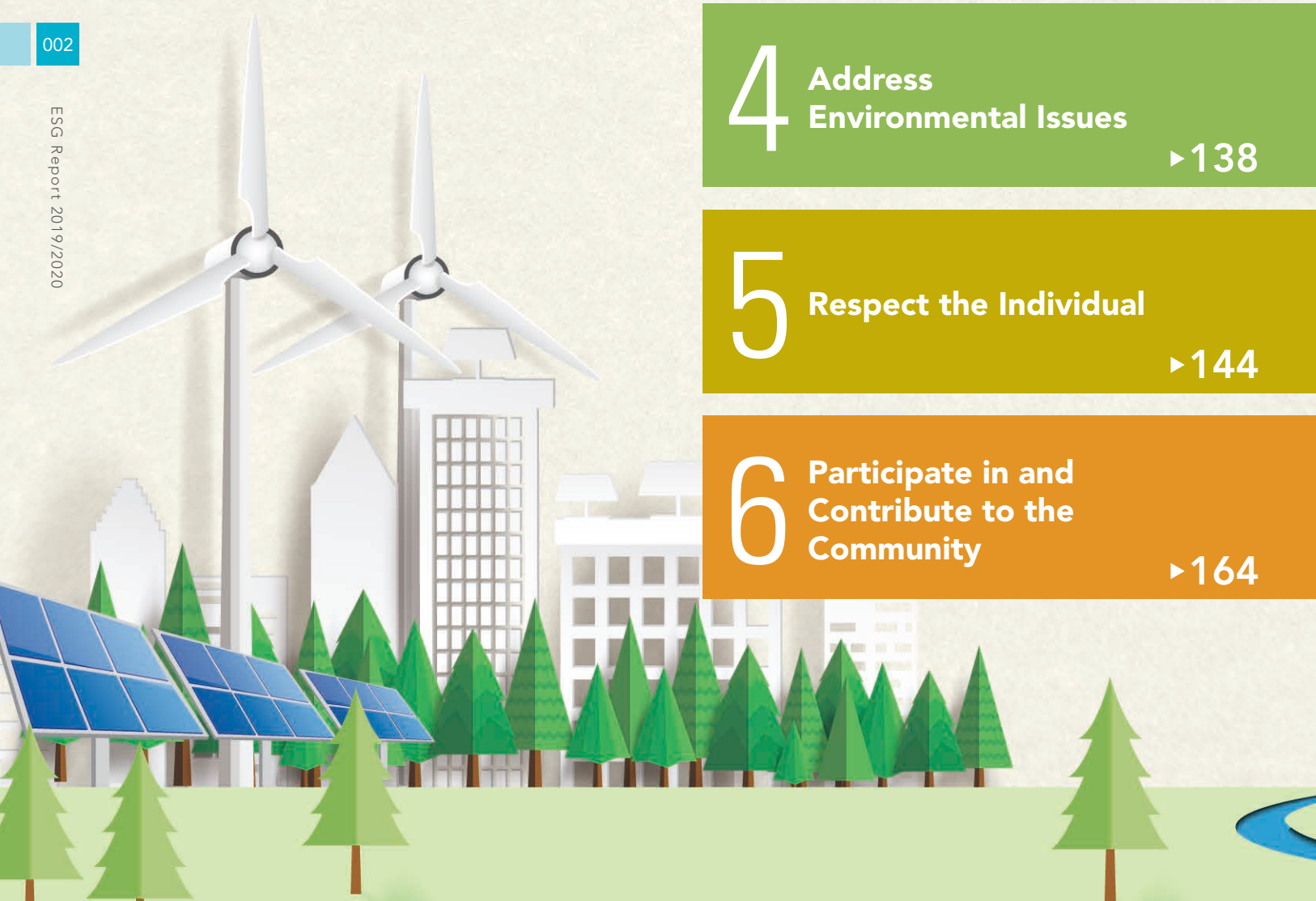
2 Serve Clients with Sincerity ▸082

3 Earn the Trust of Society ▸096

4 Address Environmental Issues ▸138

5 Respect the Individual ▸144

6 Participate in and Contribute to the Community ▸164



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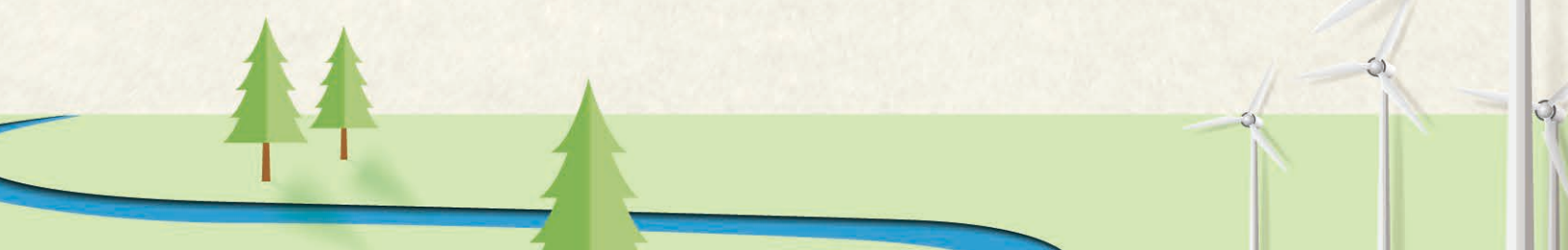


Integrating sustainability into management and developing sustainability initiatives as our business



Tetsuo Ohkubo

Sumitomo Mitsui Trust Holdings, Inc.
Director, President
(Representative Executive Officer)

Principles for Responsible Banking and Promotion of Sustainable Finance

Recent abnormal weather fueled by global warming is being recognized in every corner of the globe as a climate change risk. In Japan too, climate change risk is no longer considered a topic concerning the future—it has become a pressing issue—particularly highlighted by the extensive damage to many regions caused by the repeated visitation of powerful typhoons. While much discussion was made focusing on climate change at the United Nations General Assembly held in New York in September, the Principles for Responsible Banking (PRB) launched the same month call on banks to align their business strategies with the goals of the Paris Agreement, which is an international agreement on climate change, and the UN Sustainable Development Goals (SDGs). Together with around 130 banks in 49 countries, the SuMi TRUST Group signed up to the Principles and renewed its commitment to utilize the significant expertise of a trust bank group to support the creation of new business models among our clients and make every effort to find solutions to the issues expressed in the SDGs and the Paris Agreement.

The idea of "sustainable finance," which is to use finance as an effective driver to popularize sustainability initiatives in the wider economy, is gaining traction mainly in Europe, and new rules on finance continue to emerge one after the other. We think this movement calls on finance sector to yield more concrete results to help solve the challenges, especially considering that ESG (environment, social, and governance)—which appeared on the scene in 2006—enjoys broad-based support among financial institutions and that ESG considerations are now mainstream in the industry. So-called "impact investing" is also on the rise in the finance sector. These investments seek to have a beneficial impact on society alongside standard investment returns. The Principles for Responsible Banking (PRB) also call on banks to amplify positive impacts and limit the negative ones. The sustainable finance our Group encourages aims to create these optimum impacts.

Materiality Management and Sustainability Business Strategies

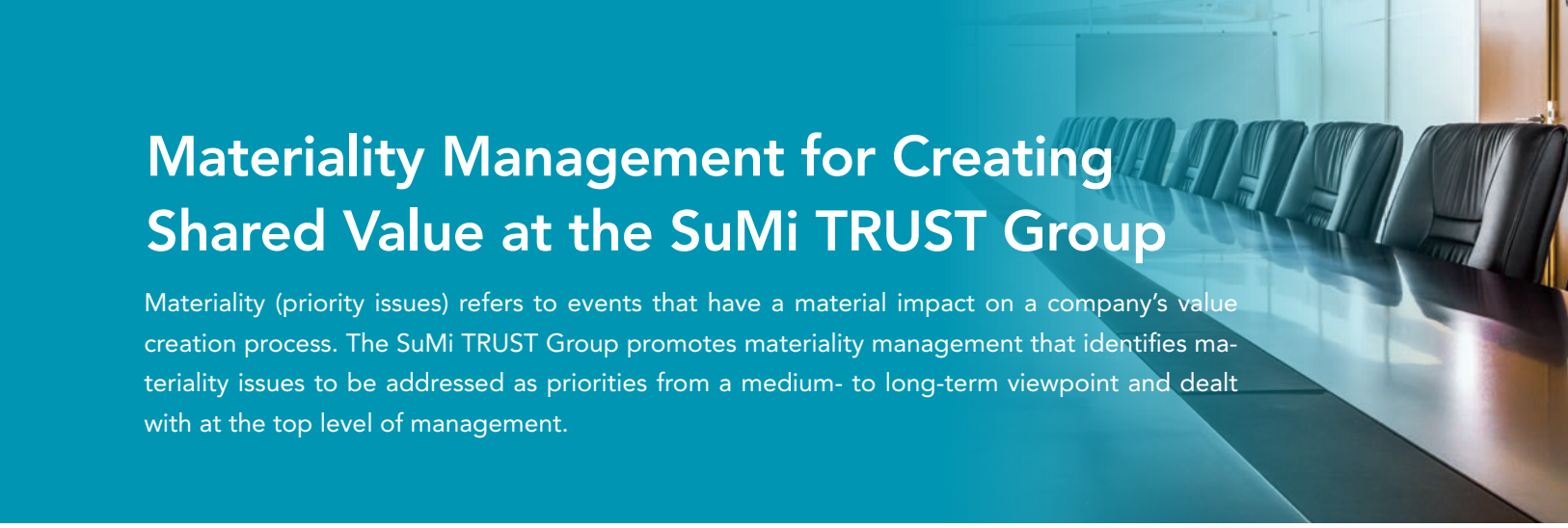
For our Group to promote sustainability, the following three factors are key: strengthening our management foundation with materiality management; pursuing highly competitive sustainable finance in our businesses; and enhancing information disclosure. With respect to materiality (defined as priority issues for management), we recently took new steps to integrate financial risk items with non-financial ESG-related items so that a balance between economic value and social value is placed at the core of our growth strategy. In terms of concrete action on climate change, we kicked off TCFD (Task Force on Climate-related Financial Disclosures) initiatives and started performing scenario analyses. In addressing Japan's super-aged society, we are transitioning to and enhancing a business model that can accurately accommodate the diversified needs of each generation as we enter an age of 100-year-life. While we offer products and services suited to people in the asset formation stage of life, clients that will retire or have retired, and the senior generation, we also propose optimal products and services based on our significant expertise to meet the growing demand among seniors for asset administration and succession services. Our 100-Year Life Solution Trust—also known as the 100-Year Passport—is one such example. Our Group also positions human resources as the biggest source of our competitiveness and we are constantly striving to strengthen our pool of human capital. In recognition of these activities, SuMi TRUST Bank was selected as a winner for the first time in the Ministry of Economy, Trade and Industry's (METI) New Diversity Management Selection 100 program and as a Semi-Nadeshiko Brand under the METI's Nadeshiko Brand initiative, the latter of which aims to encourage the empowerment of women in the workplace.

Our Group's policy is to integrate sustainability into management, develop sustainability initiatives as our business, and strengthen the approaches in this field. In our midterm management plan slated to kick off next fiscal year we intend to incorporate the concept of sustainability into our management strategy. I look forward to the continued warm support of all our stakeholders.

December 2019



Tetsuo Ohkubo
Sumitomo Mitsui Trust Holdings, Inc.
Director, President (Representative Executive Officer)



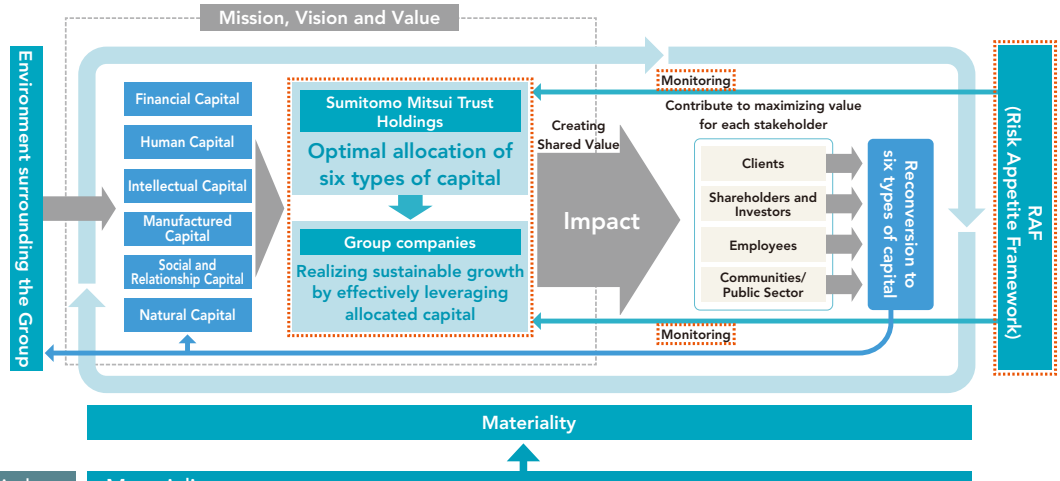
Materiality Management for Creating Shared Value at the SuMi TRUST Group

Materiality (priority issues) refers to events that have a material impact on a company's value creation process. The SuMi TRUST Group promotes materiality management that identifies materiality issues to be addressed as priorities from a medium- to long-term viewpoint and dealt with at the top level of management.

Our Group's policy is to push ahead with a growth strategy that balances the pursuit of both economic and social value. More specifically, we aim to conduct business by making efficient use of the six capitals that underpin our management foundation within a risk appetite framework (RAF) and seek profits by maximizing the positive impacts surrounding our stakeholders. Maximizing the positive impacts that surround our stakeholders means pursuing the enhancement of stakeholder value, but at the same time, it also leads to an improvement in value of the Group itself (return on the six capitals and creation of shared value).

The items that significantly impact this kind of medium- to long-term value creation process constitute what is known as materiality. Materiality comprises financial risk items that traditionally investors attach importance to, as well as non-financial items that ESG (environmental, social, and governance) investors and other stakeholders consider important. The optimal management of materiality combining both financial and non-financial elements holds the key to a business model that strikes the right balance between the pursuit of economic value and social value.

The SuMi TRUST Group's Value Creation Process



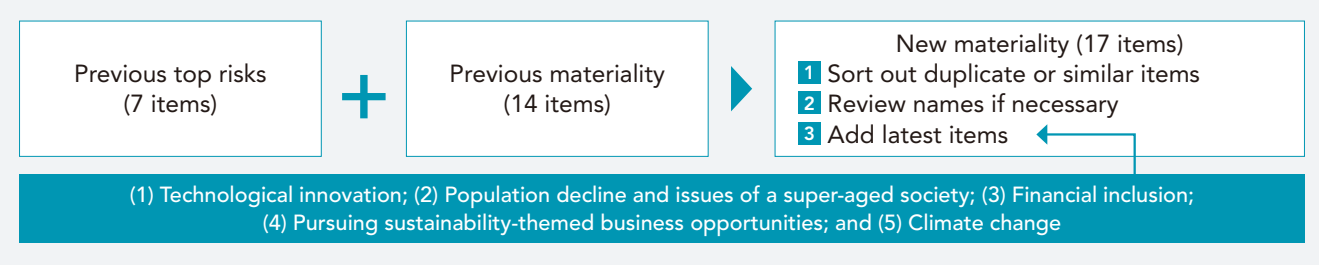
Related capitals	Materiality
Financial Capital	Preserving financial capital
	Acquiring sustained earnings
Human Capital	Nurturing employees and maintaining workplace environments
Intellectual Capital	Protecting personal information and client data
	Safety of financial products
	Pursuing sustainability-themed business opportunities
	Technological (digital) innovation
Manufactured Capital	Systems maintenance and combatting cyber attacks
Social and Relationship Capital	Corporate governance
	Compliance
	Client-orientated approach / fiduciary duty
	Considering impacts on society and the environment of investees and borrowers
	Stability of financial system
	Risk management and resilience
	Financial inclusion
	Population decline and issues of a super-aged society
Natural Capital	Climate change

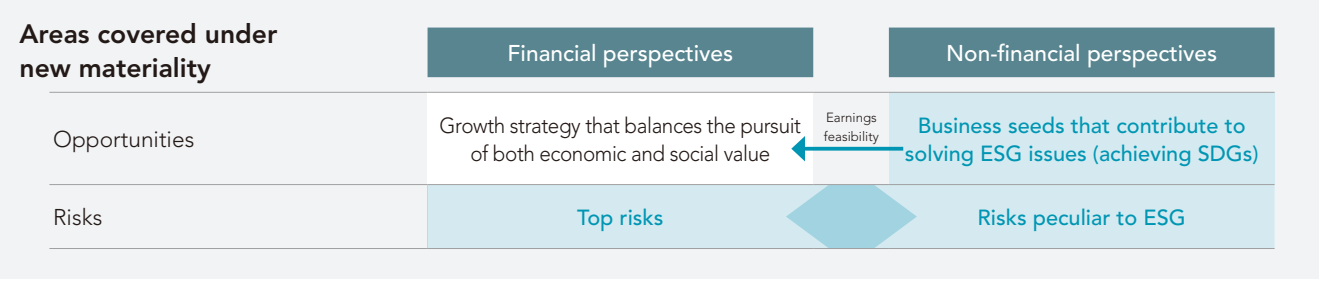
Reviewing Materiality

Thus far our materiality management* practices were mainly focused on non-financial items. At the same time, we identified and managed top risks as high-level risk events (assumed losses of ¥10bn or more) likely to have a significant impact on management. However, we now believe that integrating these two approaches is indispensable (see below) if we are to execute a growth strategy that balances the pursuit of both economic and social value.

In October 2019 a new materiality plan determined by the Executive Committee was deliberated on by the Risk Committee (advisory body to the Board of Directors) and then approved by the Board of Directors.

* Previous materiality management: In 2015 non-financial items thought to have a serious impact on the value creation process were identified by the Executive Committee and reported to the Board of Directors. As part of the identification process, the Executive Committee took into account both the Group's impact on society and the impact on the Group's corporate value over the medium to long term.





*Blue background represents new materiality

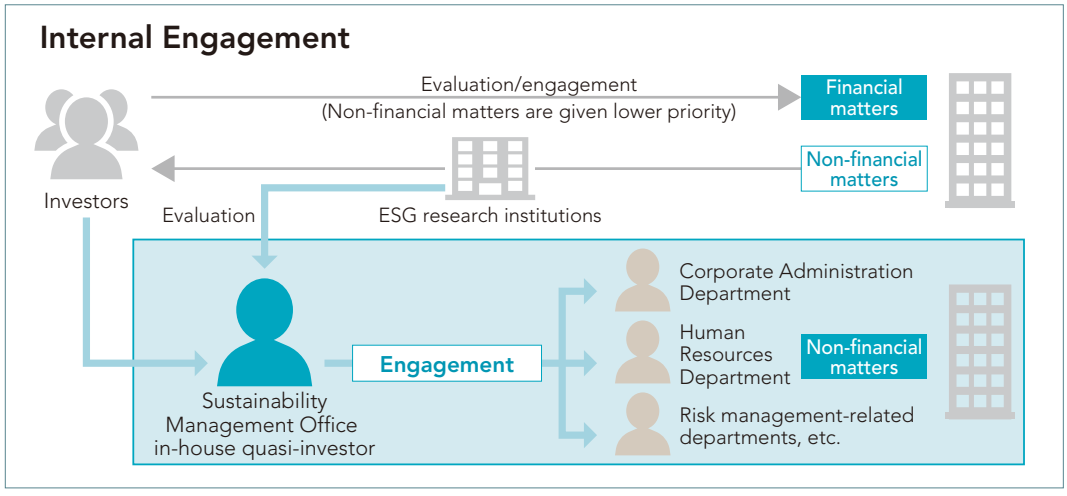
Internal Engagement

Owing to the introduction of Japan's Stewardship Code in 2014, active engagement (purposeful dialogue) between institutional investors and investee companies has been commonplace. That said, the topics of such engagement usually revolve around financial matters and there are not many opportunities for parties to engage in dialogue about wide-ranging non-financial topics.

Accordingly, our Sustainability Management Office of the Corporate Planning Department engages in dialogue (internal engagement) with relevant departments with respect to the non-financial materiality topics in the finance sector that ESG investors are most interested in and for which the Group's initiatives may face challenges in order to improve our approaches and enhance information disclosure. The details of such dialogue and how improvements have been made are reported once a year to the Board of Directors.

Engagement in FY2019 (as of end-November 2019)

- Corporate governance
- Information security risk management
- Enhancement of information disclosure pertaining to human capital



Initiatives for Sustainable Development Goals (SDGs) of the SuMi TRUST Group

The Sustainable Development Goals (SDGs) adopted at the United Nations Sustainable Development Summit in September 2015 comprise 17 goals and 169 targets that bring together global-scale priority issues that should be addressed collectively around the world toward 2030. The SuMi TRUST Group, which became a signatory to the United Nations Global Compact in 2005, has pursued various initiatives related to sustainability, and will continue working to provide value to our stakeholders, including from the perspective of addressing issues raised by the SDGs.

Sustainability Policies and SDGs

Policies	Linkages with SDGs
1 Contribute to Solving Social and Environmental Problems through Business	From the three SDG perspectives of economy, society, and the environment, we aim to maximize the positive impacts (and minimize the negative ones) surrounding our clients and contribute to solving social and environmental challenges, all the while enhancing client value.
2 Serve Clients with Sincerity	
3 Earn the Trust of Society	The Board of Directors addresses environmental and social issues linked to sustainability (the Basic Policy on Corporate Governance, Article 3-4). In our lending and investment activities, we recognize themes relating to SDGs such as climate change and land and water-based ecosystems as risks, and have strengthened our approach to managing them.
4 Address Environmental Issues	Through the operation of environmental management systems (EMS), we limit the negative impacts from our business activities relating to SDG-linked themes such as energy, climate change, water, and paper resources.
5 Respect the Individual	Initiatives relating to human resources strategy and human rights are also linked to SDGs; we are advancing such initiatives based on a broad-based view given global discussions.
6 Participate in and Contribute to the Community	As a good corporate citizen, we actively promote environmental activities and social contributions which are highly relevant to SDGs, centering on sales offices in each region.

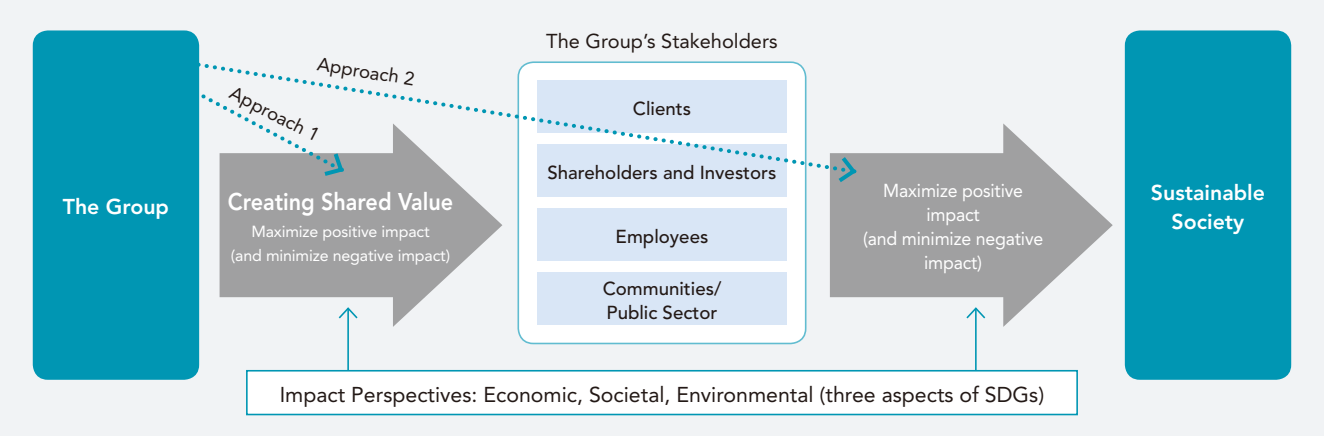
Two approaches to the creation of shared value with stakeholders (including clients)

Approach 1: Maximizing direct positive impact on stakeholders

The Group aims to maximize positive impact (minimize negative impact) on stakeholders from economic, societal, and environmental perspectives via investments and loans, dialogue with investors, human resources measures, and social activities.

Approach 2: Supporting stakeholders as the starting point for maximizing positive impact

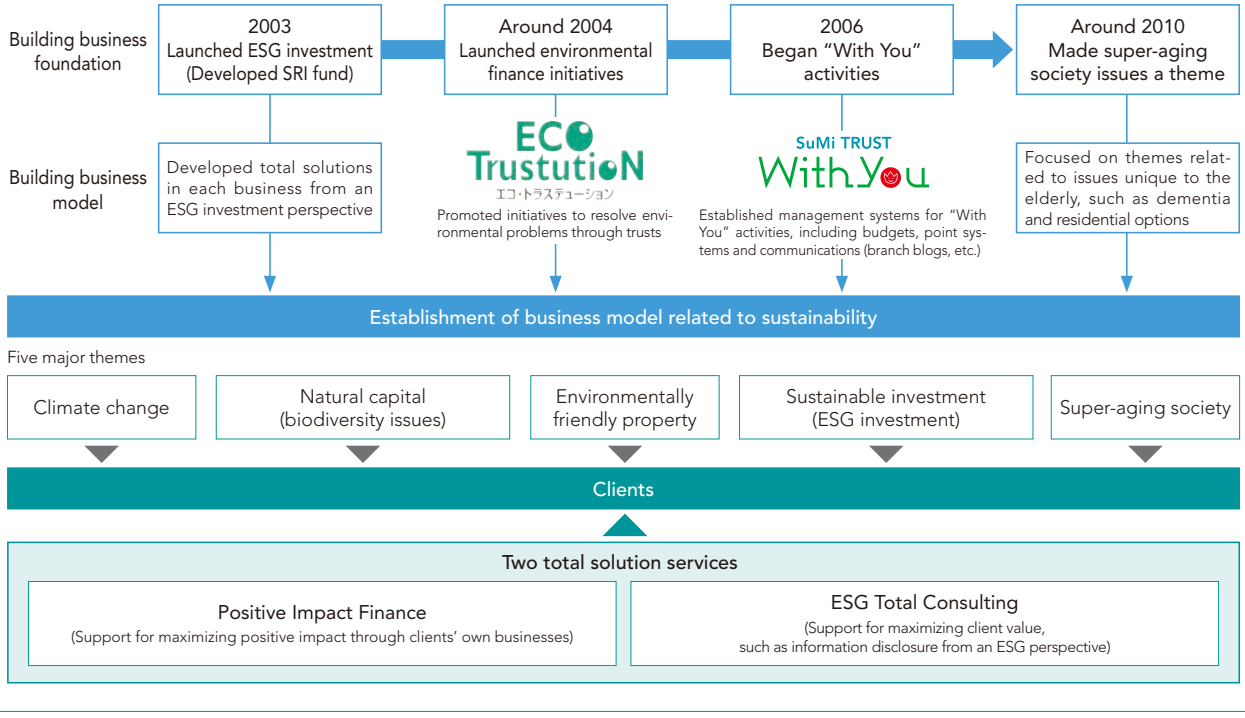
The Group supports stakeholders maximizing positive impact (minimizing negative impact) on a sustainable society from economic, societal, and environmental perspectives via investments and loans, dialogue with investors, human resources measures, and social activities.



Sustainability Initiatives in Our Businesses ◀ Sustainability Policy 1

Our Group has hitherto leveraged the functions of a financial group specialized in trust banking to offer broad-ranging support on solving the social challenges faced by our clients. In light of this track record, we currently focus on five key themes in our sustainability business: climate change, natural capital (biodiversity), environmentally friendly property, sustainable (ESG) investment, and issues in a super-aged society. Moreover, as part of our total solutions, we are stepping up our services in the areas of positive impact finance and ESG/integrated report consulting.

Background of initiatives to establish business model



Offering Value to Communities ◀ Sustainability Policy 6

The ultimate objective of the value companies create is to contribute to building a healthy, sustainable society. Since offering value to communities, which constitute the society, contributes to maintaining a sound business foundation, we regard this as a social license necessary for business operation. In view of this, the Group offers value to communities in an array of ways while taking in SDG perspectives. Group affiliated companies and branches carry out of their own accord a variety of social and community contribution initiatives. The CSR Promotion Office uses SDGs as a way to categorize each of the many activities that provide value to communities, and it will also work to deepen its analysis of the impacts Group activities have over time in the future.

Formulation of SDG Declarations

This initiative of formulating SDG declaration involved all 134 branches of SuMi TRUST Bank drafting their own action plans for achieving two of the SDGs—one of which is Goal 17 (Partnerships for the goals), while the other is the branch's choosing from Goals 1-16. KPIs to measure progress were also formulated. By the end of August 2019, each branch had announced their respective goals (see page 174 for details).



One of the Goals 1-16

With You activities



Information dispatch through "WithYou" branch blog



Sustainability Policy 1

Demonstrating leadership towards achieving a sustainable society



Masaru Hashimoto

Sumitomo Mitsui Trust Bank, Limited
President (Representative Director)

Helping solve social and environmental issues through business activities

- We will adopt a global perspective and work on resolving social and environmental issues through our core business.
- In aiming to solve the challenges faced by society and the environment, we will take steps to develop innovative products and services and new business models that fuse together the wide array of functions unique to a trust banking group.

There are numerous issues worldwide that threaten the realization of a sustainable society, including abnormal weather caused by global warming, marine plastic pollution, deforestation, and an increase in conflict-torn regions. In Japan meanwhile, social structures are changing considerably mainly as a result of issues surrounding a super-aged society, the advancement of digital innovation, and lifestyle diversification. At the same time, countries and people are now coming together under the common global language of the SDGs (Sustainable Development Goals) in an effort to further strengthen their ties with the goal of achieving a sustainable society. In aiming to realize a sustainable society, we provide total solution services with highly specialized products and services that accurately meet the needs of both corporate and individual clients in order to solve the various economic, social, and environmental challenges they face.

For corporate clients, we have implemented positive impact finance (PIF), a solution whereby we comprehensively analyze and assess the impact of a client's corporate activities on the economy, society, and the environment. We then work together with the client to set goals that they commit to achieving. The PIF solution does not specify how loaned funds are to be used; it is an initiative through which clients and our Group work together to overcome challenges in realizing a sustainable society. The disclosure of ESG (non-financial) information is also key to implementing PIF, which is why we provide total support to clients to enhance their information disclosure practices by, for example, providing advice on creating ESG information disclosure tools like integrated reports, which prove useful for communicating with investors.

Japan has entered an age of 100-year-life and seniors aged 65 or older now account for 25% of the population. For individual clients, we think it is important that we safeguard the personal assets of our senior clients, ensure that they have sound living arrangements, and make sure that seniors and their families can lead stable lives. More specifically, that they maintain good health, can live without any financial concerns, and can choose a place to live with peace of mind. To this end, it is necessary that we understand the varied requests and potential needs among clients and ensure that our client-oriented approach is more thorough than ever before so we can propose the best solution to each and every client. Furthermore, so that we can cope with the rapid rise in the number of seniors suffering from dementia, we are acquiring first-hand knowledge and beefing up our service capabilities mainly by having our employees attend dementia support training courses and undergo gerontology exams. We are also participating in the government-led community-based comprehensive care system as a way of getting involved in the building of a community that extends support to senior citizens.

This fiscal year, all of our 134 branches across Japan formulated and announced their own SDG declarations. In short, this is an initiative that each branch selects the SDGs they want to commit to achieving, formulates action plans to meet those goals, and identifies KPIs to measure their progress. As part of this initiative, each branch will team up with local organizations to roll out their own sustainability activities.

Going forward, we will continue to provide total solutions based on our significant expertise and client-oriented fiduciary spirit—Company strengths that remain unchanged since our founding—and demonstrate leadership as our clients' "best partner" as we work towards the goal of achieving a sustainable society.

Masaru Hashimoto

Masaru Hashimoto
Sumitomo Mitsui Trust Bank, Limited
President (Representative Director)

Signatory to the Principles for Responsible Banking

We became a founding signatory to the Principles for Responsible Banking (PRB) advocated for by the United Nations Environment Programme Finance Initiative (UNEP FI) and launched on September 22, 2019. We are committed to collaborating with 130 banks worldwide—which collectively hold USD47 trillion in assets—to strategically align our business operations with the SDGs and the Paris Agreement on climate change. The signing of the PRB means we promise to be transparent about the positive and negative impacts our banking business has on people and the environment. By focusing on the areas in which our core business has a great impact, setting goals for specific initiatives, and taking action, we hope to make significant contributions towards achieving the targets of the SDGs on both a global and local level.



September 22, 2019: Signing ceremony we also attended at the United Nations Headquarters in New York (Source: UNEP FI website)

Status of Our Implementation of the Principles for Responsible Banking

The Principles for Responsible Banking (PRB) require us to disclose the status of our implementation of the principles in our existing reports. Specifically, signatory banks need to report on their implementation of the Principles and self-assessment the first time within 18 months of signing (by March 2021 in our case) and annually thereafter. Within four years, we are required to fully implement the necessary steps, including impact analysis, target setting and implementation, and accountability as outlined in this report. The Group's policy is to disclose its implementation status through its ESG reports. This ESG Report 2019/2020 reports on our implementation status using the format of UNEP FI's "PRB Reporting and Self-Assessment Template" with the aim of clarifying our current position for future full-scale implementation (this is not intended to serve as the first report required within 18 months of signing).

Principle 1: Alignment

We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.

The Group's Business Portfolio (FY2018 Gross Business Profit by Segment)

Business	Gross Profit (¥100 million)	Main Products and Services
Retail Total Solution (TS) Services	1,998	Bank deposits, loans to individuals, sales of investment trusts and insurance, will trusts, asset inheritance services, etc.
Wholesale Financial Services	1,938	Corporate credit, real estate loans, etc.
Stock Transfer Agency Services	370	Stock Transfer Agency Services
Real Estate	543	Real estate brokerage, real estate securitization
Fiduciary Services	1,721	Management and administration of pension trusts, securities, etc.
Global Markets	456	ALM, fixed income investment
Other	195	—
Total	7,226	—

* Gross profit for Wholesale Financial Services is the sum of the Wholesale Total Solution Services Business and the Wholesale Asset Management Business.

Loan Balances in the Banking Business in Japan and Overseas (End of March 2019)

In Japan	¥24,931.5 billion	Overseas	¥4,094.1 billion

Related Information: Financial Data Section, 2019 Annual Report (URL https://www.smth.jp/ir/disclosure/2018/f_03.pdf)

Alignment with SDGs and Paris Climate Agreement

In the Group's sustainability work, we set out initiatives including five major themes to address and ensure that each business is engaged in activities aimed at realizing the relevant SDGs. One of the five major themes is climate change. In line with the intent of the Paris Agreement, we are promoting initiatives in accordance with the Task Force on Climate-related Financial Disclosures (TCFD). In addition, in our total solution services, we help client companies transition in a sustainable direction aligned with the realization of the SDGs through Positive Impact Finance, ESG & Integrated Report Consulting, and the Governance Support Program.

Relationship between the Group's Main Businesses and Sustainability Business Themes

	Retail TS Services	Wholesale Financial Services	Stock Transfer Agency Services	Real Estate	Global Markets	Fiduciary Services (including Investment)
Climate Change		○		○	○	○
Natural Capital (Biodiversity Issues)		○		○		○
Environmentally Friendly Property	○	○		○		○
Sustainable Investment (ESG Investment)	○	○			○	○
Super-aging Society Issues	○	○		○		
Positive Impact Finance		○		○		○
ESG & Integrated Report Consulting		○	○			

Related information: ESG Report 2019/2020 pages 16-75

Principle 2: Impact & Target Setting

We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.

Status of the Group's Main Businesses

Business	Indicator	Amount or Number	Universe	Ranking
Retail TS Services	Balance of loans to individuals	¥9 trillion	Domestic banks	4th
	Total sales of investment trusts and discretionary investments	¥0.9 trillion	Domestic banks	1st
	Number of wills held in custody	32,000	Trusts	2nd
Wholesale Financial Services	Balance of loans to corporations	¥19 trillion	Domestic banks	5th
Stock Transfer Agency Services	Number of shareholders under administration	26,700,000	Trusts	1st
Real Estate	Real estate-related revenue	¥54.3 billion	Trusts	2nd
	Entrusted balance of securitized real estate	¥16 trillion	Trusts	1st
Fiduciary Services (including Investment)	Assets under management	¥93 trillion	Domestic financial institutions	1st
	Assets under custody	¥211 trillion	Domestic financial institutions	1st
	Entrusted balance of corporate pension funds	¥12 trillion	Trusts	1st

Impact Analysis, etc.

Based on the Group's business portfolio (see page 12), loan balances in the banking business in Japan and overseas (see page 12), and the status of the Group's main businesses (see page 13), it is assumed that the six core businesses, particularly in Japan, have an impact of reasonable size and strength on the three dimensions of sustainable development: economic, social, and environmental. Given that the Principles for Responsible Banking apply to banking principles, this impact analysis excludes the Fiduciary Services Business, which has a large impact on asset management, and the Global Markets Business, whose impact is difficult to assess.

In the future, we plan to carry out specific impact and target setting and formulate plans for implementation and monitoring of targets. Meanwhile, the following are examples of impact areas that are considered reasonably large at this time and examples of how the impact can be addressed.

Retail TS Services Business

More than 40% of SuMi TRUST Bank's individual clients are over 65 years of age. The contribution to maintaining the Quality of Life (QOL) of our elderly clients is one of our significant duties and can be considered an area of impact.

Example of minimizing the negative impact	As Japan faces extreme population aging, dementia has become a serious social problem. Concrete policies (standards) therefore need to be adopted to ensure that sales of risk products to elderly clients take into account their decision-making capacities.
Example of maximizing the positive impact	It is also a serious social problem that people whose judgment is reduced due to dementia and other age-related problems are unable to carry out financial transactions. From the perspective of financial inclusion, we should help these clients manage their property and build a strategy to develop comprehensive services that contribute to maintaining QOL.

Wholesale Financial Services Business

We are analyzing SuMi TRUST Bank's lending portfolio to identify significant areas (industries) of relative negative impact and systematically engaging with clients to mitigate these negative impacts. Meanwhile, we are identifying priority social and environmental issues and building total solution-type business models for solving them.

Example of minimizing the negative impact	Prohibition of lending to companies that manufacture cluster bombs, ban in principle of project financing of newly constructed coal-fired power plants, development of sector-specific policies for major industries with negative impact, and efforts to address the Equator Principles
Example of maximizing the positive impact	Development of Positive Impact Finance and construction of its sales strategy, development of ESG & Integrated Report Consulting and construction of its sales strategy, establishment of a support framework for ESG & SDGs in Corporate Finance

Principle 3: Clients & Customers

We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

The Group has developed a wide range of products and services that contribute to building a sustainable society for our clients. Details are provided in this ESG Report 2019/2020.

- We provide products and services under the theme of "Climate Change" mainly in the Wholesale Financial Services Business, Real Estate Business, and Fiduciary Services Business (see pages 24-39 for details).
- We provide products and services under the theme of "Environmentally Friendly Property" in the Real Estate Business (see pages 67-75 for details).
- We provide products and services under the theme of "Natural Capital" mainly in the Wholesale Financial Services Business (see pages 40-45 for details).
- We provide products and services under the theme of "Sustainable Investment" mainly in the Retail TS Services Business and the Fiduciary Services Business (see page 57 for details).
- We provide products and services under the theme of "Super-aging Society Issues" mainly in the Retail TS Services Business (see pages 46-56 for details).
- We introduced "Financial Inclusion" as a new theme and started initiatives in this area mainly in the Retail TS Services Business (see pages 76-80 for details).
- In the Wholesale Financial Services Business, we are developing financial products that do not specify the use of funds (Positive Impact Finance) in accordance with the Principles for Positive Impact Finance (see pages 17-18 for details).
- In the Wholesale Financial Services Business, we are deploying ESG & Integrated Report Consulting to support corporate ESG and SDG initiatives (see page 19 for details).
- Since our clients are the foundation of these business operations, we interact with them in good faith without exception (see pages 82-95 for details).

Principle 4: Stakeholders

We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

The Group has been working with a wide range of stakeholders to address a wide range of social and environmental issues to achieve a sustainable society, as described below.

Policy Authorities	Cabinet Office, Ministry of the Environment, Ministry of Land, Infrastructure, Transport and Tourism, Ministry of Economy, Trade and Industry, Forestry Agency, Tokyo Metropolitan Government (Bureau of Environment), etc.
United Nations-Related Organizations	United Nations Environment Programme Finance Initiative (UNEP FI) Principles for Responsible Banking (PRB) Principles for Responsible Investment (PRI) United Nations Global Compact UNEP FI Property Working Group (UNEP FI PWG) Natural Capital Finance Alliance
Cooperation among Financial Institutions	Principles for Financial Action towards a Sustainable Society (Principles for Financial Action for the 21st Century (PFA21)) Equator Principles Institute of International Finance (IIF)
Cooperation among Industry, Government and Academia	(Biodiversity) Business and Biodiversity Initiative (Biodiversity in Good Company) (Aging Society Issues) International Longevity Center Japan (Dementia problem) COLTEM (Collaboration center of Law, Technology and Medicine for autonomy of older adults), which offers support for all stages of elderly community life from healthy to dementia

(Examples where we have contributed proactively to the improvement of sustainability in Japan)

- We participated in the development of CASBEE for Real Estate as an organizer of the subcommittee examining CASBEE property appraisal. CASBEE (Comprehensive Assessment System for Built Environment Efficiency) is a method for evaluating and rating the environmental performance of buildings developed by the Institute for Building Environment and Energy Conservation (IBEC) under the auspice of the Ministry of Land, Infrastructure, Transport and Tourism (MLIT).
- We implemented a study into the economic impact of buildings with CASBEE® evaluations as the leader of a working group examining economic benefits under the aegis of the Japan Sustainable Building Consortium's Smart Wellness Office Research Committee under the leadership of the Ministry of Land, Infrastructure, Transport and Tourism.
- In collaboration with COLTEM, we published a Guide for Dementia Friendly Financial Services aimed at improving capabilities for handling dementia across the entire financial industry (September 2017).
- We participated in the "strategy to be taken in order to become an ESG financial superpower," a joint proposal from the Ministry of the Environment and the Principles for Financial Action for the 21st Century (PFA21) (March 2019).
- We participated in the "urgent recommendations on financial behavior towards de-carbon society," from the PFA21 Steering Committee (October 2019).

Principle 5: Governance and Culture

We will ambitiously and transparently implement our commitment to these Principles through effective governance and a culture of responsible banking and by setting and announcing targets in areas where we have a significant impact.

- SuMi TRUST Holdings has established a system for promoting sustainability with the Board of Directors at the top. The Sustainability Promotion Committee, which is held as part of the Executive Committee, manages the status of implementation of the Principles for Responsible Banking and gives status reports to the Board of Directors (see page 110 for details).
- The Sustainability Promotion Office of the Corporate Planning Department is responsible for bringing the entire Group together to implement the Principles for Responsible Banking. Going forward, we intend to keep sustainability at the core of our management. We will continue to strengthen our strategic and organizational sustainability efforts and continue to spread the philosophy of the Principles for Responsible Banking, for example through documents such as the Integrated Report (Employee Version).

Principle 6: Transparency & Accountability

We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

To be disclosed in our ESG reports going forward.



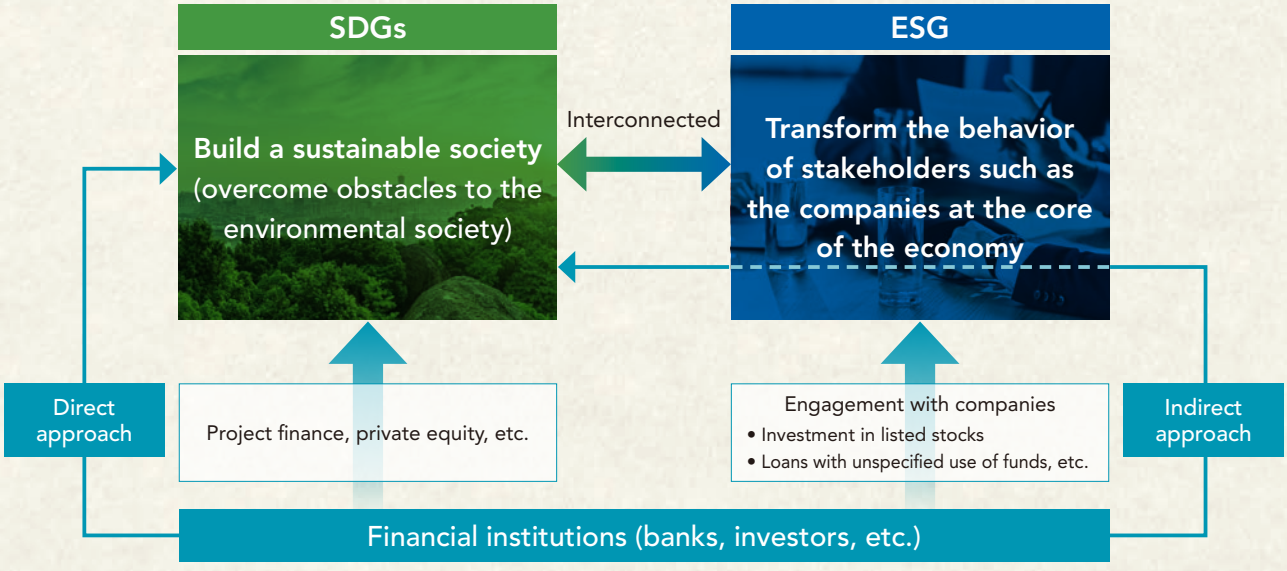
Total Solutions for Solving Clients' ESG/SDGs Challenges

By leveraging the various functions of a trust banking group, and building on our experience actively tackling sustainability issues since 2003, the Group is able to offer total solutions to our clients' comprehensive ESG and SDG challenges.

The Group's total solutions contribute to maximize the positive impact of our clients as well as the Group across the economic, social, and environmental dimensions required to create a sustainable society.

The Group leverages investments and loans, trust products, and consulting services to solve client challenges and contribute to the improvement of client's own value.

Financial institutions can create positive impacts in two ways, direct and indirect. Investments and loans that contribute to achieving the 17 SDGs are examples of the direct approach. The indirect approach is to encourage the transformation of the business activities of companies at the core of the economy. Under the banner of our five major sustainability themes, we are working towards the SDGs individually while strengthening our efforts to contribute to the realization of the SDGs through Positive Impact Finance solutions, ESG & Integrated Report Consulting, and other total solution services for our corporate clients.



Positive Impact Finance Initiatives

What is Positive Impact Finance?

Positive Impact Finance is a type of financing that comprehensively analyzes and evaluates the impact (positive and negative) of business activities on the economy, society, and the environment, sets targets for mitigating the negative impacts and expanding the positive impacts, and then conditions the loan on a commitment to the achievement of those goals.

Specifically, it is based on the Principles for Positive Impact Finance set out by the United Nations Environment Programme Finance Initiative (UNEP FI), and carried out in accordance with UNEP FI's guidelines for implementation of the Principles. The most distinctive feature of Positive Impact Finance is the use of assessment metrics (KPIs) to explicitly disclose the degree to which a company's activities, products, and services contribute to achieving the SDGs.

Principle 1 (Definition):
Positive Impact Finance serves to deliver a positive contribution to one or more of the three pillars of sustainable development (economic, environmental and social), once any potential negative impacts to any of the pillars have been duly identified and mitigated.

Principle 2 (Frameworks):
To promote the delivery of Positive Impact Finance, banks and investors need adequate processes, methodologies, and tools, to identify and monitor the positive impact of the entities to be financed or invested in.

Principle 3 (Transparency):
Banks and investors are required to ensure transparency and disclosure on:
- The positive impacts intended by the entities financed or invested in (as per Principle 1);
- The processes they have in place to determine eligibility, and to monitor and to verify impacts (as per Principle 2);
- The impacts achieved by the entities financed or invested in (as per Principle 4).

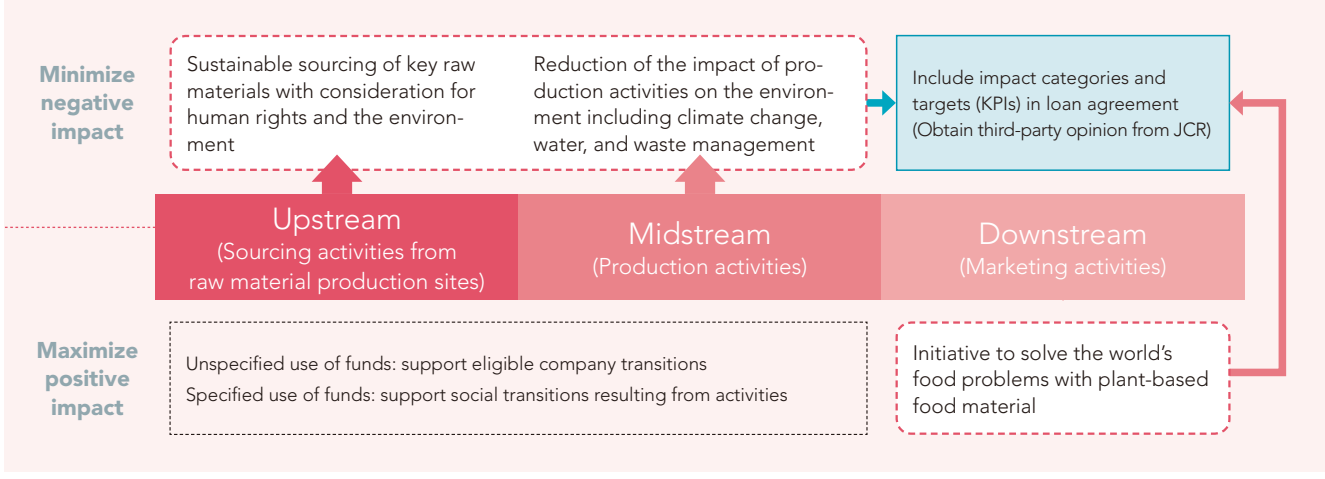
Principle 4 (Assessment):
The assessment of Positive Impact Finance delivered by banks and investors should be based on the actual impacts achieved.

Transaction with FUJI OIL HOLDINGS INC.

(1) Overview of Initiatives

In March 2019, SuMi TRUST Bank concluded the world's first loan agreement for Positive Impact Finance (Unspecified Use of Funds) with Fuji Oil Holdings Inc., a producer of vegetable oils, fats, and other food ingredients.

Before lending to the company, we identified the upstream, midstream, and downstream impacts of the company's supply chain, set targets for maximization of the positive impacts and minimization of the negative impacts, and incorporated those commitments into the loan agreement. In concluding the Agreement, we obtained a third-party opinion from Japan Credit Rating Agency (JCR) on compliance of the assessment procedures with the Principles for Positive Impact Finance and on the reasonableness of the assessment metrics used.



(2) Overview of Impact Analysis

In our comprehensive analysis of the impacts of Fuji Oil Holdings Inc. along the three dimensions of sustainable development (economic, social, and environmental), we used impact radar* to identify potential positive and negative impacts on the supply chain that occur upstream (in sourcing of raw materials), midstream (in the activities of factories engaged in production and sales), and downstream (in consumption).

* Tool for impact identification developed by UNEP FI.

	Theme	Goal	Related SDGs
Upstream	Sustainable Sourcing	Sourcing of main raw materials (palm oil, etc.) that is considerate of human rights and the environment	12, 14, 15
Midstream	Reduction of the impact of production activities on the environment	Climate change, water, and waste management in the Fuji Oil Group Environmental Vision	6, 11, 12, 13
Downstream	Creation of food to deliver solutions and ensure food safety, security, and quality	Plant-Based Food Solutions (initiative to solve global social issues with plant-based food material)	1, 2, 3, 9

(3) Identified Impacts and Impact Indicators (KPIs)

As noted above, SuMi TRUST Bank utilized the UNEP FI impact radar to identify the supply chain impacts. It established the positive impacts to be maximized and the negative impacts to be minimized, as well as a set of impact indicators (KPIs) for monitoring them, all organized according to the three stages of the supply chain.

Upstream of the supply chain (sustainable sourcing of palm oil)

Impact Category	Employment, Climate, Biodiversity and Ecosystem Services, and Inclusive and Healthy Economy
Contents	• Sustainable sourcing that considers the environment and human rights • Supply chain improvement activities and RSPO initiatives aimed at NDPE (No Deforestation, No Peatland development, No Exploitation) in the sourcing process
Action Plan	• Improve traceability while promoting human rights and environmental concerns among suppliers by communicating Fuji Oil's intentions through third-party audits, two-party audits, etc.
KPI	• Traceability scores all the way back to the oil extraction plant • Number of incidents registered in the grievance mechanism

Midstream of the supply chain (reduction of the impact of production activities on the environment)

Impact Category	Climate, Water, and Waste
Contents	• Reduction of utilities such as energy and water, etc. used primarily in the manufacturing process by each Group company, as well as reduction of CO_2, water, and waste
Action Plan	• Promote initiatives to achieve the goals of Environmental Vision 2020 and its successor, Environmental Vision 2030 (formulated in fiscal 2018, launched in 2019)
KPI	• CO_2 emissions • Annual water consumption per unit output • Total waste emissions per unit output • Recycling rate (in Japan)

Downstream of the supply chain (creation of food to deliver solutions and ensure food safety, security, and quality)

Impact Category	Food, Health & Sanitation
Contents	• Promote Plant-Based Food Solutions (initiative to solve global social issues with plant-based food material) and ensure food safety, security, and quality
Action Plan	• Further refine proprietary sorting, separation, and readjustment processing technologies, which are a source of value creation, while strengthening cooperation with external parties to accelerate global co-creation • Delicious ingredients for extending healthy life expectancy • Establishment of a system to ensure food safety and quality and to earn certifications
KPI	• Vegetable proteins with low global environmental impact that contribute to addressing the shortage of food resources • For the spread of vegetable protein sources, pursuit of taste and creating a mechanism for consumers to understand the significance of their choice • Promotion of the development of healthy oils and fats (stabilized DHA/EPA) and soybean peptides • Establishment of a group-wide quality assurance system and acquisition of FSSC 22000 or ISO 2200 at all plants of Fuji Oil Co., Ltd. by the end of March 2020

ESG & Integrated Report Consulting

With the expansion of ESG investment globally, the corporate and capital market investment chains in Japan are also undergoing major changes. For example, Japan's Government Pension Investment Fund (GPIF) now pursues ESG investment, and the introduction of Japan's Stewardship Code has stimulated a healthy dialogue between companies and investors.

SuMi TRUST Bank is able to combine its perspective and experience promoting sustainability (which it practices itself as an issuer company) with its perspective as an institutional investor with analysts who have been involved in the asset management business for many years. This perspective and experience allow SuMi TRUST Bank to offer total solutions that support the cycle of information disclosure, engagement, and integration into management that is key to promoting sustainable management and achieving a sustainable society.

• Support for Information Disclosure

We support disclosure of non-financial information through advice on the construction of various tools for communication with investors and other stakeholders, including integrated reports and ESG reports, and advice on ideas and processes to appropriately disclose necessary information in each individual tool.

• Support for Engagement

By leveraging our own network with institutional investors in Japan and overseas, we are able to offer indirect and direct support for investor dialogue (engagement), for example by providing various kinds of information or arranging meetings.

• Support for Integration into Management

We support building mechanisms to extract issues at the management level based on investor perspectives (including analyses by ESG assessment organizations), identify priority issues (materiality) that have a substantial impact on corporate value creation, and promote various initiatives aimed at strengthening the management foundation based on these identified issues.

Total Support for Sustainable Management through ESG & Integrated Report Consulting



Information provision	• Study sessions for executives and Sustainable Management Secretariat staffs
Analysis and evaluation	• Analysis of challenges in ESG initiatives based on the evaluations by ESG assessment organizations • Comparative analysis against benchmark companies
Support for improvement efforts	• Support for the materiality identification process • Support for materiality management practices (including proposals for strengthening management)
Disclosure	• Support for development of a framework for non-financial information disclosure • Advice on the composition and content of integrated reports
Engagement	• Support for dialogue with institutional investors in Japan and overseas

Consulting Example

ESG Advisory Services — Integration into Management

In light of the latest trends of ESG investment market and investor viewpoints, we support efforts to strengthen and enhance the management foundation, such as organizing issues in ESG-related initiatives and integrating ESG themes into management.

Integrated Report Support Services — Integration into Management / Information Disclosure

Based on our investor's perspective cultivated over many years of ESG investment practice and our wealth of practical experience in promoting sustainability management, we can offer powerful support for the creation of integrated reports, including the formulation of value-creation processes, the identification of materiality, and advice on the overall structure and content of the integrated report.

Integrated Report Review Services — Information Disclosure

Based on our investor's insight and our knowledge in promoting sustainability management, we review the integrated reports of our clients and contribute to their future improvement by making suggestions, as appropriate.

Research on ESG Trends of Major Shareholders — Engagement

We conduct research on the ESG initiatives of major shareholders, analyze their impacts on issuing companies, and support the construction of a platform for healthy dialogue.

ESG-IR Support Services for Overseas Investors — Engagement

We provide one-stop support services, starting with investor targeting for ESG-IR activities right through to the arrangement of investor engagement sessions.

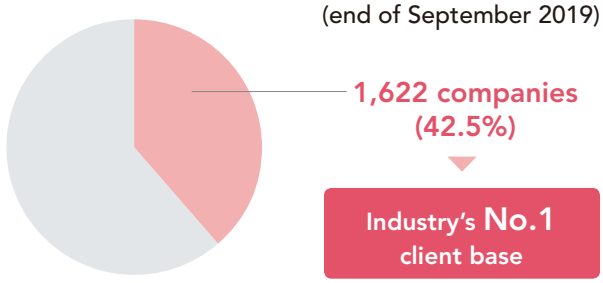
Governance Support Program — Integration into Management

We help companies improve their autonomous governance by providing up-to-date information and a forum for corporate interaction on the topic of governance and by conducting evaluations of the effectiveness of the Board of Directors to improve its function.

Governance Consulting in Stock Transfer Agency Services Business

Corporate governance reforms in Japan have strengthened governance by both companies and investors through the introduction and revision of the Stewardship Code and the Corporate Governance Code. Based on the revised Codes and various guidelines and guidance, companies are now expected to move from "formal" to "substantive" governance. The Group's Stock Transfer Agency Services Business offers solutions for strengthening governance based on our Governance Survey and Executive Compensation Survey, which leverage the industry's leading client base.

The Governance Survey, now in its third year, received the participation of approximately 1,500 companies, which makes it Japan's largest. More than 40% of all listed companies in Japan participated in the Governance Survey, and the distribution of the participating companies is similar to the distribution of all listed companies. The Survey is supervised by Professor Kunio Ito and provides data that is compared to governance INDEX data, which is indexed to substantive progress. The Executive Compensation Survey, conducted in collaboration with Deloitte Tohmatsu Consulting, is also in its third year and is also the largest in Japan in terms of company participation, with over 10,000 executive compensation data points broken down by company attribute. In addition to compensation levels, the Survey intensively reviews compensation decision policies and the practical operation of the compensation system and compensation committee. Building on the data in the Governance Survey and the Executive Compensation Survey, the Group is able to partner with client companies to identify their specific challenges, deliver optimal solutions, and provide continuous and multifaceted support aimed at enhancing governance.



PDCA Cycle of the Group's Solutions

STEP1 Objectively compare relative status to business partners

- Governance Survey (once a year)
  - Japan's largest collection of survey data
  - Also provided to client's contractors at no cost
- Executive Compensation Survey (once a year)
  - Japan's largest collection of executive compensation-related survey data

STEP2 Aggregate inspection and fixed-point observation of the governance system

- Aggregate inspection
  - CGC Comprehensive Support Services
  - CG Report Check Services
- Fixed-point observation
  - Survey to identify substantial shareholders in Japan and overseas
  - Support for evaluating the effectiveness of the Board

STEP3 Consulting on individual issues to enhance governance

Menu selection according to each company's challenges

- Governance
  - Consulting on transitioning to a "company with committees" governance structure
  - Consulting to support the fostering of successors
- Executive compensation
  - Consulting on executive compensation system
  - Consulting on introduction of stock compensation
- IR/SR
  - Analysis of results of exercise of voting rights
  - SR support services for overseas institutional investors
- Cross-shareholding shares
  - Trusts for the bulk sale of shares

Partner with client company to continuously deliver solutions for further enhancement

The Group views governance consulting as an opportunity for close communication and interaction with the management of client companies, and thus continues active dialogues with them. This enables us to capture a wide range of management challenges that go beyond the governance challenges facing the management team and provide further solutions.

Examples of the kinds of total solutions that benefit from Group strengths include M&A advice, business succession support, real estate brokerage and effective utilization, support for introducing and changing corporate pension schemes, and wealth management.

Solution services that link the client's aspirations to social contributions

Charitable Trusts

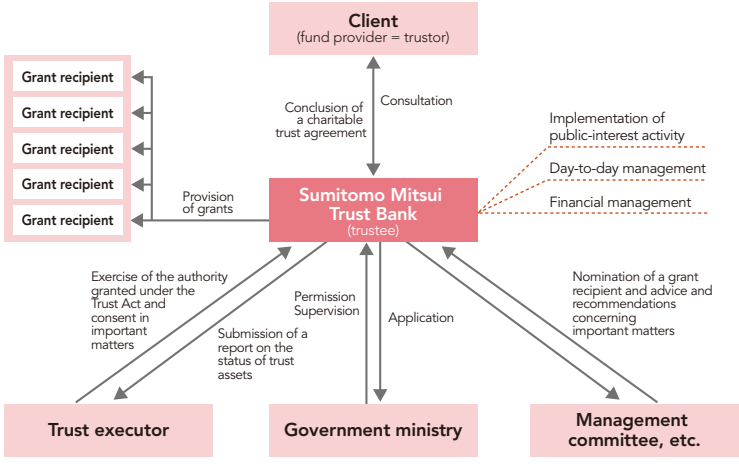
A charitable trust is a system in which funds are entrusted to a trust bank that administers and manages the funds to carry out charitable activities in a pre-determined way. For example, these trusts may be used by individuals wishing to provide funds for charitable activities or by companies that wish to return a portion of their profits to society. They have been used in a wide range of fields, including the provision of academic scholarships, support of environmental protection activities, and promotion of international cooperation and international exchanges.

Charitable trusts are often named for the trustor, so his or her aspirations can be remembered for years to come by many people. Moreover, to ensure the public interest is served in accordance with the client's intentions, a charitable trust can be "order made" to fit the client's instructions. What public interest is it to serve and what sort of granting process will it implement? The trust can be arranged to reflect the client's instructions on the monetary size of the grants (scholarships), the number, the regional scope, or the terms of eligibility.

Since Sumitomo Mitsui Trust Bank ("SuMi TRUST Bank") began managing its first charitable trust in 1977, the number of trusts under its management has steadily risen, and they fund grants in various charitable fields.

As of March 2019, there are 187 charitable trusts with total assets of 31.3 billion yen under our management. In fiscal year 2018, grants from charitable trust totaling 1.26 billion yen were provided to 2,788 bodies in total (including individuals) for activities that serve the public interest.

Mechanism of Charitable Trusts



List of Charitable Trusts by Donation Type (as of March 2019)

Type	Number of trusts under management
Scholarship	70
Promotion of natural science research	35
Promotion of human science research	4
Promotion of education	18
Social welfare	9
Promotion of arts and culture	9
Protection and propagation of animals and plants	1
Conservation of the natural environment	6
Development and maintenance of the urban environment	18
Promotion of international cooperation and exchanges	12
Other	5
Total	187

TOPIC

Suntory Fund for Bird Conservation

The Suntory Fund for Bird Conservation was established in 1990 by Suntory Holdings with the aim of enhancing bird conservation activities. Over the past 29 years, the fund has supported various bird protection activities in Japan and overseas. In recent years, the fund has granted around ¥40 million every year to NGOs and other entities in and outside of Japan for bird conservation group activities, for community bird activities, and for riparian large bird conservation.



Second-year elementary school students bird watching from the banks of the Tama River in spring

TOPIC

ENEOS Hydrogen Trust Fund

The ENEOS Hydrogen Trust Fund was established by JXTG Nippon Oil & Energy Corporation in 2006 to contribute to the realization of a hydrogen energy society by subsidizing basic research on the provision of hydrogen, an energy source in harmony with the global environment.

The fund is one of the largest in Japan, providing grants of up to 10 million yen per project. Each year, the fund invites the researchers who are receiving a grant and those who have received a grant in the previous year to an awards ceremony where they present their research results.



Social Contribution Donation Trusts

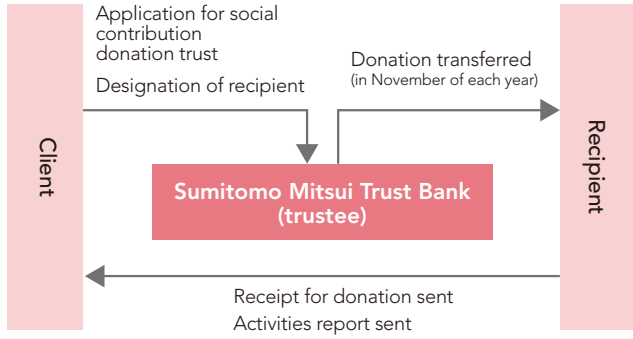
SuMi TRUST Bank offers social contribution donation trusts (also referred to as "Bridge to Tomorrow") intended to make donations to charitable organizations etc. engaged in social contribution activities. Through the trust, clients can choose donation recipients from a list of organizations that SuMi TRUST Bank provides and donate one-fifth of the original trust principal once a year. (Donors can change donation recipients each year.) These clients receive reports from the recipient on how the donations were used and what activities were conducted.

SuMi TRUST Bank supports activities regarding not only the environment but also various themes including education, medical care, academia, and culture through social contribution donation trusts.

List of Donation Recipients (as of August 14, 2019)

Environment	World Wide Fund for Nature Japan (WWF Japan)
Environment	Ecosystem Conservation Society-Japan
Education	National Federation of UNESCO Associations in Japan
Medicine	Japan Cancer Society
Medicine	Center for iPS Cell Research and Application, Kyoto University
Medicine	Médecins Sans Frontières Japan
Social welfare	Japan Guide Dog Association
Academics	The Japan Prize Foundation
Culture	Japan Arts Council
Disaster reconstruction support	Central Community Chest of Japan
Support for children	The Nippon Foundation
Support for sports for people with disabilities	Special Olympics Nippon Foundation
Humanitarian support	Japan for the Office of the United Nations High Commissioner for Refugees (UNHCR)

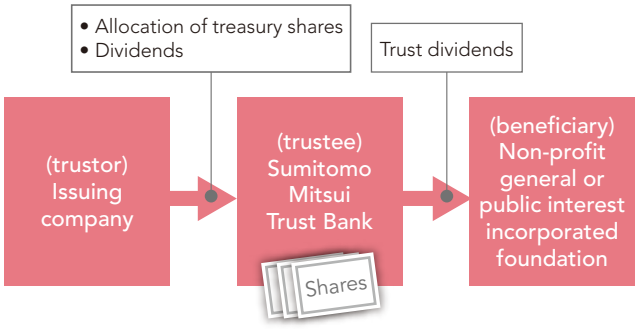
Mechanism of Social Contribution Donation Trusts



Social Contribution Scheme Using Treasury Shares

SuMi TRUST Bank offers trust schemes for companies to donate dividend income from their treasury holdings to public interest foundations etc., as a way to contribute to society.

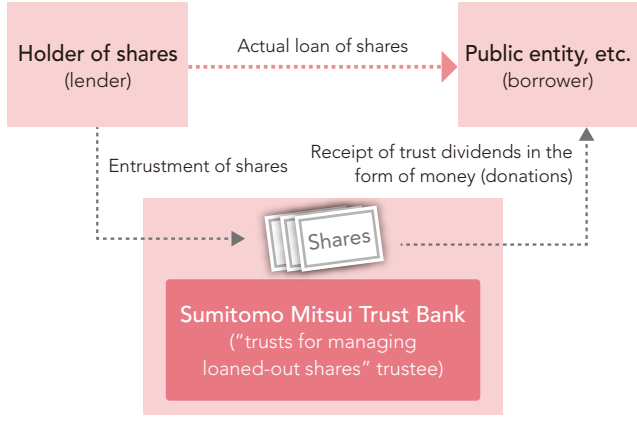
In fiscal year 2014, SuMi TRUST Bank implemented this scheme between Toyota Motor Corporation (trustor) and the Toyota Mobility Foundation (beneficiary). In this case, the dividend income is used to tackle many issues, such as eliminating the mobility disparity in emerging and developing nations, activities that promote the healthy development of the auto industry, and the funding of research into cutting-edge technology and systems in developed markets.



Trusts for Managing Loaned-Out Shares

SuMi TRUST Bank offers trusts for managing loaned-out shares so shareholders can donate dividend income tax free to public interest foundations etc. Using this trust, shareholders lend shares without compensation to NPOs etc. in a scheme that enables them to offer ongoing support to the designated stock borrower in the form of tax-free dividend income from the shares.

In fiscal year 2014, SuMi TRUST Bank commenced efforts to encourage interested parties to set up such trusts with the Center for iPS Cell Research and Application at Kyoto University as the designated stock borrower.



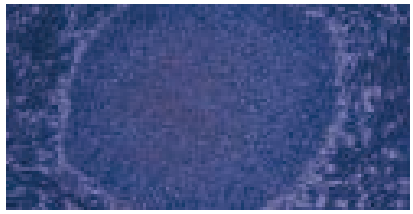
*The stock's name is "Japan Trustee Services Bank (trust account)."

TOPIC

Center for iPS Cell Research and Application at Kyoto University

The Center for iPS Cell Research and Application (CiRA) at Kyoto University is a world-leading core research institution specializing in iPS cell research. Led by Director Shinya Yamanaka, the 2012 Nobel Prize winner in Physiology or Medicine, the center aims to harness iPS cell technologies to develop more effective medical treatments for patients hoping for them.

Professor Yamanaka has often mentioned that the U.S. research center he belongs to receives many donations from individuals and corporations, and such donations provide a solid financial basis for research centers. We agree with this view and have designated CiRA as a support recipient of "social contribution donation trusts."



Human iPS cells

Designated Donation Trust

Based on a scheme established following amendments to Japan's taxation system in fiscal year 2011, SuMi TRUST Bank also offers a "designated donation trust." Investment gains in the trust are tax free and together with the trust principal can be donated to a charitable organization. Donations can be made regularly over a 5-year or 10-year period to any organization, not just those listed by SuMi TRUST Bank.

Social Contribution as Business Activities

Making Financial Assets Useful to Society

SuMi TRUST Bank helps people who want to use their property for the social and public good to make a bequeathed donation by means of will trusts.

As part of this, in November 2019, SuMi TRUST Bank invited multiple social contribution organizations to give talks at a special seminar for the purpose of sharing perspectives in the field of social contribution activities and points to keep in mind regarding bequeathed donations.

The seminar, which was very well received by participants, presented an overview of social contribution activities in Japan and shared examples of how to donate more reliably and securely.

Program

Theme	Lecturer/Guest
Current status and future prospects of social contribution organizations	Service Grant Japan (Certified NPO) Ikuma Saga, Founder and President
Talk session Way of living by "facing someone's problems"	Family House (NPO) Yoko Ueda, Trustees / Chief Executive Officer D Cafe Community Development Network "D Cafenet" (NPO) Hiromichi Takeuchi, Director
Benefits, considerations, and specific examples of donations made by wills	SuMi TRUST Bank Nihonbashi Business Department Satoshi Inaguma and Toshiharu Ueki (Fellow Supervisor Financial Consultants)

Guests and their activities

Family House (NPO): Established about 30 years ago as a "family house" where parents and families can stay when children with difficult conditions receive advanced medical care. It aims to reduce the psychological and economic burden on families of patients who are forced to fight long-term illnesses such as childhood cancer. In recent years, it has been running facilities where children can stay with their families.

D Cafe Community Development Network: D Cafenet is a "dementia café" run by people with nursing care experience as a place to discuss dementia. It is expanding in Meguro District as a multi-site venue for people with dementia, their families, people working in the field of medical and nursing care, and anyone interested in dementia. (10 locations as of April 2019)



Addressing Climate Change Using Our Financial Capabilities

Climate change is the most serious environmental issue in the world today—it is already affecting people's lives and economic activity in a number of ways as a result of abnormal weather, rising sea levels, and other phenomena. Moreover, the negative impacts of climate change are affecting developing countries and vulnerable people the most, which in turn is creating additional problems for societies, such as inequality and poverty.

At the same time, measures taken to ease or adapt to climate change are leading to improvements in ecosystem services through the enrichment of natural capital, while the migration of social systems driven by investment promotion and technological innovation is generating economic growth. Global sustainability now hinges on how quickly societies can achieve net zero CO_2 emissions.

The pursuit of societies resilient to climate change will likely lead to the construction of sustainable societies through the eradication of poverty and reduction of inequality.

Challenges for Achieving the Goals

- Constructing carbon-free societies well before 2050 by realizing net zero CO_2 emissions
- Visualizing risks and opportunities arising from the rapid migration of social systems
- Constructing business models that transcend sectors to combat climate change
- Expanding financial transactions that contribute to climate change adaption and mitigation

Initiatives for Solving the Challenges

- Provide solutions for the construction of societies with net zero carbon emissions by leveraging banking, trust, and real estate functions.
- Provide capital through investments and loans to promote renewable energy and energy conservation.
- Provide financial products that meet the investment needs of investors with a strong interest in climate change.
- Promote climate change measures in real estate markets and cities with financial and environmental performance evaluations.
- Promote the dissemination of finance that takes its impact on climate change seriously in accordance with the Principles for Responsible Banking.
- As a responsible institutional investor, promote stewardship activities related to climate change.
- Make improvements to the disclosure of information related to climate change.

KPIs for Solving the Challenges

	2018/2019 results
Climate change mitigation	In principle, no engagement with coal-fired power generation
	145 renewable energy finance projects totaling 15,140 MW
Disclosure of climate-related information	Launch of TCFD project team

	2019/2020 targets
Promotion of impact finance	10 "positive impact finance" projects
Climate change mitigation	Further build up renewable energy finance portfolio in and outside of Japan
Disclosure of climate-related information	Better support for TCFD through initiatives such as scenario analysis



Governance

SuMi TRUST Group's Climate Change Governance

The SuMi TRUST Group recognizes that its response to climate change issues is important for building the Group's corporate value and a sustainable society, and its solutions businesses contribute to addressing climate change issues.

High Priority Issues concerning Climate Change (Materiality)

From a management perspective, the Group recognizes it is important as a financial institution to reduce climate change impacts arising from companies and projects in its loan and investment portfolios. We also recognize the importance of reducing CO_2 emissions from the Group's business activities.

It is our belief that helping to address climate change issues by harnessing our trust function is a matter of critical importance that will direct more business opportunities to the Group.

The Group's climate change-related materiality issues

- Taking into account how borrowers and investees impact society and the environment
- Pursuit of sustainability-based business opportunities
- Climate change
- Risk management and resilience

Action Guidelines for Mitigating Climate Change

1. **Implementation of Measures and Support to Help Mitigate Climate Change**
   In addition to actively taking measures to reduce greenhouse gas emissions in our own business operations, we are making efforts, as a corporate citizen, to support activities that mitigate and adapt to climate change.
2. **Provision of Products and Services**
   We are working on developing and providing products and services that help mitigate climate change. Our financial functions are being leveraged to promote energy conservation and encourage the use of renewable energy.
3. **Collaboration with Stakeholders**
   We engage in dialogue and cooperation with our stakeholders as we work to mitigate climate change.
4. **Education and Training**
   We will ensure that these guidelines are fully implemented at Group companies, and will actively conduct education and training to mitigate climate change.
5. **Information Disclosure**
   We will actively disclose information related to our efforts to mitigate climate change.

Climate Change-related Materiality Management

Through internal engagement, the Group endeavors to improve initiatives and enhance information disclosure regarding climate change issues identified as items of materiality.

Materiality Identification and Practice

STEP1 Identifying Materiality Issues

We emphasize the views of ESG investors who pursue corporate value from a long-term perspective. Based on reporting guidelines such as GRI and SASB, we select bank materiality issues emphasized by ESG research companies (MSCI, FTSE, SAM, etc.) that provide information to investors.

STEP2 Interviewing Stakeholders

The issues identified in step 1 are evaluated from two perspectives: 1) the impact on corporate value in the medium to long term, and 2) the impact on stakeholders. The degree of impact is assessed with a score between one and five. The former is conducted by all our external directors, external auditors, and relevant internal departments, while the latter by external directors, external auditors, and external experts.

STEP3 Drawing Materiality Map

The point scores from step 2 are plotted on a scatter diagram (materiality map) with the two perspectives assigned either the horizontal or vertical axis. The issues that fall into the highest materiality zone on the map are considered to be highest priority ESG issues. In 2015, these issues were resolved by the Executive Committee and reported to the Board of Directors. Since 2017, the Risk Committee (an advisory committee of the Board of Directors) has examined the appropriateness of these issues and offered recommendations to the Board of Directors.

STEP4 Implementing Internal Engagement

Of the issues with the highest materiality, our Sustainability Management Office engages in dialogue (engagement) with relevant departments with respect to the topics investors are most interested in and for which the Group's initiatives may face challenges. Reports are submitted to the Executive Committee and the Board of Directors on the progress of initiatives.

STEP5 Initiatives for Increasing Corporate Value over Long-Term

The Board of Directors receives recommendations from the Risk Committee and reports on internal engagement and facilitates multilateral discussions on the future course of action. These actions are in line with the provisions of Article 3-4 of the Group's Basic Policy on Corporate Governance, which prescribes matters regarding environmental and social issues concerning sustainability that the Board of Directors is obligated to address.



Results of internal engagement on climate change

- Adoption of the Equator Principles in project finance
- Formulation of a financing policy for coal-fired power generation project finance
- Launch of TCFD project team

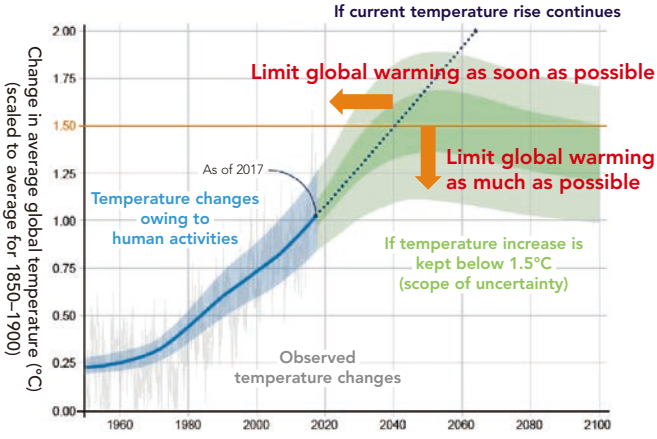
Strategy

Aiming to Limit Temperature Increase to 1.5°C

Paris Agreement and Special Report on Global Warming of 1.5°C

Under the Paris Agreement that came into force in November 2016, signatory nations aim to "hold the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels," in order to ensure sustainability. The world is now taking further steps in an attempt to transition from a low-carbon society to one with net zero carbon emissions.

In October 2018, the Intergovernmental Panel on Climate Change (IPCC) published its Special Report on Global Warming of 1.5°C. The report highlights the need to reduce greenhouse gas emissions to net zero as soon as possible in order to secure sustainability and eradicate poverty.

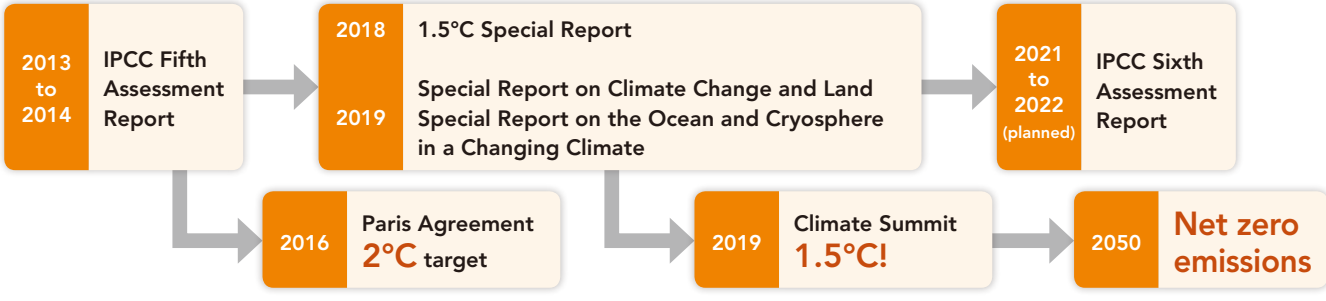


Source: IPCC Special Report on Global Warming of 1.5°C; corrections to frequently asked questions

Key points in Special Report

- The global average temperature has already increased by 1°C when compared to pre-industrial levels, and at the current pace of emissions, global warming is likely to reach 1.5°C by 2040.
- The harmful effects of the current 1°C temperature increase are serious, but will increase in severity when the temperature increase reaches 1.5°C and become significantly harmful at 2°C.
- Global warming is significantly affecting ecosystems and humans owing to abnormal weather conditions, rising sea levels, and other phenomena.
- Many more countermeasures will be required if our response to global warming is slow.
- Aiming to limit the temperature increase to 1.5°C will also have a positive impact on meeting the objectives of the SDGs.

In 2019, following the publication of the Special Report on Global Warming of 1.5°C, the IPCC published its Special Report on Climate Change and Land and Special Report on the Ocean and Cryosphere in a Changing Climate, which indicate that the impacts of climate change are even more serious than previously thought. In response, at the UN Climate Summit held in September 2019, the Secretary-General of the UN called on member countries to commit to limiting the temperature increase to 1.5°C, and 65 countries vowed to achieve net zero greenhouse gas emissions by 2050.



Special Report on Climate Change and Land

- Compared to before the Industrial Revolution, global temperatures rose by an average of 0.87°C and land temperatures by an average of 1.53°C between 2006 and 2015.
- Climate change is affecting livelihoods, biodiversity, human health, infrastructure, food systems and more, exacerbating existing risks in those areas.
- The land-related climate adaptation and mitigation response options face barriers and can make only limited contributions.
- Sustainable land and forest management can reverse the negative impact of climate change on land degradation.

IPCC Special Report on the Ocean and Cryosphere in a Changing Climate

- The global ocean has warmed unabated since 1970, the rate of ocean warming has more than doubled since 1993, and marine heatwaves have doubled in frequency since 1982 and are increasing in intensity.
- By absorbing more CO_2, the ocean has undergone increasing surface acidification, which is adversely affecting ecosystems.
- Due to a combination of the disappearance of the Greenland and Antarctic ice sheets and the thermal expansion of the ocean, historically rare (once-per-century) extreme sea level rises are expected to start occurring more than once a year in the tropics.

Risks and Opportunities Relating to Climate Change

In the area of climate change, financial institutions are responsible not only for direct impacts arising from their own business activities but also for indirect impacts arising from investee and borrower companies and projects, and the responsibility for the latter are larger. Moreover, an important element for financial institutions in their corporate growth strategies is factoring in the transition to a net-zero emission society into their business models.

Risks Relating to Climate Change

Risk categories*	Risk concepts	Attributes of risks linked to climate change
Transition risks	• Risk that stricter regulation and technological advances affect industries and companies and lead to value impairment in the Group's loan and equity portfolios • Risk that business models and corporate strategies may be affected by the regulatory response to reach the goal of staying below 2°C • Risk that carbon pricing may impact market economies and economic competitiveness across multiple nations • Risk that companies may face calls to consider climate change problems in procuring financing and services • Risk that low carbon-oriented market may lead to volatility in supply-demand relationship for products and services and corporate earnings • Reputational risk from assessments that climate change-related disclosures and initiatives are inadequate	• High social expectations that lenders and investors will seek to avert or mitigate risks from indirect impacts arising from the activities of investee and borrower companies or projects • Climate-related risk impacts on the whole supply chain, so risk management in the upstream supply chains of investee and borrower companies will be important • Establishing quantitative risk assessment measures will be important
Physical risks	• Risk that natural disasters damage the Group's assets and social infrastructure and puts business continuity at risk • Risk that natural disasters damage the assets of investee and borrower companies • Risk that climate change affects land use, resource procurement, and the productivity of primary industries • Risk that progression in global warming increases the likelihood of heat stroke and pandemics	

Business Opportunities Relating to Climate Change

Opportunity categories*	Opportunity concepts	Attributes of opportunities linked to climate change
Opportunities in resource efficiency, energy, products and services, markets, and recovery resilience	• There may be more opportunities to offer advisory services and finance to projects and companies that are helping to slow or mitigate climate change • Switch in social infrastructure, such as spreading renewable energy, may open up profitable opportunities over the medium- to long-term • There may be more opportunities to provide finance for infrastructure and technological development that enhances capacity to adapt to climate change • Positive social evaluations as a financial institution helping to address climate change may translate into more business opportunities • Greater social awareness of climate change may support sales of the Group's finance products that factor in environmental considerations	• Climate-related businesses promoting a switch in social systems in areas such as energy and transportation may become the economic mainstream • A social infrastructure changeover in the medium- to long-term on the spread of renewable energy, etc. may translate into an increase in stable profit opportunities for the Group over the medium- to long-term

* Categories based on the recommendations of the TCFD

Support for TCFD Recommendations

In recognizing the risks financial markets face from climate change, the Financial Stability Board released the recommendations of the TCFD in June 2017, calling on companies to disclose climate change-related information with even more transparency. In addition to the volume of greenhouse gas emissions their own business activities generate, financial institutions are required to monitor and disclose information about the climate change impacts of the companies and projects they extend investments and loans to, and ensure that proper risk management is in place.

SuMi TRUST Holdings supports the recommendations of the TCFD and has joined the TCFD Consortium established in May 2019. To accelerate support for the TCFD recommendations, we have established a TCFD Project Team (TCFD PT) led by the officer in charge of corporate planning.

Status of SuMi TRUST Bank's Carbon-related Assets

In light of the possibility that the borrowers may be affected by climate-related transition risks, our carbon-related asset exposure* as measured by the TCFD definition represents 5.6% of loans (as of the end of March 2019).

To understand the impact of climate change risks, including physical risks, on our credit portfolio, we have initiated a climate change scenario analysis.

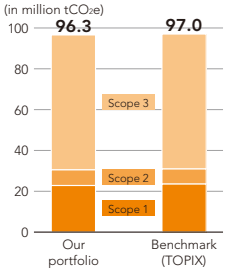
* Covers the sectors "Energy" and "Utilities" in the GICS (Global Industry Classification Standard). Excludes water utilities, independent power producers, and renewable energy power producers. Total comprises SuMi TRUST Bank, Limited and Sumitomo Mitsui Trust Bank (Thai) Public Company Limited.

Climate-related Portfolio Analysis by Sumitomo Mitsui Trust Asset Management (SMTAM)

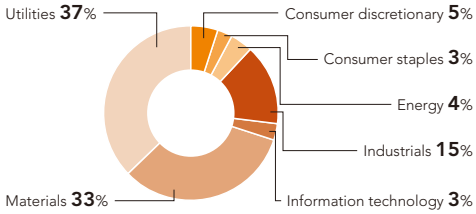
As part of a comprehensive evaluation of the assets under our management, SMTAM is assessing the risks posed by climate change to its portfolio by asset class. Our assessment methods comprise (1) fixed point analysis based on the disclosures and performance of our portfolio holdings; and (2) transition path analysis based on future climate change scenarios. The results of our analyses will then be applied to our ongoing engagement activities.

Fixed-Point Analysis of SMTAM's Climate-related Portfolio

Comparison of annual greenhouse gas emissions



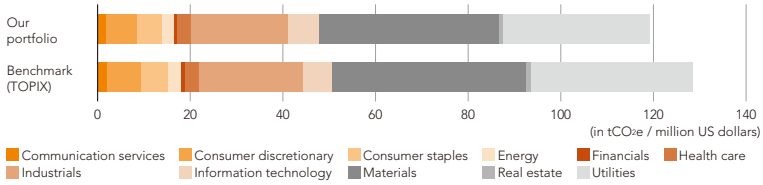
Proportion of greenhouse gas emissions by industry in our portfolio



(Industry sectors based on the Global Industry Classification Standard (GICS))

Comparison of greenhouse gas emissions per unit sales*

* Scope 1 and 2 combined

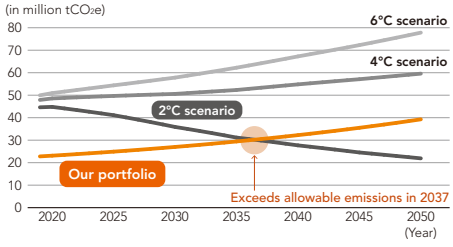


For the entire portfolio of Japan-listed companies managed by SMTAM, we estimated the status of greenhouse gas emissions as of the end of June 2019 based on information disclosed by the investee companies. The greenhouse gas emissions of all investee companies total 96.3 million tCO2e, which is slightly lower than the total emissions of the benchmark (TOPIX) portfolio of the same size and stock composition ratio.

By industry, the Utilities and Materials sectors account for 70% of the total, although in terms of emissions per unit sales in the portfolio, these two sectors contribute almost 60%.

Climate-related Portfolio Transition Path Analysis by Sumitomo Mitsui Trust Asset Management (SMTAM)

Estimates of portfolio's future greenhouse gas emissions compared to emissions under each climate change scenario



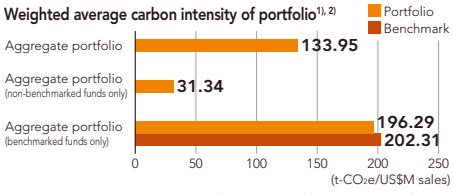
* For details, see Sumitomo Mitsui Trust Asset Management STEWARDSHIP REPORT 2019/2020.

Transition path analysis evaluates how the portfolio's climate change risk changes under future climate change scenarios. We evaluated the portfolio's compatibility with different climate change scenarios (climate resilience) in a time-sequence manner by comparing estimates of the portfolio's future greenhouse gas emissions to the "carbon budget" (allowable emissions) under each scenario. Specifically, in addition to the 2°C scenario, which is the benchmark of the Paris Agreement, we evaluated the portfolio under the 4°C scenario and the 6°C scenario. We have confirmed that, assuming the status quo, the portfolio's emissions will reach the levels permitted under the 2°C scenario in 2037 and will likely exceed them thereafter.

Climate-related Portfolio Analysis by Nikko Asset Management

Weighted Average Carbon Intensity of Nikko Asset Management's Portfolio

Weighted average carbon intensity of portfolio[1), 2)]



1) Assets under management (AUM) of reported portfolios covers 68% of core active strategies.
2) Figures are generated from MSCI ESG Research. Figures may be derived from company disclosures and/or estimates by MSCI ESG Research.

* For details, see Nikko Asset Management TCFD Report 2018.

Nikko Asset Management's aggregate portfolio weighted average carbon intensity is 133.95 t-CO2e per million US dollars of sales, with coverage of 68% of assets under management (AUM) of its active equity strategies. This aggregate portfolio includes both benchmarked and non-benchmarked funds. When calculated on an aggregate portfolio comprising only benchmarked funds, the total weighted average carbon intensity is 196.29 t-CO2e per million US dollars of sales, which is 3.0% below the aggregate benchmark. The figure for the aggregate portfolio of non-benchmarked funds is 31.34 t-CO2e.

Risk Management

Climate Change Risk Management for Portfolio Investments

As a basic policy, Sumitomo Mitsui Trust Asset Management (SMTAM) and Nikko Asset Management (Nikko AM) do not categorically exclude specific securities from investment unless directed to do so by the trustor or client. Our policy is rather to use engagement, exercise of voting rights, and other stewardship activities to encourage our investee companies to disclose climate change information and take concrete action on climate change issues in order to improve their own sustainability and the sustainability of the market as a whole.

Participating in Climate Action 100+

SMTAM and Nikko AM participate in Climate Action 100+, an initiative established by the PRI and four global institutional investor organizations at the One Planet Summit in December 2017. Under this framework, institutional investors jointly engage with the world's top 100 greenhouse gas emitters.

Cases of Climate Change-related Engagement (SMTAM)

In August 2019, we engaged with PTT Public Company Limited (the Thai state-owned oil and gas company) as lead manager, and in September 2019 we engaged with POSCO (the South Korean iron and steel company) and KEPCO (Korea Electric Power Corporation) as collaborative managers. In October 2019, we engaged with three major Japanese manufacturing companies in partnership with CalSTRS (the California State Teachers' Retirement System) and CalPERS (the California Public Employees' Retirement System).

Domestic: Non-manufacturing Company A — Greenhouse gas emissions reduction

Opinion from SMTAM	Company Response and Action	Evaluation by SMTAM
The truck-centric transportation sector accounts for a large portion of CO_2 emissions volume by industry. With the company currently in discussion over its medium-term business plan, it seems to us that the required course of action is for it to capitalize on its expertise with various shipping modes (including trains, ships and airplanes) so it can set Scope 3-focused (i.e., emissions volume encompassing manufacturing, shipping, etc.) medium-to-long-term CO_2 reduction targets while also actively expanding sales to customers.	Although there are a variety of different environment-related indicators, medium-to-long-term CO_2 reduction is a priority for which we are committed to investing the necessary costs to achieve. We will look into incorporating it into our next medium-term business plan. With a view towards realizing its long-term vision, the company announced specific CO_2 emissions reduction targets as KPI to be achieved by fiscal year 2023.	We approve of the company's announcement of specific CO_2 emissions reduction targets. Moving forward, we will monitor the progress being made to reduce CO_2 and to improve the profitability of domestic logistics business.

Global: Resource Mining Company B (Europe) — Greenhouse gas emissions reduction

Opinion from SMTAM	Company Response and Action	Evaluation by SMTAM
Globally speaking, this company is seen as having a major impact on greenhouse gas emissions and is a target company of the CA100+ initiative. It is our view that (1) disclosure and implementation of plans to reduce greenhouse gas emissions to the levels set under the Paris Agreement; (2) disclosure of information in line with the recommendations of the TCFD (Task Force on Climate-related Financial Disclosures); and (3) creation of climate-change related governance systems and structures are needed.	As you have pointed out, we have significant exposure to the coal industry and are aware of the risks presented by a transition to a low-carbon society, particularly the potential stranding of coal assets. Our intention is to put greater emphasis on high-quality coal, whereby we can increase our profitability without increasing our production volume, while at the same time reducing our contribution to global warming. In February 2019, the company announced limits on the size of its coal production.	We approve of the company's expressed intentions to optimize its coal business and assets. We will continue to engage the company in dialog about measures it can take to help mitigate climate change.

Cases of Climate Change Considered in the Investment Process (Nikko AM)

Case 1 For an integrated energy company in North America: Despite being a leader in environmental management in the oil sands industry, the company's stock price did not appear to reflect its expected regulatory burden. We therefore placed a higher discount rate on the stock, lowering its long-term alpha score.

Case 2 Risk of stranded assets in Australia's power sector: Focusing on listed companies, we analyzed the impact on valuations under a variety of scenarios assuming different policy directions and technological advances.

Case 3 Given that the environment is heavily influenced by Chinese government initiatives, we closely monitor and analyze companies that are in a position to benefit from China's policies over the medium to long term. Examples of Chinese initiatives currently underway include the transition from coal to gas to address air quality issues and the transition to electric vehicles called for under the "Made in China" plan.

Case 4 For a Japanese machinery manufacturer that produces mining equipment: We are closely monitoring the future of the coal industry and the risk of stranded (related) assets as a climate change-related risk for the company. We regularly engage with the company's management team and know that they are constantly making business decisions to improve profitability with an awareness of a variety of risks, including climate change. We assess that the company is adequately managing its significant climate change risks.

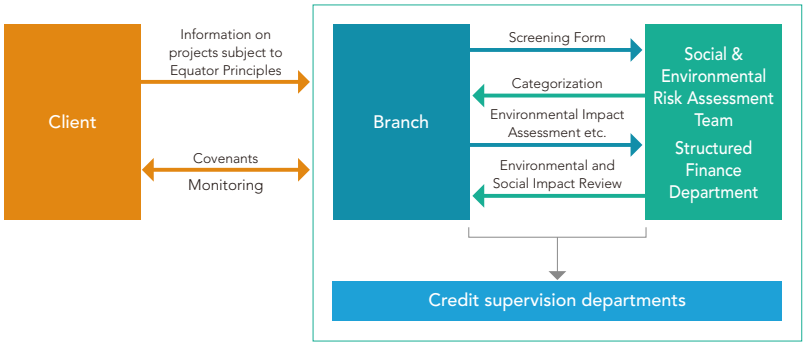
Climate Change Risk Management for Loans

Equator Principles

Because the SuMi TRUST Group has identified "Taking into account how borrowers and investees impact society and the environment" as a sustainability-related priority issue (materiality), we incorporate risk management procedures based on the Equator Principles into our project finance decision-making process to ensure that due consideration is given to each project's impact on the natural environment and local community. In fiscal year 2018 (Apr 1, 2018 – Mar 31, 2019) there were 22 projects to which we applied the Equator Principles.

The fourth revision of the Equator Principles was adopted at the Equator Principles Association Annual Meeting in November 2019. The principles were expanded in scope to include refinancing and certain other transactions and updated to strengthen commitments to Indigenous Peoples in developed countries, among other changes. Efforts to address climate change were strengthened by updating the due diligence requirements to include physical risk analysis when the project's impact is likely to be significant and transition risk analysis under TCFD, as well as consideration of alternative proposals, for projects with annual greenhouse gas emissions exceeding 100,000 t-CO_2.

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.

Climate Change-related Policies for Specific Sectors

Project Finance for Coal-fired Power Generation

With climate change being such an important issue for the international community, SuMi TRUST Bank has continued to carefully consider its own actions by setting internal standards on power generation efficiency and environmental load for coal-fired power generation projects that emit relatively large amounts of CO_2. Given that initiatives aimed at realizing low-carbon societies in developed countries are key management issues for financial institutions, SuMi TRUST Bank's basic policy going forward is not to participate in any new coal-fired power generation projects being considered for construction. That said, the Bank may make exceptions by carefully and comprehensively considering the background, attributes, and other factors of each individual project if it meets strict environmental standards, such as OECD guidelines and power generation efficiency performance.

Risk Management for Tropical Rainforest Logging and Peatland Development

SuMi TRUST Bank has established sector-specific policies for sectors that have a significant social impact, for example cluster-bomb manufacturing, and has banned or curbed investments and loans to companies and projects that have a negative impact. We plan to formulate a sector policy in fiscal 2019 for sectors where there are concerns that climate change is being impacted by activities such as peatland development and illegal logging in tropical rainforests for the purpose of harvesting palm oil and procuring raw materials from forests.

Metrics and Goals

SuMi TRUST Group's CO_2 Emission Reductions

SuMi TRUST Bank is committed to reducing CO_2 emissions by reducing power consumption. We have significantly reduced our power consumption through business efficiency and work style reforms. We plan to establish long-term targets for ourselves for 2030 and beyond.

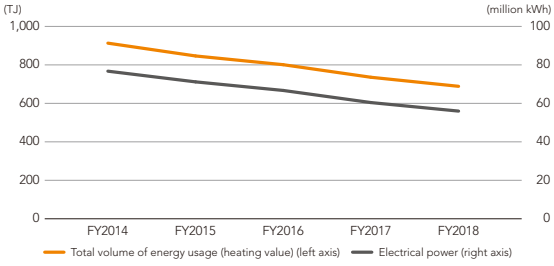
SuMi TRUST Bank's medium- to long-term environmental targets

CO_2 reduction (reduction of power consumption)	To reduce power usage intensity (power consumption / total floor area) in FY2020 by 10.5% compared to FY2009. (SuMi TRUST Bank)

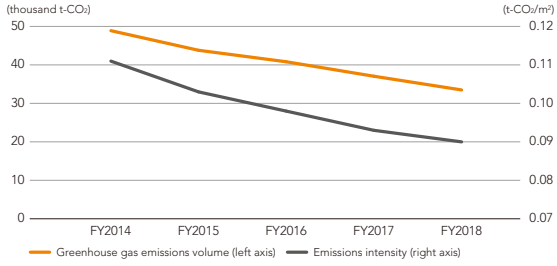
Achievement of medium- to long-term environmental targets for power usage intensity

		FY2009	FY2015	FY2016	FY2017	FY2018
Power usage intensity	kWh/m²	213.31	168.14	161.06	152.60	151.32
	Change from FY2009	—	-21.2%	-24.5%	-28.5%	-29.1%

Energy usage



CO_2 emissions volume



Scope of calculations: SuMi Trust Bank facilities in Japan subject to the Act on the Rational Use of Energy; SMTAM and other Group companies are tenants in some facilities.
Calculation method: Calculations conform to the method in the Act on the Rational Use of Energy.

Business Opportunities

Efforts as a Trust Banking Group to Contribute to Climate Change Mitigation and Adaptation

Impact-Focused Finance

SuMi TRUST Bank has contributed to the spread of renewable energy through project financing for wind power generation and mega-solar power in Japan and abroad.

As a signatory to the Principles for Responsible Banking (PRB), which went into effect in September 2019, SuMi TRUST Holdings promotes the "positive impact finance" approach advocated by the Principles, which emphasizes how the companies and projects to be financed will impact society and incorporates these impact assessments into lending decisions (see page 35).

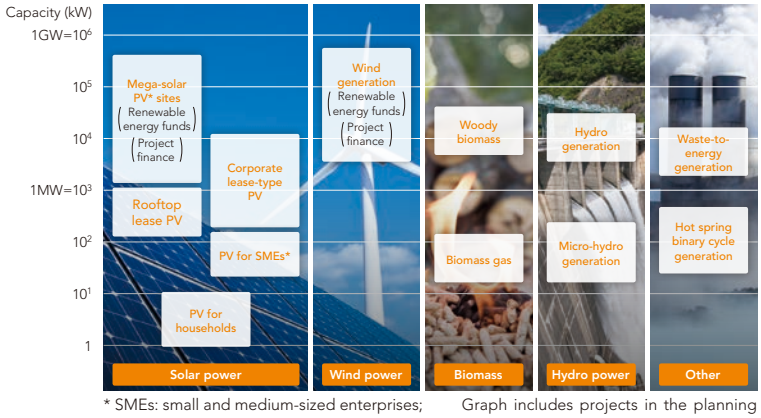
UNEP FINANCE INITIATIVE | PRINCIPLES FOR RESPONSIBLE BANKING

Finance to Promote the Spread of Renewable Energy

Society is undergoing rapid changes due to the mobility revolution in electric vehicles and autonomous driving, the transition to zero emission buildings and cities, and technological innovations based on artificial intelligence and FinTech.

In the transition process, the "decarbonization" of power through reduction of fossil fuel consumption and the use of renewable energy is key to achieving the 1.5°C target.

To support this goal, the SuMi TRUST Group will continue to offer a diverse array of financing such as project finance, funds, leases, and home renovation loans.



* SMEs: small and medium-sized enterprises; PV: photovoltaic

Graph includes projects in the planning stage and under construction

Climate-related Green Finance

Through green finance, SuMi TRUST Bank not only supports the procurement of funds by businesses implementing projects that mitigate climate change, but also strives to provide services to meet the investment needs of ESG investors with a keen interest in climate change issues.

Launch of Domestic Renewable Energy Business Investment Fund for Institutional Investors

SuMi TRUST Bank was the first in Japan to utilize trust assets to launch a fund (SuMi TRUST Renewable Energy Trust Fund: Brown No.1) that invests in anonymous partnerships for domestic solar power generation projects already in operation. This investment product provides investors with trust beneficiary rights (non-pecuniary trust assets) and relies on stable cash flow backed by long-term, steady electricity sales revenue under the feed-in tariff system (fixed-price purchasing of renewable energy). The fund meets the needs of investors who seek stable income gains unaffected by economic conditions despite the harsh investment management climate dominated by negative interest rates and the like. The trust was established in April 2018 and closed to new investment one year later at ¥12.7 billion in total AUM. The trust also includes investments in projects for the renewable energy funds SuMi TRUST Bank has set up and manages (see page 35). SuMi TRUST Bank also earmarks up to 10% of the fund's AUM (¥1.2 billion) for same-boat investments.

Green Jointly Operated Designated Money Trust

SuMi TRUST Bank has been working to connect investors who manage environmentally friendly funds with borrowers (such as J-REITs) who need financing to pursue environmentally friendly property projects. In September 2018 we launched a Green Trust, a jointly operated designated money trust that is used to raise funds for the new acquisition of green buildings* and the refinance of existing debts. It was the first initiative of its kind in Japan. New Green Trusts were launched again in March 2019 and October 2019. The Green Trust launched in October 2019 is used to fund green buildings that have been awarded the CASBEE S rank. SuMi TRUST Bank supports the acquisition of certification by buildings in the trust. The Green Trusts we have launched to date comply with the Green Bond Principles and received the highest possible rating of "Green 1" in the Japan Credit Rating Agency (JCR) Green Bond Evaluation. Loans from the Green Trust also comply with the Green Loan Principles and received the highest possible rating of "Green 1" in JCR Green Loan Evaluation.

* Eco friendly real estate with good environmental performance and good management that has acquired external certification by CASBEE for Real Estate or a similar rating system

Green Bonds

In September 2018, SuMi TRUST Bank issued its first euro-denominated green bond for overseas markets. The 2-year floating-rate green bond targeting mainly ESG investors and asset managers in Europe raised €500 million. The proceeds from the green bond have been fully allocated to loans for 16 renewable energy projects involving wind power and solar power, contributing to a reduction of 178,685 tons*1 of CO_2 per year (as of the end of March 2019). The status of the appropriation of funds from the proceeds of the green bond issuance and the environmental improvement results are disclosed on the website of SuMi TRUST Holdings*2 and have been certified by a third-party certification body.

*1 Figure calculated by multiplying the CO_2 reduction effects of the projects by SuMi TRUST Bank's loan ratio.
*2 https://www.smth.jp/en/csr/greenbond/index.html

Issuing and Selling the Trust Beneficiary Rights backed by Project Finance Receivables of Renewable Energy Projects

In September 2018, SuMi TRUST Bank established a framework for issuing and selling the trust beneficiary rights backed by project finance receivables of renewable energy power generation projects.

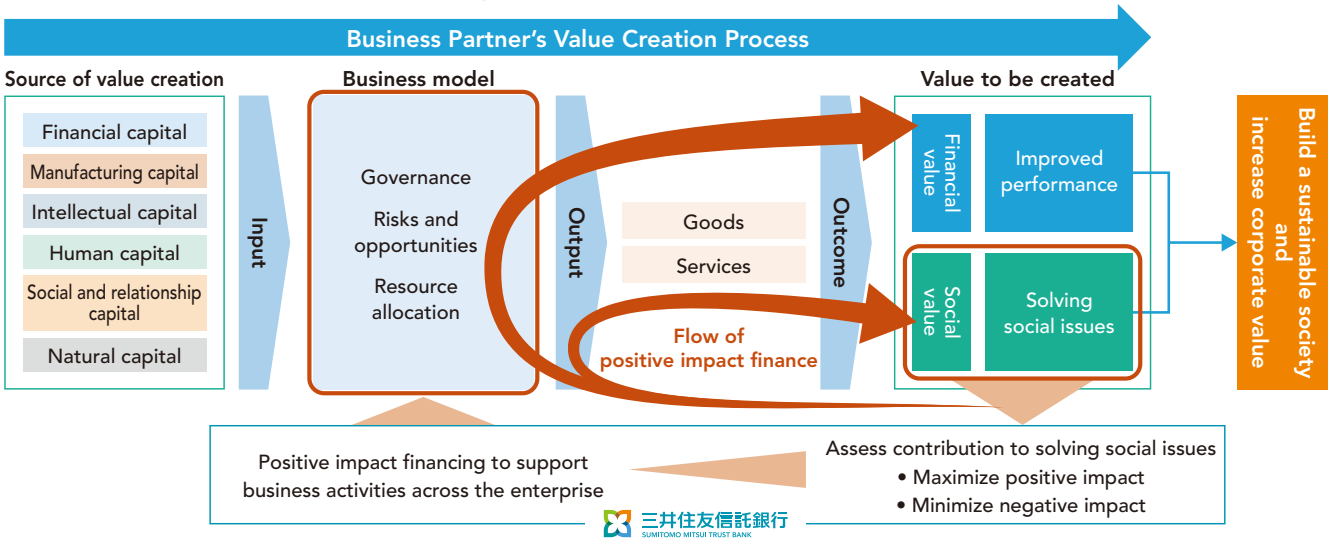
As project finance for renewable energy expanded as a way to combat climate change, securing liquidity in the secondary market for project financing and providing ESG investors new investment opportunities became problematic. SuMi TRUST Bank has decided to utilize self-created trusts whereby the trustor themselves becomes the trustee and a notarial deed or other official document designates the activities (in this case, collection of receivables) the trust is required to perform in order to fulfill its purpose. By entrusting solar power generation project finance receivables and obtaining a green finance evaluation for the trust beneficiary rights, SuMi Trust Bank made it easier for those investors who were eager to ESG investments to access project finance. The trust beneficiary rights comply with the Green Bond Principles and received the highest possible rating of "Green 1" in JCR Green Bond Evaluation.

Positive Impact Finance

Positive Impact Finance to Assess and Support the Impact on Climate Change Mitigation and Adaptation

SuMi TRUST Holdings is a founding member of the Principles for Responsible Banking (PRB), which was officially launched in September 2019. The purpose of PRB is to evaluate how the companies and projects to be financed will impact the SDGs and the Paris Agreement goals as part of the lending decision to ensure that the positive impacts are maximized and the negative impacts are minimized.

In March 2019, SuMi TRUST Bank concluded the world's first contract for Positive Impact Finance (Unspecified Use of Funds). By helping companies address climate change, we aim to enhance both the corporate value and the social value of our business partners.

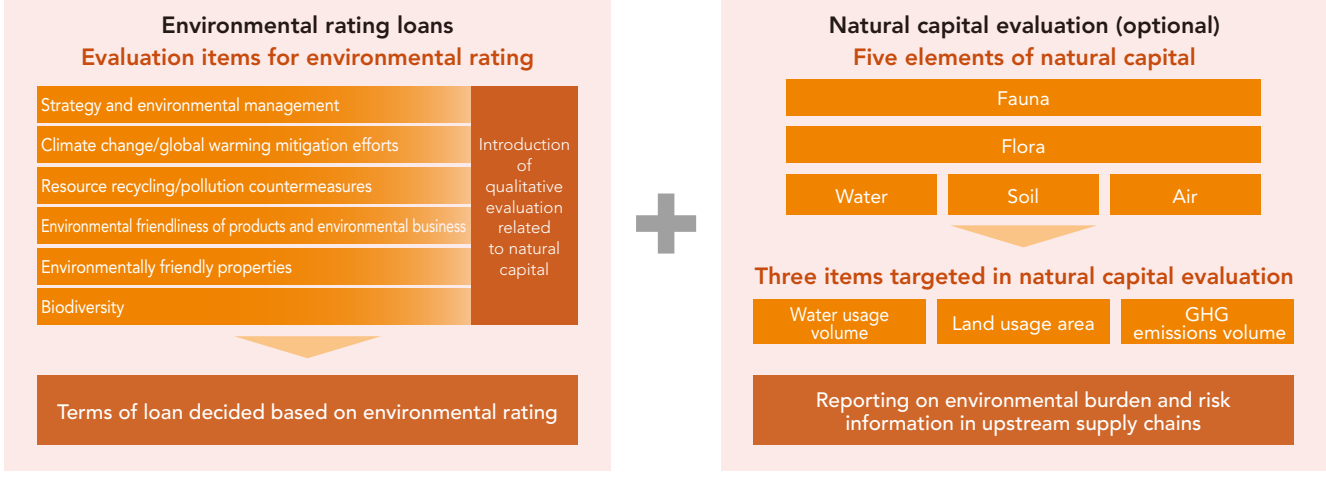


Scoring Climate Change Risks in Supply Chains

Environmental Rating Loans with Evaluation of Natural Capital Preservation

Procurement risks for inputs such as resources, raw materials and energy are a source of business continuity risk. Procurement risk management for natural capital in a global supply chain is a high priority issue (materiality) in management strategy.

Since April 2013, SuMi TRUST Bank has quantitatively scored the natural capital dependence and environmental impacts of companies, and offered environmental rating loans with an optional service for natural capital evaluation that provides a basis for identifying risk management scope. With this service, greenhouse gas emissions, as a factor relating to climate change, are calculated for each category of procured input and each region where the input is procured in a borrower's supply chain. We provide risk information such as procured inputs with significant risks and countries where the suppliers are located.



Note: "Optional" refers to ESCHER calculations provided by PwC Sustainability LLC that are not available without loan products.

Renewable Energy Finance

SuMi TRUST Bank promotes the adoption of large-scale projects such as wind and solar power generation through project finance and it has set up renewable energy funds and manages for the purpose of investing exclusively in large-scale renewable energy projects.

In project finance, both offshore and onshore wind power generation projects overseas are increasingly large-scale endeavors. In Japan, the number of mega-solar projects to which we provide project finance has further increased. The total potential generation capacity of projects where SuMi TRUST Bank has been involved in supplying project finance comes to 15,140MW. These projects, with annual power output of 38,775GWh, reduced annual CO_2 emissions by 18.50 million metric tons.

Total potential generation capacity of projects supported by renewable energy funds came to 463MW, with annual power output of 549GWh and annual CO_2 emission reductions of 300,000 metric tons.

In financing for installations, Sumitomo Mitsui Trust Panasonic Finance Co., Ltd. mainly provides support for mega-solar projects. Since the feed-in-tariff (FIT) system was introduced, it has supported 30 mega-solar installations with total potential generation capacity of 52MW.

Contributions to CO_2 Reduction via Renewable Energy Finance Subtotals may not add up to totals due to rounding.

Category of power generation	Number of projects	Potential capacity (MW)	Annual output (GWh/year)	CO_2 reduction effect (10,000t/year)
Solar	99	4,314	7,405	375
Wind	24	4,110	8,723	410
Offshore wind	12	6,138	19,502	909
Biomass	8	447	3,038	151
Other	2	131	107	5
Total	145	15,140	38,775	1,850

Eligibility inclusion: Project financing involving SuMi TRUST Bank (inside and outside Japan)
Capacity calculations: Numerical values of potential generation capacity, gigawatt hours of output per year, and CO_2 reduction effect cover all projects in each category.
Subtotals may not add up to totals due to rounding.

Calculation Method for CO_2 Reduction Effect

Annual CO_2 reduction (CO_2 metric tons per year)
= annual power output (kWh/year) x
emission coefficient (CO_2 metric tons/kWh)

- As a general rule, we use the forecast value for annual power output.
- As a general rule for domestic projects, we use the most recently calculated emission coefficient of each electricity supplier in the electricity supply system of the region where each project is located.
- As a general rule for overseas projects, we use the International Energy Agency (IEA) calculation tools provided at the GHG protocol website to calculate reduction equivalents.

Renewable Energy Project Finance

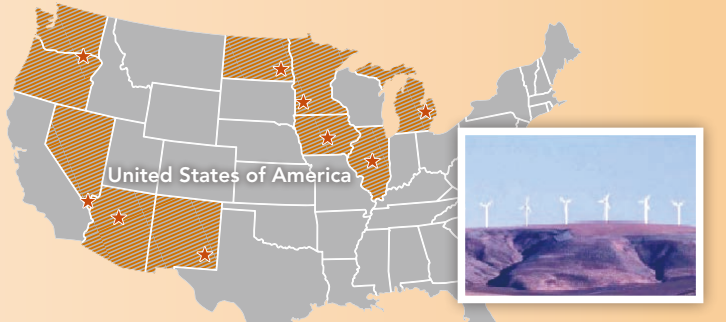
As renewable energy has become more widely adopted, the capital costs and operating costs for such projects have declined. Overseas, power generation costs for renewable energy are nearing parity with those for other power generation sources, increasing the attractiveness of renewable energy in terms of economic rationality.

Case 1

Wind and Solar

This is a large-scale project that combines solar power with seven wind power projects to reach a total capacity of 1,192MW. The individual power plants are distributed across 10 states in the United States, supplying renewable energy to local power companies.

★ Site of power plant



Case 2

Overseas Offshore Wind Farm

This offshore wind power generation project—located 20km from the mouth of the River Thames in the UK—is one of the world's largest with the capacity to generate 630MW. 175 turbines each with the capacity to generate 3.6MW are spread out across an area roughly 100km^2 in size. With considerable potential for offshore wind farms, the UK is driving the increase in offshore wind power generation in Europe.



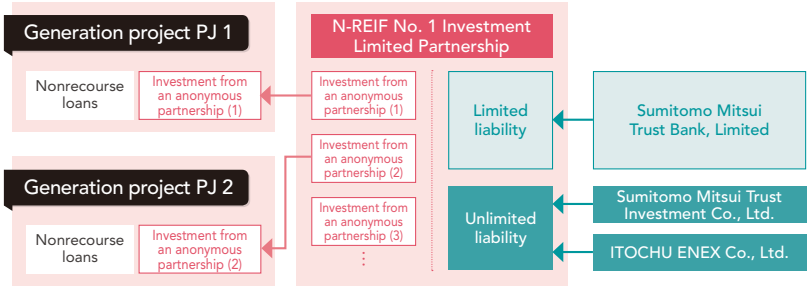
Renewable Energy Funds and Investment Products for Investors

SuMi TRUST Bank manages renewable energy funds it has set up for the purpose of investing exclusively in large-scale renewable energy projects.

As of September 2018, these funds have supplied equity funding for 28 mega-solar power generation projects and 2 wind power generation projects with total potential generation capacity of 463MW. Of the ¥187.3 billion in aggregate equity investment directed into these projects, our funds supplied total equity investment of ¥23.5 billion. These projects generate annual power output of 550GWh, commensurate to CO_2 emission reduction of over 300,000 metric tons.

* For CO_2 emission reduction calculations, we use the emission coefficient of each electricity supplier in the electricity supply system of the region where each project is located.

Renewable energy fund scheme



- We contribute by providing equity-like funding for the spread of renewable energy projects.
- We are expanding assets under management in our funds and building up an investment track record in solar and wind power, and plan to broaden the scope of our renewable energy investments to include biomass and other sources.

In April 2018 SuMi TRUST Bank launched a domestic renewable energy business investment fund for institutional investors. This investment product seeks to generate long-term, stable income gains based on the track record of solar power generation projects already in operation.

Characteristics of Trust Account Renewable Energy Brown No. 1

- Managed assets include anonymous partnership investments in already-operating domestic solar power generation projects (no development risks)
- Benefits from stable cash flow based on the feed-in tariff (FIT) system whereby renewable energy is purchased at a fixed price
- Projects that take steps to address global warming also contribute to the SDGs, ESG, and regional revitalization

Mega-Solar Projects Using Leases

Using leases to fund solar facility installations keeps the upfront investment costs for mega-solar project construction at zero, and projects can earn stable income by using the feed-in-tariff (FIT) system to wholesale at a fixed price the electricity it generates to the power supply grid. Leases are thus an effective method of financing for mega-solar projects that ensures business plan soundness.

In addition to new projects, Sumitomo Mitsui Trust Panasonic Finance also provides lease-based financing options for fully operational projects that have been put up for sale to investors (secondary transactions). And it also started a leasing and installment plan support service for offshore floating mega-solar power plants.

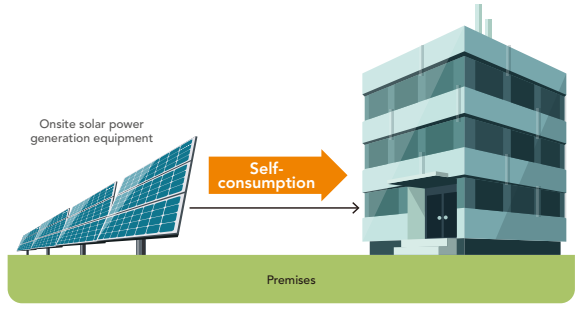
The Group will continue to fuse its extensive know-how honed thus far with financial services to offer schemes that best meet the needs of increasingly sophisticated renewable energy projects.



Onsite Self-consumption Solar Power Generation

We launched a service to supply renewable energy for self-consumption through solar power equipment installed on-site (on grounds or roof).

Sumitomo Mitsui Trust Panasonic Finance formed a partnership with an experienced solar power equipment manufacturer to help companies develop an optimal investment plan based on their power utilization performance and to reduce their initial costs through subsidies. This venture helps companies reduce their own CO_2 emissions and their "scope 3" greenhouse gas emissions, meets the needs of those participating in the SBT and RE100 initiatives, and contributes to the Japanese government's Low Carbon and Decarbonization initiatives.



Micro-Power Generation in Water Supply Systems

Sumitomo Mitsui Trust Panasonic Finance proposes ideas for adopting micro-power generation systems in water supply systems across Japan, and promotes global warming mitigation measures and the use of natural energy in the regions.

In Japan's water supply systems, there is an enormous amount of energy that can be used from unutilized vertical drops in non-pressure flow pipes, surplus pressure in pumped supply pipes, and reduced pressure from pressure-reducing valves. The Group borrows water facilities from local governments to deliver a business financing scheme with no upfront investment costs by installing power generation systems under a leasing system.

As of November 2019, the highly efficient power generation systems used in this scheme have been installed at 18 water facilities (including those scheduled to be installed) across Japan to produce a total 480kW of power. We expect annual power generation to reach 3,581MWh and annual CO_2 emissions to be reduced by 1,970t-CO_2.

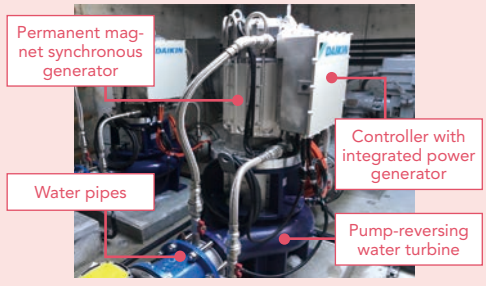
Characteristics of micro-power generation systems

High efficiency: Efficient power generation system developed with inverter controls
Low cost: System configuration uses general-purpose pumps, low-cost magnets, and standardized parts
Compactness: Power generator and control device are stacked on top of each other to minimize installation space

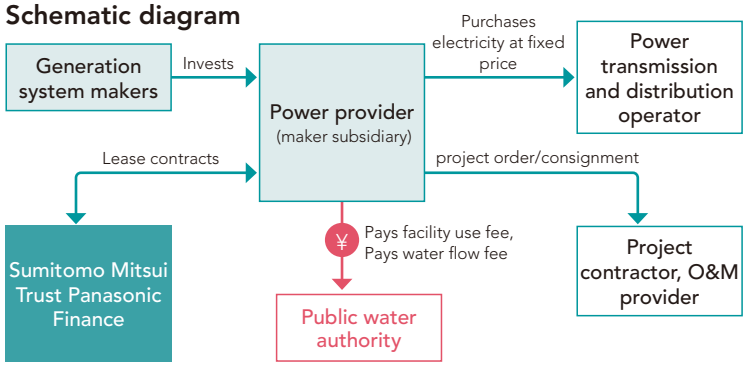
Characteristics of leasing system (advantages for local governments)

- No upfront investment costs on project launch
- Power provider manages and maintains the system
- Stable lease revenue and receipt of property tax

Newly developed micro-power generation system for water supply systems



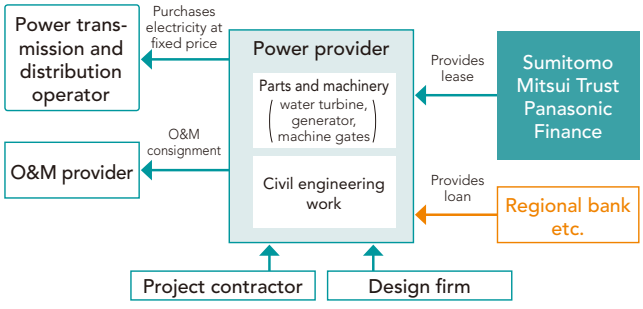
Schematic diagram



Small and Mid-sized Power Generation in Rivers

Japan's river systems have the potential to generate 14GW of electricity through the installation of small or mid-sized generators and its agricultural water supply channels 300MW, according to the results of a Ministry of the Environment survey. Sumitomo Mitsui Trust Panasonic Finance is helping to revitalize regional communities through joint initiatives with regional banks aiming to use each region's untapped hydropower potential.

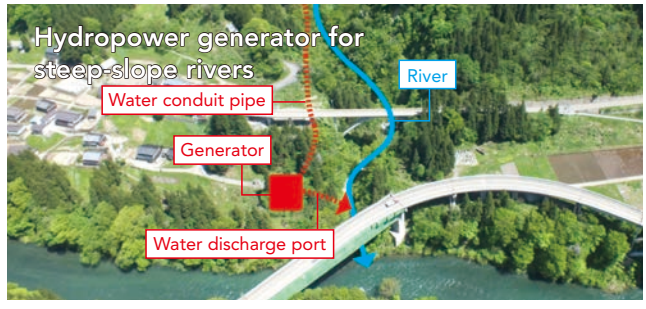
Schematic diagram of collaboration with regional banks



Small and mid-sized hydropower potential, actual adoption capacity

	Potential aggregate output	Breakdown by category
Maximum aggregate potential in Japan*1	14.3GW	River systems 14GW Agricultural supply channels 300MW
Potential with FIT system*1	1.06~4.3GW	River systems 900M~4.06GW Agricultural supply channels 160~240MW
Approved for installation post-FIT adoption*2	1,240MW	
Installations post-FIT adoption*2	460MW	

*1 Ministry of the Environment's fiscal 2010 survey report on the adoption potential for renewable energy
*2 Agency for Natural Resources and Energy's website (accessed in June 2019)



Hydropower generation could be a source of renewable energy for Japan, which is blessed with many high-flow, steep-slope rivers. In cases where the feed-in-tariff (FIT) system is used, the maximum aggregate potential from installing small and mid-sized hydropower generators is estimated at 4.3GW.

Small and mid-sized power generators approved for installation since the FIT system's introduction have total output of 1,240MW, and of those, the ones in use have 460MW, indicating there is still scope for new installations.

It is possible to install hydropower generators that factor in the environment such as run-of-the-river small and mid-sized hydropower generators that use the shape of rivers or existing agricultural water supply channels and do not require building large dams.

Biomass Gas Generation

We support adoption of biomass gas generation facilities that convert food waste and other organic waste into biogas for electricity generation.

At a biomass gas power generator, organic waste—such as food waste, livestock urine and manure, and organic sludge from sewage and wastewater—is fermented and combustible gases, mainly methane, are extracted and used as fuel to generate electricity. Under the Food Recycling Law, the recovery of heat from food waste is recognized as a form of recycling provided certain conditions are met, and the power generated can be resold at a fixed price using the FIT scheme. The value of biomass gas systems is in improving overall energy efficiency through the effective use of both electricity and heat.

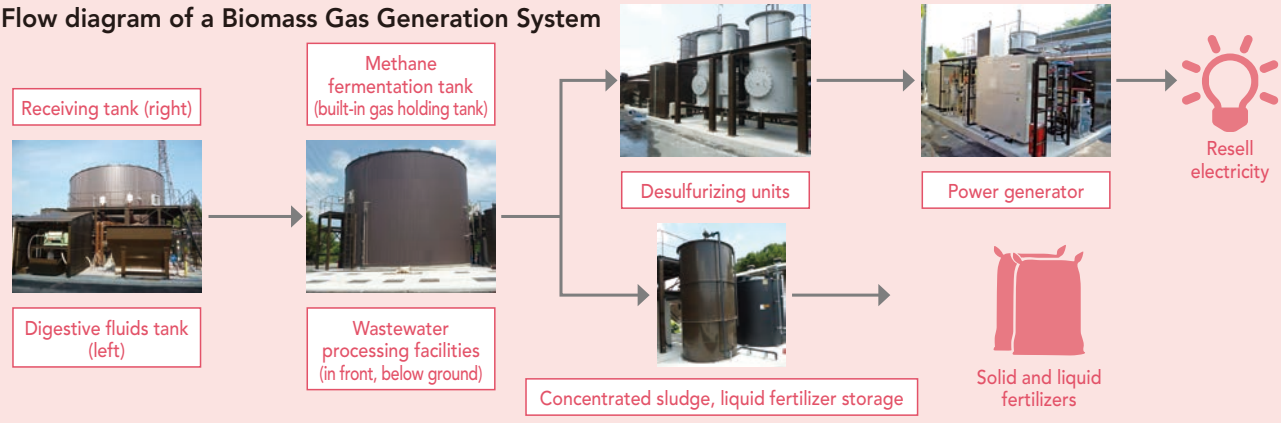
Merits

- Curtails volume of waste produced, reduces waste disposal costs
- Earns income from reselling electricity via the FIT system
- Curtails putrid odors due to fermentation, reduces release of bad smells to nearby areas
- Byproducts like post-fermentation, digested slurry can be recycled as a liquid fertilizer

Wastes eligible for usage

- Food waste, food residues
- Livestock urine and manure
- Organic sludge, etc. from sewage and wastewater

Flow diagram of a Biomass Gas Generation System



Response to Freon Regulation

We support the introduction and increased use of appliances that do not use chlorofluorocarbons (CFCs) in order to curtail the use and emission of CFCs into the atmosphere and promote a low-carbon society. CFCs cause global warming and harm the ozone layer.

CFCs used in industrial freezers and refrigerators for food retailers, food manufacturing plants, and refrigerated warehouses cause ozone layer depletion and also contribute to global warming; the greenhouse effect of CFCs is up to 20,000–30,000 times greater than CO_2 emissions. With the aim of tightening restrictions on the use of CFCs, the Act on Rational Use and Proper Management of Fluorocarbons was fully enforced on April 1, 2015. This law calls on the users of appliances to implement proper management of appliances and CFCs.

Sumitomo Mitsui Trust Panasonic Finance supports the introduction of energy-efficient refrigerators and freezers that use agents found in the natural world as refrigerants, such as ammonia, hydrocarbon, and carbon dioxide. The introduction of appliances that do not use CFCs are expected to reduce environmental burdens, lower electricity and management costs, and prevent overlapping investment in measures to address tighter regulations on refrigerants in the future.

Businesses accelerating the introduction of energy-efficient natural refrigerant equipment for the purpose of eliminating harmful CFCs and realizing a low-carbon society as soon as possible (subsidies offered by the Ministry of the Environment, etc.) * Case example in fiscal 2019

Purpose: To promote reduction of emissions of energy-derived carbon dioxide and CFCs through the spread of energy-efficient natural refrigerant equipment.
Targeted businesses: Refrigerated warehouses, food manufacturing plants, food retailers

Eligible businesses: Businesses that adopt energy-efficient natural refrigerant equipment with cutting-edge technology
Subsidy rate: Half of expenditure for small and medium-size firms and one-third for large companies for refrigerated warehouses; one-third for food manufacturing plants and food retailers



A non-freon freezer unit and a non-freon freezer showcase

Kigali Amendment to Montreal Protocol to Regulate Freon Alternatives (Developed nations)

Base year	2011—2013
Baseline value (CO_2 equivalence)	Avg. HFC volume in each year + 15% of HCFC* baseline value
Launch year for regulation	2019
Target year	2036
Target reduction	85%

* HCFC: Hydrochlorofluorocarbons

Support for CO_2 Reduction of Buildings

Consulting to Support Applications for "CASBEE for Real Estate" Certification

CASBEE for Real Estate is an environmental performance evaluation system developed with the aim of increasing the stock of buildings with superior environmental performance in real estate market and promoting its use among investors for investment decision-making. There is extensive use of the system, especially among REITs and real estate companies, and SuMi TRUST Bank has consulting businesses that support property owners applying for the CASBEE for Real Estate certification.

Evaluation categories in CASBEE for Real Estate

- Energy/ Greenhouse gases
- Water
- Use of resources/ Safety
- Biodiversity/ Sustainable site
- Indoor environment

Construction-Phase Support for Environmental Considerations

Improving energy efficiency is the most important theme in the environmental performance of buildings. SuMi TRUST Bank in its construction consulting business provides advisory services on how to improve in a comprehensive manner the environmental performance of buildings in ways such as installing energy-saving systems, taking into account landscapes and ecosystems, extending building life spans, and adopting recycling systems.

There are some projects we advised that have been recognized and awarded subsidies by the "leading projects" program for sustainable buildings (formerly known as "leading projects for promoting CO_2 reduction" program for housing and buildings), sponsored by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT), and the "net zero energy building" experimental pilot program, sponsored by the Ministry of Economy, Trade, and Industry (METI).



An example of a building where we provide construction-phase support for environmental considerations
HIROSHIMA ORIZURU TOWER (major renovation)
(Selected as a "leading project for promoting CO_2 reduction" for housing and buildings by the Japanese Ministry of Land, Infrastructure and Transport)

Home Renovation Loans for Smart Houses

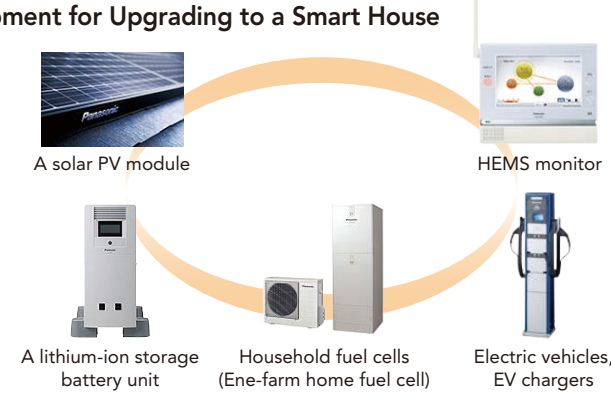
Homes have advanced so that they can wisely use electricity generated onsite; through our home renovation loans, we support remodeling homes into "smart houses."

A smart house can efficiently generate and store its own power supplies by combining solar PV panels, storage battery units, and household fuel cells. Energy-saving functions that enable dwellers to control electricity consumption to match their lifestyles and weather conditions have improved. From 2019 there will be a huge influx of household solar power generation equipment for which the surplus electricity purchasing scheme has ended, therefore the conversion of existing homes into "smart houses" will become a key topic in addressing global warming.

With the liberalization of retail sales of electricity and gas to households in Japan, energy and telecommunication sector companies are increasingly partnering to provide bundled services such as combined sales of telecom or broadcast with electricity generated from various sources. There has also been progress in developing products that have multiple functions of housing, home appliances, and vehicles.

Since the system for purchasing surplus electricity from solar panels was established, Sumitomo Mitsui Trust Panasonic Finance has contributed to the adoption and spread of household solar panels with its solar loans. The cumulative sum of solar loans it has executed as of September 2019 is ¥73 billion. Through our partnerships with equipment vendors and installers, we support remodeling homes into "smart houses" with our renovation loans.

Equipment for Upgrading to a Smart House





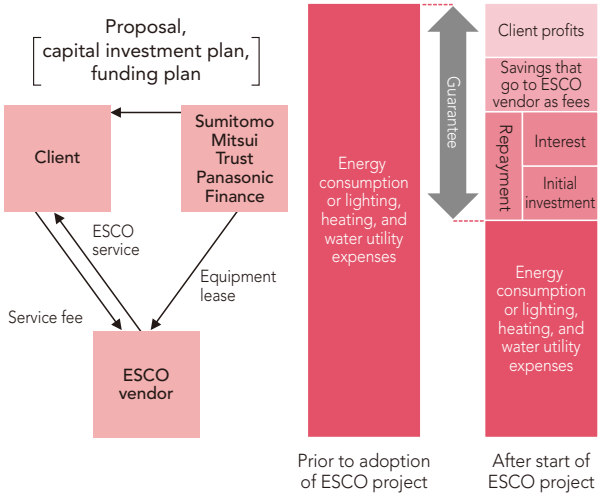
A smart house

Financing for ESCO Service Adoption

Sumitomo Mitsui Trust Panasonic Finance collaborates with energy service companies (ESCOs) to provide comprehensive energy conservation services from installation of energy-saving equipment to maintenance and management.

ESCOs provide comprehensive services for energy saving and guarantee a level of energy savings. Through the use of leases, aging facilities can be replaced at zero upfront cost and, in cases where certain conditions are met, subsidies can be utilized. ESCOs propose ideas that both help preserve the environment via energy conservation while reducing the costs of utilities such as water, lighting, and heating as well as operating and maintenance costs.

Outline of ESCO concept



* Case where a client adopts a shared model, one form of an ESCO project

Example: ESCO Proposal for a General Hospital

Energy conservation menu

Heat source: Construct hybrid heat source system, install high-efficiency steam boiler
Air conditioning: Improve air conditioning control system, install variable air volume controls, install inverters
Lighting: Install LED lighting
Monitoring: Add energy management functions

Energy conservation subsidy (initial)	¥176,591,000
Projected boost to earnings (annual)	
Lower water, lighting, and heating costs	¥80,468,000
Fees paid for ESCO project	¥77,598,000
Annual boost to earnings	¥2,870,000

Reduction to environmental impacts (annual)

CO_2 reductions: 1,459t-CO_2 (down 19.0%)
Electricity use reductions: 172,473kWh (down 7.7%)
Gas use reductions: 598,102ℓ (down 44.7%)
Water use reductions: 9,892m^3 (down 41.9%)
(environmental impacts are estimates)

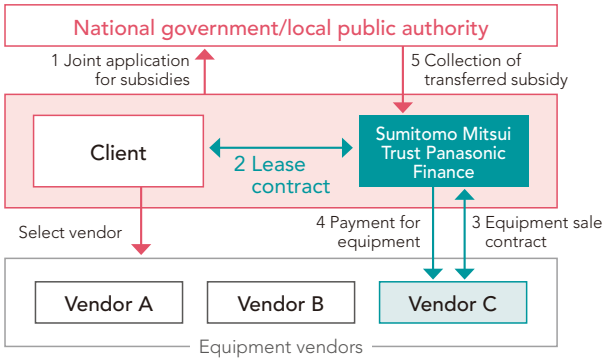


One-Stop Services for Energy-Saving Investment: Subsidy-Eligible Leases

We offer one-stop services that support all processes from planning for energy-saving investments to asset operation.

- Our one-stop service menu ranges from energy-saving assessments, examinations to identify energy-saving measures, equipment selection, subsidy applications, and securing financing to maintenance services.
- The use of leasing means energy-saving equipment can be installed with no upfront investment costs.
- Securing subsidies lowers upfront investment costs, enabling recipients to benefit even more from energy savings and cost reductions.
- We offer tailored proposals through partnerships with manufacturers and installers.

Flow Chart Mapping Out the Use of Subsidies



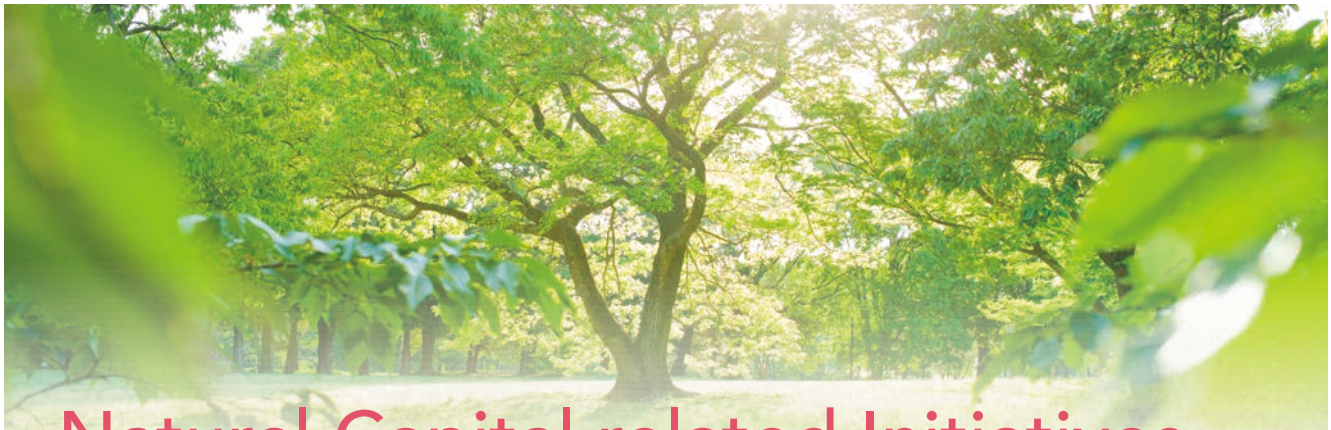
Main subsidy systems

- Subsidy support for rationalizing energy use at SMEs
- Subsidy for businesses that promote net zero energy buildings (ZEB) and decarbonization at institutional facilities
- Subsidy for businesses that support the construction of decentralized energy systems by private operators
- Subsidy for businesses accelerating the introduction of energy-efficient natural refrigerant equipment for the purpose of eliminating harmful CFCs and realizing a low-carbon society as soon as possible

* Certain conditions must be met to be eligible to apply for subsidies
* Subsidy systems are subject to change

Stages in the Subsidy Application Process

Examination of energy-saving primary proposal	Energy-saving assessment Energy-data provision	Examination of optimal energy-saving secondary proposal	Management Board, etc. decide on energy-saving investment	Preparations to apply for subsidies	Subsidy application
6-12 months before public application announcement	3-6 months before public application announcement	1-3 months before public application announcement	1 month before public application announcement	1 month to 2 weeks before public application announcement (through public application period)	



Natural Capital related Initiatives Using Our Financial Capabilities

The global environment is the foundation for sustaining the life of various living creatures. It comprises of natural capital, such as water, air, soil, as well as marine and terrestrial fauna and flora that are grown in such resources under the blessings of the sun. Humans also depend on natural capital and have utilized it to build social systems and develop the economy. In this process, however, humans have also caused significant consequences.

Natural capital is not inexhaustible. Supplies may be exhausted sooner or later unless we accurately track and manage our dependence and impacts on natural capital. This is closely interlinked with humans' day-to-day activities. For this reason, all SDGs are connected with natural capital. Primarily from the perspective of corporate activities, the Group focuses on natural capital in Japan, where we lay our business foundation, as well as natural capital outside Japan, where we rely on highly for the procurement of raw materials and parts. We have selected goals that contribute to proper dependence on and management of such natural capital.

Challenges for Achieving the Goals

- Deepening understanding of the importance of natural capital
- Establishing approaches for tracking companies' dependence and impact on natural capital
- Visualization of natural capital risks that lead to damaging corporate value
- Expanding financial transactions that contribute to solving companies' challenges related to natural capital

Initiatives for Solving the Challenges

- Appeal the concept and importance of natural capital through various opportunities, such as proposals and seminars for clients.
- Contribute to establishing methodologies for appropriately managing dependence and impacts on natural capital, such as natural capital protocols.
- Identify natural capital risks that have serious impacts on the continuation of overseas procurement, businesses, and projects, and incorporate them into investment and loan processes from the ESG perspective.
- Taking into account that land is the foundation of natural capital in terrestrial ecosystems, strive to restore ecosystems that are suitable for various areas, ranging from mountainous regions to cities, and contribute to the formation of ecological networks.
- Promote related businesses, such as increasing sales of Environmental Rating Loans with Evaluation of Natural Capital Preservation and developing the forestry trust.

KPIs for Solving the Challenges

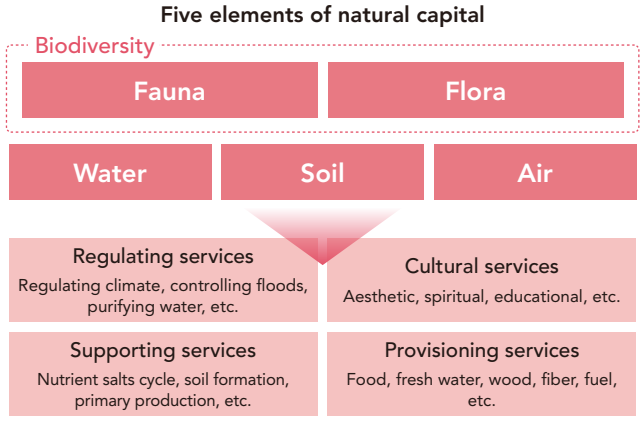
2018/2019	Target	Result	2019/2020	Target
Promotion of activities through proposals and seminars for clients	At least 20 times a year	24 times	Promotion of activities through proposals and seminars for clients	At least 20 times a year
Credit policy concerning natural capital	Introduction in fiscal 2018	Not achieved (slated for introduction in fiscal 2019)	Examination of green infrastructure finance	Submission of proposals to clients
Development of forestry trust	Launch in fiscal 2019	On target	Promotion of forestry trust	Expansion of forestry trust business assessments



Natural Capital Initiatives and Policies of the SuMi TRUST Group

What is Natural Capital?

Natural capital is made up of diverse living creatures and the water, soil, and air that sustain them. These are the foundation sustaining life on earth and conserving them needs to be prioritized ahead of everything else. The way we live depends on natural capital and the ecosystem services they provide. We thus feel continued wise use of natural resources which constitute natural capital over the long run goes beyond mere environmental conservation. It must extend to putting communities on a solid social foundation to enable sustainable economic development.



Natural Capital Finance Alliance (formerly the Natural Capital Declaration)

SuMi TRUST Holdings became a signatory to the Natural Capital Declaration (NCD) proposed by the United Nations Environment Programme Finance Initiative (UNEP FI) at the United Nations Conference on Sustainable Development "Rio+20" held in Rio de Janeiro in June 2012. SuMi TRUST Holdings is the only financial institution in Japan to have signed the declaration when it originally promulgated. The initiatives of NCD signatories have been expanded through NCD's reorganization into Natural Capital Finance Alliance (NCFA).

Natural Capital Finance Alliance
Finance sector leadership on natural capital

Commitment of Financial Institutions under the Natural Capital Finance Alliance (Excerpt)

We will support the development of methodologies that can integrate natural capital considerations into the decision-making processes for all financial products and services including loans, investment, and insurance policies.

(a) We will apply a holistic approach to the evaluation of bonds and stocks by integrating natural capital considerations in environmental, social, and governance (ESG) risk analysis in short-, medium-, and long-term growth forecasts of investee companies.

(b) We will systematically incorporate the consideration of evaluating natural capital into the credit policies of specific sectors, including commodities, that have a major impact on natural capital, either directly or indirectly through the supply chain.

Sumitomo Mitsui Trust Holdings Action Guidelines for Preserving Biodiversity

1. **Implementing Measures and Providing Support for Biodiversity Preservation**
   We will strive to actively protect rare and native species. In our role as a corporate citizen, we will work to support activities for the preservation of biodiversity.
2. **Providing Products and Services**
   We will endeavor to develop and provide products and services that contribute to the preservation of biodiversity, by conducting appropriate economic and social evaluations of the ecosystem and encouraging the sustainable use of living resources through our financial functions.
3. **Collaboration with Stakeholders**
   We will engage in dialogue and cooperation with our stakeholders while working to preserve biodiversity.
4. **Education and Training**
   We will ensure thorough implementation of these action guidelines at all Group companies and will work to provide education and training aimed at the preservation of biodiversity.
5. **Information Disclosure**
   We will actively disclose information about our efforts to preserve biodiversity.

Business and Biodiversity Initiative: Our Initiatives as a Leadership Declaration Signatory

SuMi TRUST Holdings signed a leadership declaration under the Business and Biodiversity Initiative "Biodiversity in Good Company" at the ninth meeting of the Conference of the Parties (COP 9) to the Convention on Biological Diversity held in May 2008 in Germany. Since then, we have continued to carry out activities in line with the principles of the declaration, which was led by the German government.

Declaration	Initiatives in 2018-2019
1. Analyzing corporate activities with regard to their impacts on biological diversity	Not only did we continue to provide environmental rating loans with natural capital evaluation, we also kicked off positive impact finance solutions to assist the initiatives of companies by comprehensively analyzing and assessing the impact of their activities on the economy, society, and the environment, including natural capital.
2. Including the protection of biological diversity within their environmental management system	In our Sustainability promotion system, we draw up a plan for each fiscal year on efforts related to natural capital and review their performance semiannually.
3. Appointing a person in the company responsible for steering all activities in the biodiversity sector and reporting to the Management Board	The Chief Sustainability Officer steers all activities and reports to the Executive Committee.
4. Defining realistic, measurable objectives that are monitored and adjusted every two to three years	Following on from last fiscal year, we established SDG-linked objectives for our natural capital initiatives and stepped up our activities.
5. Publishing activities and achievements in the biodiversity sector in the company's annual, environmental, and/or corporate social responsibility report	We publish a yearly Natural Capital feature report. We disclose our biodiversity initiatives in our ESG report and at various events.
6. Informing suppliers about the company's biodiversity objectives and integrating suppliers accordingly and step by step	We continue to pay attention to procurement of copier paper and office supplies linked to illegal logging in tropical rain forests, which has large detrimental impacts on biodiversity. In our fiduciary services business, we engage as a shareholder with investee companies on activities that contribute to natural capital destruction and voice our concerns.
7. Exploring the potential for cooperation with scientific institutions, nongovernmental organizations (NGOs) and/or governmental institutions with the aim of deepening dialogue and continuously improving the corporate management system vis-a-vis the biodiversity domain.	We became a signatory to the Principles for Positive Impact Finance of the United Nations Environment Programme Finance Initiative (UNEP FI) and actively participated in initiatives aimed at establishing and enhancing methods for evaluating natural capital impacts.

Natural Capital Study Group

Launched in April 2013 by the SuMi TRUST Group and chaired by Masahiro Sato, an associate professor at the Graduate School of International Cultural Studies of Tohoku University, the Natural Capital Study Group regularly brings together members of companies, national and local governments, universities, research institutes, and NGOs for the purpose of facilitating multilateral discussions regarding their topics of research.

Symposium Address

In January 2019 we took part in the panel discussion of a national forum on waterside ecological networks hosted by the Ministry of Land, Infrastructure, Transport and Tourism and presented some examples of the initiatives of financial institutions that aim to find value in natural capital. Then in July we gave a lecture at a seminar about greenery and the SDGs jointly organized by construction firms Sumitomo Forestry and Kumagai Gumi. In particular, we talked about how buildings constructed with biodiversity issues in mind, for example those with rooftop gardens, can enhance property value by boosting office worker productivity.

Booth at EcoPro

Held every year in December at Tokyo Big Sight, EcoPro is Japan's biggest exhibition on the environment. Since 2007, SuMi TRUST Bank has exhibited at EcoPro in collaboration with the Ecosystem Conservation Society-Japan and the Association of National Trusts in Japan with a booth that primarily focuses on natural capital and biodiversity issues.



EcoPro visitors and a SuMi TRUST Bank employee

Natural Capital Products and Services

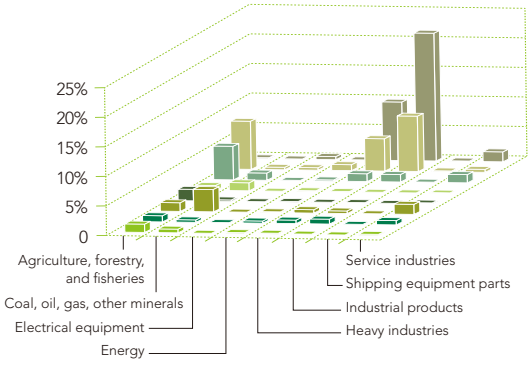
Evaluating Supply Chain Impacts on Natural Capital

Natural Capital Evaluation

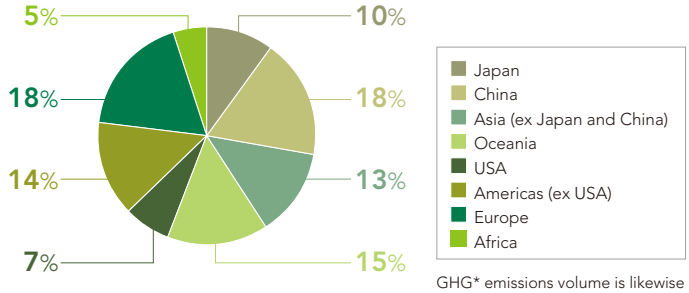
Natural capital evaluation is a service that calculates natural capital dependence arising from corporate activities and estimates the degree of impact for each procured item and for each country and region, tracing back through supply chain.

Example of output from a Natural Capital Evaluation Tool

Breakdown of water usage volume in each region by sector



Ratio of land usage area by region



GHG* emissions volume is likewise calculated by sector and region.
* GHG stands for greenhouse gases

Benefits of Natural Capital Evaluation

(1) Gaining quantitative risk data related to the supply chain that can be used for management judgments
Can obtain previously hidden risk data related to environmental impacts and the use of resources that are essential to global supply chain management

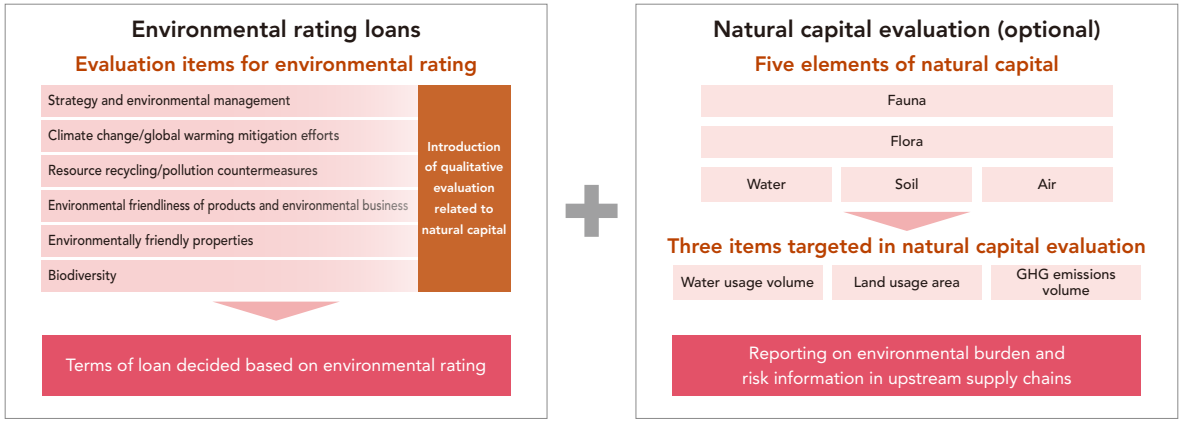
(2) Obtaining quantitative data on environmental impacts that can be used for information disclosure
Can use the data for scope 3 responses to surveys such as the Carbon Disclosure Project (CDP) survey and for disclosures in integrated corporate reports

Initiatives for Loans

Environmental Rating Loans with Evaluation of Natural Capital Preservation

The sustainable use of natural capital as resources is vital for a company to continue its business. There is a growing awareness that natural capital-related procurement risk management across the global supply chain is an indispensable part of management strategy.

In April 2013, SuMi TRUST Bank launched its Environmental Rating Loans with Evaluation of Natural Capital Preservation, which embed the concept of evaluating impacts on natural capital and a company's initiatives into the environmental-rating evaluation process that assesses its environmental measures. This is the world's first attempt to incorporate natural capital evaluation into loan criteria, and the Bank's efforts have been cited in Japanese government environmental white papers and European Commission reports as an example of leading-edge practice.



Note: "Optional" refers to ESCHER calculations provided by PwC Sustainability LLC that are not available without loan products.

Natural Capital Risk Management for Loans

Natural Capital Risk Management for Loans

SuMi TRUST Bank is a signatory to the Equator Principles, a set of international guidelines for private financial institutions that requires project proponents to give due consideration to the impact on the natural environment and the regional community when approving project finance and other loans.

In addition, we have established policies for specific sectors that promote business activities with significant environmental and social impacts and restrict loans and investments to companies and projects with negative impact. We also intend to establish a policy for sectors that are considered to be involved in the manufacture of palm oil and the illegal logging of tropical rainforests during fiscal 2019.

Natural Capital Risk Management for Investment (Asset Management)

Sumitomo Mitsui Trust Asset Management (SMTAM) and Nikko Asset Management have become signatories to the Principles for Responsible Investment (PRI), which was established in 2006. The PRI calls on institutional investors to take into account environmental, social, and governance (ESG) factors in their investment decision-making processes.

Through engagements, SMTAM requests investees to establish guidelines and policies on the use of and risks related to natural capital, covering supply chains, and to control risks from a long-term perspective.

Case **Engagement Concerning Palm Oil Production**

Dialogue overview	Company response	SMTAM's policy
Through its participation in a joint engagement by way of a PRI working group, SMTAM calls on palm oil production companies to incorporate the criteria of the RSPO (Roundtable on Sustainable Palm Oil) into their production operations. This time around, SMTAM is engaging with Kuala Lumpur-based CIMB, an influential Malaysian bank, and urging it to strengthen its compliance rules for, and monitoring of, palm oil producers from a financial institution standpoint by incorporating a sustainability policy into its lending guidelines.	Based on its sustainability policy, the bank has committed to implementing stricter compliance rules for palm oil producers and strengthening its monitoring of their operations. As a bank, it is also developing an environmental policy in an effort to prevent negative environmental impacts from occurring as a result of palm oil production.	Collaboration with investors, banks, and other stakeholders in the region is key to resolving environmental issues and SMTAM's policy going forward will be to engage with other financial institutions (not just CIMB) that do business in Southeast Asia.

Initiatives in the Real Estate Business

Construction Consulting on How to Foster Biodiversity and Ecosystems

Through the use of CASBEE for Real Estate*1 and JHEP*2 together, the environmental performance of properties can be improved across many dimensions, helping to increase overall property value.

At SuMi TRUST Bank, biodiversity considerations are included in our menu of construction consulting services.

*1 CASBEE for Real Estate: The comprehensive assessment system for built environment efficiency (CASBEE) certification is an environmental performance evaluation system for buildings being developed and promoted in Japan under the guidance of the Ministry of Land, Infrastructure, Transport and Tourism (MLIT). SuMi TRUST Bank is involved in the establishment of criteria.

*2 JHEP: Japan Habitat Evaluation and Certification Program is a system is a system developed by the Ecosystem Conservation Society-Japan to quantitatively evaluate and certify efforts to contribute to the conservation and restoration of biodiversity.

CASBEE for Real Estate
(CASBEE: the comprehensive assessment system for built environment efficiency)

Key focus points for evaluation certification
- Better energy efficiency and environmental sustainability
- Better intellectual and labor productivity, better indoor environments

Evaluation items in CASBEE for Real Estate
1 Energy/greenhouse gases
2 Water
3 Use of resources/safety
4 Biodiversity/sustainable site
5 Indoor environment

JHEP
(JHEP: Japan Habitat Evaluation and Certification Program)

Key focus points for evaluation certification
- Improve natural value of biodiversity versus pre-project situation
- Habitat well suited to native flora/fauna

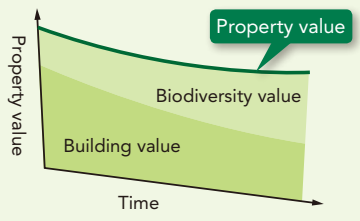
JHEP certification requirements for new evaluations
1 No net loss in natural value of biodiversity
2 Quality of biodiversity exceeds the minimum specified level
3 No use of specified foreign invasive species

Increases Overall Property Value

A building's environmental performance is evaluated on many dimensions such as energy savings, global warming mitigation measures, biodiversity, durability, and resource efficiency.

The value of buildings decline with age but the biodiversity value increases every year as the ecosystem surrounding it forms. These offsetting lifecycle patterns can maintain the combined value of the building and site together as a whole. Ecological networks can be created through the connection of local communities, neighboring buildings and green nature reserves.

Change in Property Value with Age (image)



Forestry Trust

Approximately two-thirds of Japan's land is covered in forest. Although these forest resources, which consist mainly of artificial forests developed after the Second World War, are now ready for full-scale use, in reality, many have been left untended.

SuMi TRUST Bank is developing a forestry trust scheme that will consolidate and enhance the efficiency of forestry operations by accepting entrustment of forests—where operations are non-existent because the owners are in old age or live far away, for example—and entrusting forestry operations to a forestry entity. We are working to revitalize Japan's forestry industry by improving productivity of operations and invigorating the domestic timber market.

Forestry trust and SDGs activities

Our forestry trust initiative is linked to many of the SDGs, but in particular, Goal 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

- **Land conservation and watershed protection functions of forests**
  Contributing to Goal 6: Clean water and sanitation; and Goal 11: Sustainable cities and communities
- **Prevention of global warming**
  Contributing to Goal 13: Climate action
- **Raise wages for forestry workers by turning forestry into a growth industry**
  Goal 8: Decent work and economic growth
- **Shorten wood mileage (distribution distance) through wood distribution reforms**
  Goal 12: Responsible consumption and production
- **Recycle forest resources by promoting use of timber**
  Contributing to the achievement of multiple goals, including Goals 8, 11, and 15





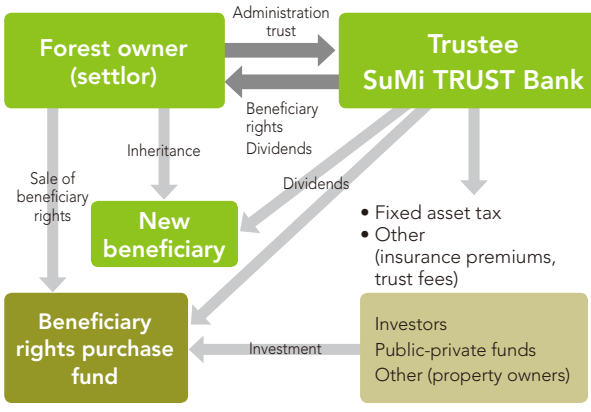
Forestry trust initiative in Okayama Prefecture's Nishiawakura village

SuMi TRUST Bank has kicked off initiatives in its forestry trust business in the village of Nishiawakura in Okayama Prefecture.

95% of the land area of Nishiawakura village is forest, of which 84% is plantation. The entire village continues to take up the challenge of growing a magnificent 100-year-old forest with trees planted roughly 50 years ago based on its 100-year Vision of Forest. Our forestry trust business is a solutions proposal unique to a trust bank in which we hope to support the village's 100-year Vision of Forest with the use of a trust scheme.

Nishiawakura village was selected as an "SDGs Future City" in 2019.

Overview of forestry trust scheme



100-year Forest of Nishiawakura

Today's forest → 50 years from now

Year 1	25 years	50 years	75 years	100 years
In the region that once thrived on the forestry industry, saplings were planted for the future generation roughly 50 years ago.	The dense concentration of planted saplings grew quickly to become towering tall trees.	The density of the forest will be thinned out to some degree so that more sunlight can reach the forest floor.	Owing to the thick tree trunks and well-extended roots, the forest will retain moisture to allow undergrowth to thrive. Slowly but surely, birds will begin to make their home in the forest.	In the well-established hillside forest, creeks will form naturally and flow through the trees. Wildlife will also make its home here.

Source: 100-year Vision of Forest, Nishiawakura village office website

SDGs Future City Initiative

Okayama Prefecture Nishiawakura village	100-year forest business powered by forestry fund and forest RE Design — Ver. 2.0
	We aim to maximize and optimize the value of forests for the entire region through consolidation in a forestry trust business and turn privately-owned forests unsuited to forest management into publicly-owned forests after assessing their economic value. In financing this business, a forestry fund will be set up, which will also have a positive impact on businesses tasked with improving the sustainability of the region by involving investors as key parties.

Source: July 1, 2019 Cabinet Office press release on SDGs Future City selection



Addressing the Issues of a Super-Aging Society by Using Our Financial Functions

As Japan becomes a super-aging society, social-economic systems such as pensions and social insurance programs that support people's lives are getting increasingly feeble, and responses in providing adequate financial services to elderly people with dementia, etc. are being delayed. As a result of such trends, there is an increasing number of risks that may interfere with people's safe livings.

The Group promotes high value-added solution businesses harnessing its skills and functions as a trust bank group, and contributes to ensuring the security of individual assets, stability in housing for clients, and livelihood security for seniors and their families.

Challenges for Achieving the Goals

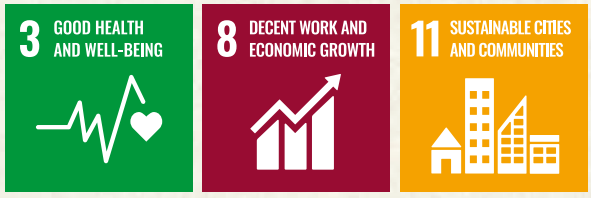
- Spreading the "productive aging" approach whereby seniors decide how they want to live their life.
- Expanding support for extending the age to which people can maintain good health ("healthy life years") and the age to which people can live without financial difficulty ("wealth span").
- Developing a decision-making support system that respects the wishes of the individual as much as possible even after the onset of dementia.
- Providing housing and a support system to enable seniors to continue leading their own lives (community building).

Initiatives for Solving the Challenges

- Supporting productive aging by providing client-oriented financial services and extensive financial information.
- Supporting asset formation and the smooth transfer of assets to the next generation with comprehensive consulting for both assets and liabilities.
- Enhancing employee literacy regarding dementia, stepping up community and industry collaboration initiatives, and expanding asset management services.
- Contributing to the development of housing and providing options to clients so that seniors can maintain quality of life.

KPIs for Solving the Challenges

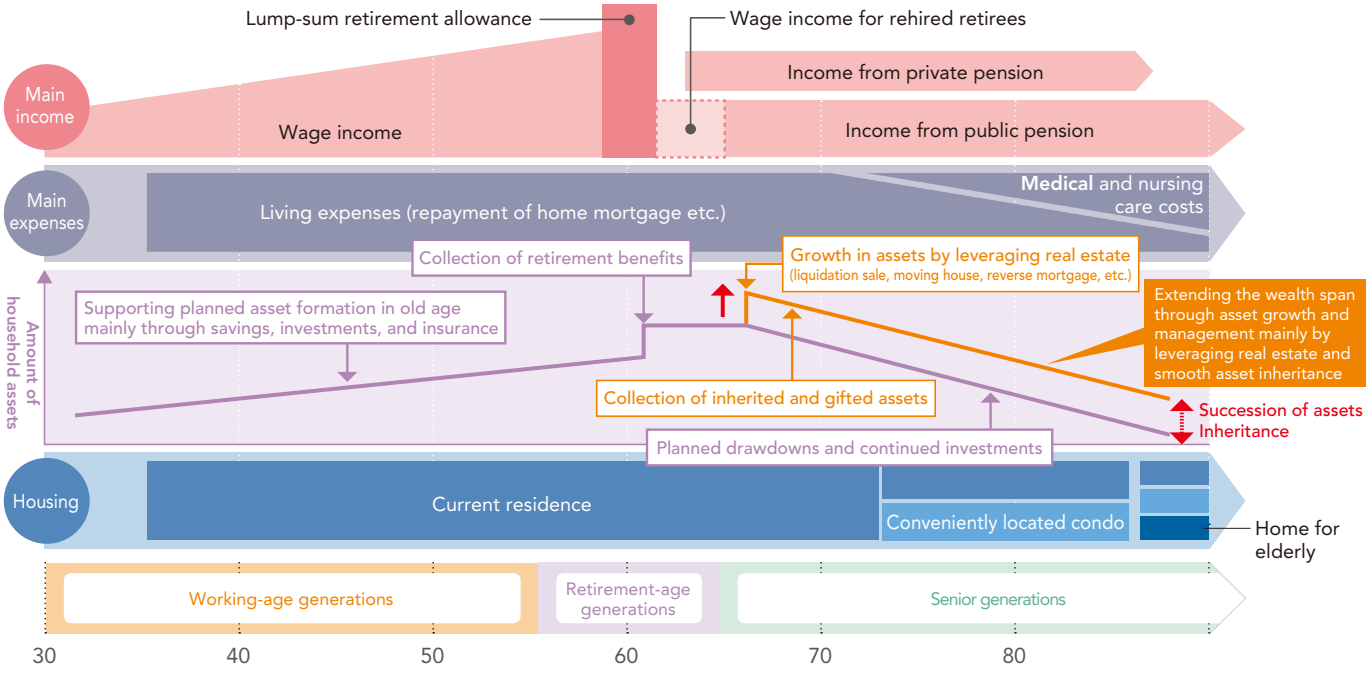
- Enhancing our total solution model that includes expanded products for elderly clients in an age when many people will live to be 100 years old.
- Expanding collaboration between branch offices and nearby integrated community support centers.
- Strengthening our ability to serve clients with dementia, including the enhancement of asset management services.
- Promoting industry collaboration and demonstrating leadership on dementia-related issues.



Trust Banks Offer a Rich Variety of Problem-Solving Functions

1. Being Our Clients' "Best Partner" in an Age of 100-year-life

By harnessing the significant expertise and broad range of products and services that only a dedicated trust bank group can provide, we aim to be our clients' "best partner" by offering total consulting services that take into account the attributes of assets and liabilities that change in accordance with the lifecycle of our individual clients.



100-Year Life Solution Department

Given the advent of an age in which more and more people will likely live to be 100 years old, SuMi TRUST Bank established a Longevity Support Department with the goal of providing suitable solutions to address the various issues faced by our individual clients.

The Longevity Support Department will aim to identify the increasingly diverse and complex needs of clients caused by changes in time horizons as a result of longer living and develop and successively roll out a whole host of solutions by harnessing the Group's unique know-how cultivated over many years in an effort to deliver security, safety, and enjoyment to our clients.

Establishment of Sumitomo Mitsui Trust Future Assets Institute

SuMi TRUST Bank established the Sumitomo Mitsui Trust Future Assets Institute for the purpose of examining and conducting research into the various needs and concerns pertaining to the building and utilization of assets required in an age when many people will likely live to be 100 years old. This new institute will aim to provide information about these activities to not only the Group's clients, but to broader society.

Thus far the SuMi TRUST Group, including SuMi TRUST Bank, has continued to implement initiatives with a primary focus on providing products and services that address the issues and needs of clients, guided by action plans formulated in accordance with our client-oriented policies. With the establishment of the Sumitomo Mitsui Trust Future Assets Institute, however, we intend to disseminate from a neutral and objective standpoint information about the formation and use of assets to not only individual clients of different age groups, but to wider society, including corporate clients that struggle to assist their employees in creating wealth, educational institutions, and other various organizations.

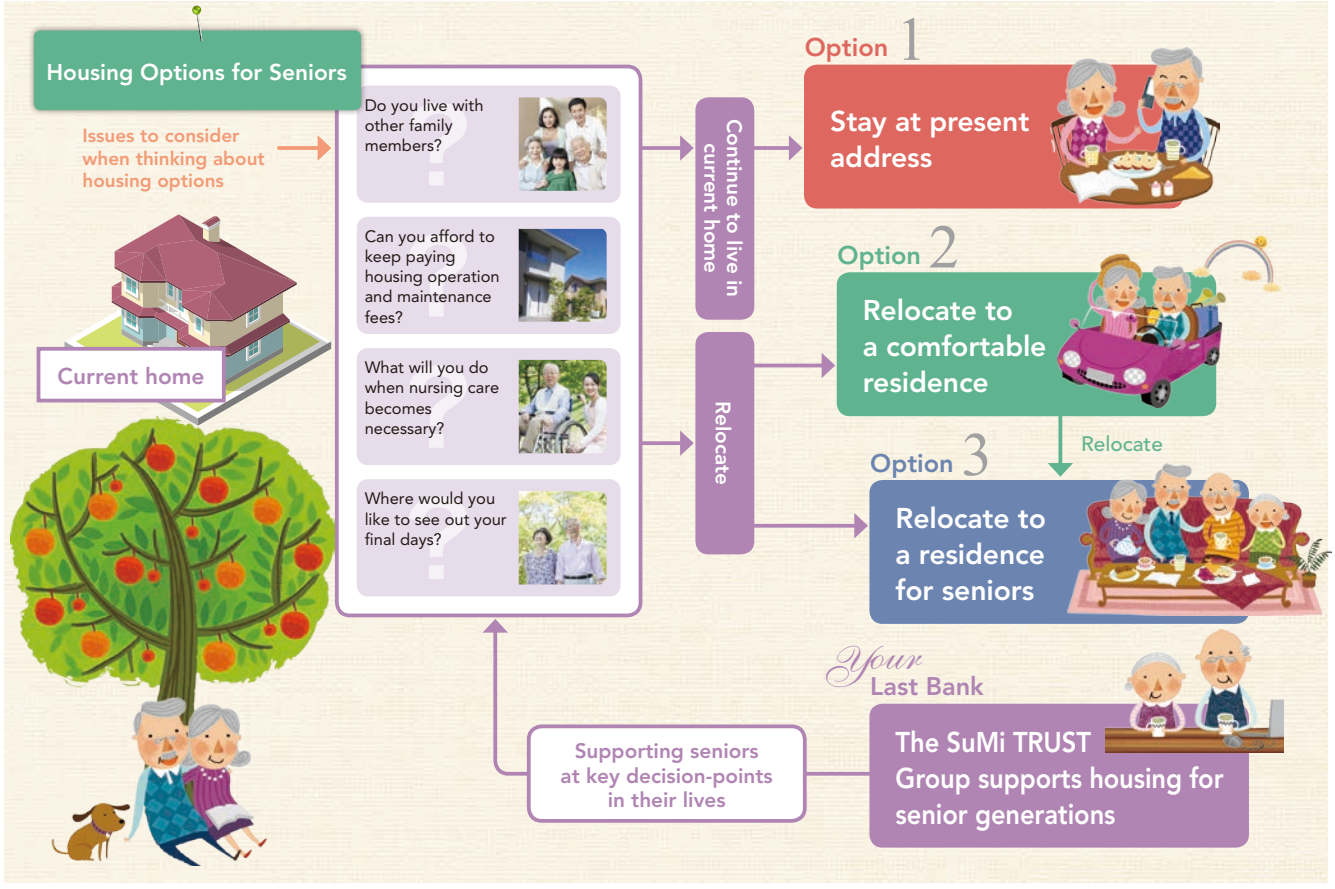
ミライ研
三井住友トラスト・資産のミライ研究所

2. Ensuring Stability in Housing for Senior Generations

Housing holds the key for the elderly to maintain their quality of life and feel safe in their everyday routines. SuMi TRUST Bank provides information about housing that matches the needs of senior generation clients and supports them in securing stable housing using the Group's array of functions. Moreover, in our digest report for seniors (Considering Senior-Generation Housing—V2.0), we go into more detail about the following three options.

Japanese URL: https://www.smth.jp/csr/report/2018/all5.pdf





Our lineup of products and services that provide housing assistance to seniors

Renovation Loans

Sumitomo Mitsui Trust Panasonic Finance offers renovation loans that provide the funds necessary to make such renovations as barrier-free improvements as a way to support elderly clients to live comfortably in their old age.

Housing assistance loans for seniors

SuMi TRUST Bank offers clients aged 60 years or older a housing assistance loan that can be used to purchase a home. This product helps clients reconsider their living arrangements in order to prolong their healthy life expectancy. For example, by renovating their current dwelling to make it barrier free, or moving to a more user-friendly house that is also closer to their children.

Services relating to Real Estate

Sumitomo Mitsui Trust Realty provides brokerage services that ensure secure, reliable property purchases and sales to clients looking to relocate, leveraging the consulting capabilities and broad-based information network of our Group. We assist with sales and effective use of assets such as residential property, inherited property, idle property, and real estate owned for business or investment purposes.

Reverse Mortgages

SuMi TRUST Bank offers reverse mortgage loans whereby the client puts up their home as collateral to borrow funds for retirement. The funds can be used for various purposes, such as home renovations or for the deposit when moving into a nursing home.

Consultations on Taxes and Estate Planning relating to Housing

Each SuMi TRUST Bank branch has been assigned experienced financial consultants with expertise in real estate, taxes, and inheritance and succession that can provide consultations relating to various housing options.

Bridge Loans for Sales of Real Estate

Sumitomo Mitsui Trust Loan & Finance offers bridge loans for real estate sales to clients who are considering a move to a conveniently located condominium or a residence for seniors so they do not have to rush to sell their precious property, providing them with support as they seek a new home that suits their lifestyle in their golden years.

Website URL:
http://www.smtb.jp/csr/withyou/successfulaging/

3. Initiatives to Increase Housing for Seniors

The senior cohort in Japan's population is increasing rapidly, with seniors over the age of 65 now accounting for over one-fourth of the total populace. The senior cohort will continue to increase over time, and within this trend, the segment of seniors living to very advanced ages is projected to climb rapidly. In particular, this trend is expected to become more conspicuous in major urban centers.

Attendant with this trend, the number of seniors who require nursing care is growing along with the deterioration of their mental and physical well-being, thus leading to further shortage of high-quality nursing care facilities, which are already undersupplied.

In contrast, there has been a gradual increase in seniors that seek the option of relocating to safe, secure housing for seniors while they are healthy enough to do with little difficulty.

SuMi TRUST Bank strives to amass know-how on market trends and business feasibility relating to nursing care facilities and housing for seniors. Leveraging that knowledge base, we support a variety of formats that advance the supply of facilities and housing for seniors in ways that respond to the aforementioned needs of seniors.

(1) Accumulated Know-how

SuMi TRUST Bank uses the tools listed below that it has prepared within its organization.

It also actively exchanges information with the many companies involved in nursing care facilities and homes for seniors such as facility operators, construction firms, and real estate companies.

Through these efforts, we work to amass specialist know-how about the market trends and business feasibility relating to this business domain.

Database on regional information

- This database collects from each local authority demographic data such as population and households in its respective region.

Database on senior housing

- This database collects data on nursing care facilities and housing for seniors across Japan as well as specific information about sales and operating entities.

Market analysis tools

- We apply market analysis tools to the aforementioned information. This enables us to ascertain demand trends at specified locations.

Operating income and expenditure program

- Using the program, we estimate the operating income and expenditures for each business type relating to nursing care facilities and housing for seniors.

(2) Support for Nursing Care Facilities and Housing for Seniors

Effective Use of Land

We collaborate with facility operators and construction firms as one kind of proposal we offer to individual and corporate clients that are investigating land-use options, and we propose plans for funding and offer various advice on the construction of properties such as paid nursing care facilities for seniors, housing for seniors with care services, and group homes for seniors with dementia.

We also provide specialist proposals for using subsidies and improving facilities on land that is in a designated "productive greening" zone.

Executing Business Feasibility Loans

SuMi TRUST Bank is promoting business feasibility loans (apartment loans) relating to the construction of housing for seniors and nursing care facilities. It has executed 31 such loans through November 2019, and the number of inquiries regarding such loans has continued to trend upwards in the past few years.

Together with the aforementioned proposal for effective use of land, we will proceed with the initiatives for executing business feasibility loans.

Finance for Healthcare REITs

SuMi TRUST Bank actively provides finance to healthcare REITs, which are a source of stable, long-term funding for healthcare facilities such as residences for the elderly and medical malls. Healthcare REITs raise funding for use in healthcare facility acquisition fees and related expenses. We have made two loans to healthcare REITs with the number of facilities linked to these loans coming to 58 as of November 2019.

Securitization Business for Healthcare Facilities

SuMi TRUST Bank is actively engaging in the securitization business relating to healthcare REITs and privately placed funds. As of November 2019, total healthcare REIT assets held in trust at SuMi TRUST Bank came to 220.8 billion yen, with the number of facilities standing at 101. In the securitization business related to REITs and privately place funds, SuMi TRUST Bank uses the scheme of a real estate administration and disposal trust. This scheme refers to transfer of real estate ownership from the trustor (real estate owner) to the trustee (trust bank) followed by administration, management and disposal of the real estate by the trustee based on directions given by the beneficiary and the distribution of profits thus generated (mainly rent revenue minus expenses) as dividends to the beneficiary.

Moreover, in addition to engaging in the real estate securitization business, SuMi TRUST Bank is also REIT-related asset custodian and general administrative work agent. Healthcare & Medical Investment Corporation (SuMi TRUST Bank entrustment), established in December 2014, provides various support services in cooperation with customers.

4. Dealing with Dementia-related Problems

The number of people with dementia in Japan is rising sharply as the population continues to age—roughly one in seven people aged 65 or older are diagnosed with dementia, or around one in four if including those that show signs of the early stages of dementia known as mild cognitive impairment. From the viewpoint of normalization, SuMi TRUST Bank implements various initiatives with the aim of creating a society in which clients with dementia can still lead a life that is not dissimilar to normal individuals.

Improving Literacy at Branches

Problems caused by dementia, such as the frequent loss of account passbooks and requests for their reissuance, occur daily at our branches, therefore we need to fully understand the characteristics of dementia and improve our literacy so that we can respond flexibly and adequately. Based on its New Orange Plan, a policy to build friendly communities for elderly persons with dementia, the Japanese government is implementing an initiative to train people to provide support to dementia sufferers and their families. At SuMi TRUST Bank too, we are instructing employees at our branches to attend this training course so they can acquire basic dementia knowledge and better respond to problems when they first occur (as of end-September 2019, 3,118 people have undertaken this training course).

Furthermore, because the dementia supporter training course does not focus on the finance industry, we have sent all of our branches copies of the booklet entitled Guide for Dementia Friendly Financial Services and instructed them to strengthen their practical approach to dealing with dementia issues by holding study sessions during which employees that have already acquired the basic knowledge can read through the content of the booklet together.



Participating in Community-based Comprehensive Care System

The problems of dementia concern not just financial institutions—they must be addressed by the community at large. From this perspective, SuMi TRUST Bank participates in the government-led community-based comprehensive care system and we think we can play a unique role within the framework of this system. Based on this thinking, our branches across the country have made initial contact with nearby community-based comprehensive support centers (the core organizations tasked with providing comprehensive community care) and are implementing initiatives aimed at building a foundation for collaboration.

Community Building Agreement with Tokyo Metropolitan Government

In February 2018, our Group concluded an agreement with the Tokyo Metropolitan Government with the aim of building a community to support senior citizens and the like. Under the agreement, we aim to (1) provide gentle watch over seniors, (2) cooperate on building a community to support those with dementia and their families, (3) prevent consumer damage among seniors, and (4) provide assistance to other community activities.

COLUMN

Collaboration with COLTEM

SuMi TRUST Bank is implementing dementia-related initiatives by collaborating with COLTEM (collaboration center of law, technology, and medicine for autonomy of older adults), which receives assistance from MEXT's Japan Science and Technology Agency, as well as the graduate school of Kyoto Prefectural University of Medicine, a leader in dementia research (in particular, Professor Jin Narumoto, Department of Psychiatry). The publication of our Guide for Dementia Friendly Financial Services in September 2017 is one such accomplishment of our initiatives. We have also contributed to improving the entire financial industry's response to dementia issues by taking the lead in hosting symposiums with a focus on finance and dementia. The knowledge gained from these activities have greatly helped SuMi TRUST Bank develop its own products and services.

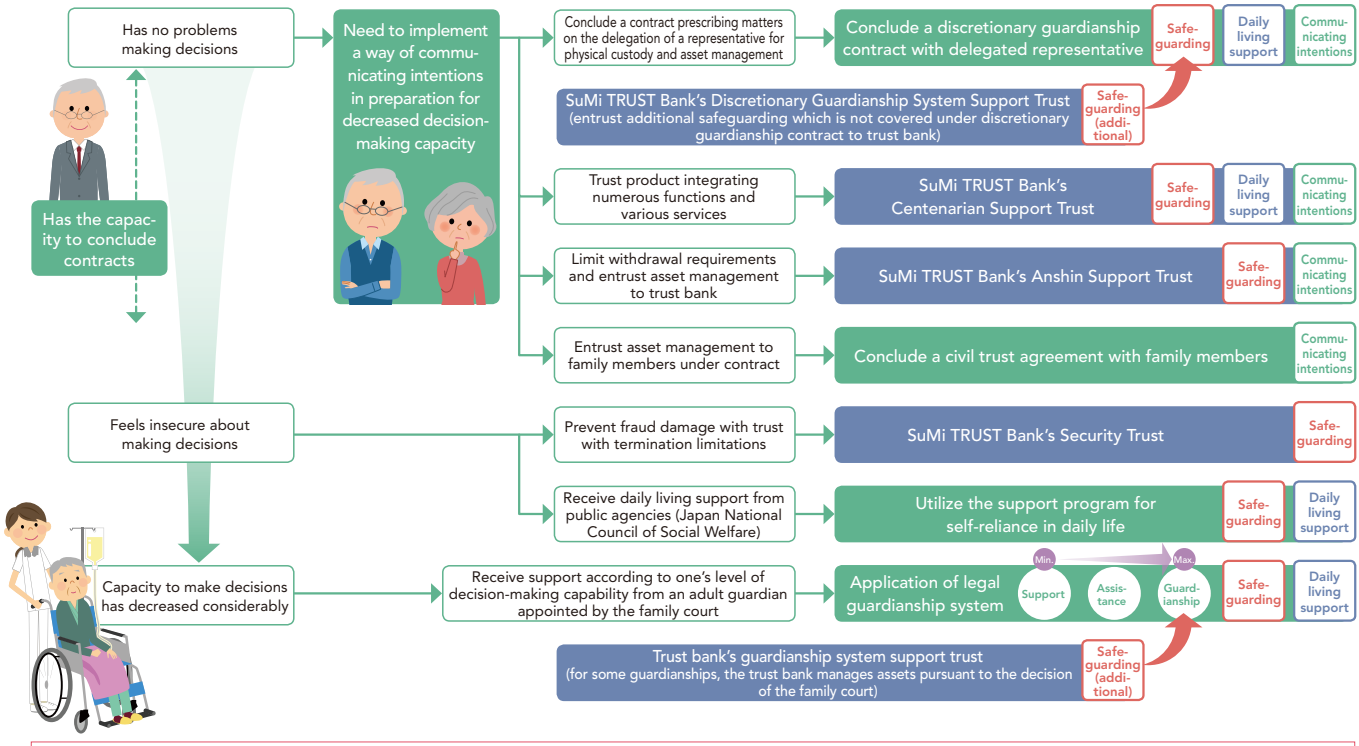
Asset Management for Clients with Dementia

Once a person loses his or her ability to make decisions because of dementia or some other reason, they struggle to manage their deposits and savings or stay on top of various financial agreements. This makes them easy targets for bank-transfer scams or unscrupulous business practices. In asset management, needless to say, the safeguarding of finances must be prioritized before anything else. Next required is daily living support in asset management. They may require help in managing their day-to-day finances, for example, collecting pension payments, paying taxes and utility bills, or paying money when they go shopping. And offering support to help them communicate their intentions is also key. Even though someone with dementia may find it difficult to communicate their thoughts, what they want to do or what they want done remains the same. However, there is a limit to how much they can rely on the considerations of their supporters, so particularly with regard to legal procedures, such as contracts, they will need a way to communicate their intentions under a private contract while they are still capable of making decisions. In our digest report for seniors (Considering the Problems of Dementia), we provide easy-to-understand explanations of the adult guardianship system and other public support schemes, as well as our financial products and services that complement those schemes.



Japanese URL:
https://www.smth.jp/csr/report/2019/all5.pdf

Lineup of asset management services for addressing dementia



Security Trust

Key Point **Safeguards precious assets from malicious scams with two-tier account security.**

The concerns of our clients and their children (many of whom live apart) are growing as more crimes targeting the elderly, such as bank-transfer scams, are becoming increasingly sophisticated. Our Security Trust safeguards the assets of our clients from such financial crimes. The product is structured so that funds can only be withdrawn after approval of the previously nominated consenting party (a relative within the third degree of kinship to the client) has been obtained. The trust can also be utilized in conjunction with the regular fixed-amount payment method.

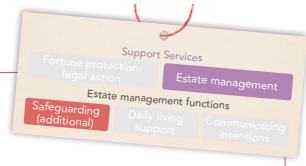
Lump-sum payment method

Under this structure, funds held in the trust cannot be withdrawn without the approval of a previously nominated family member. This prevents the client from being drawn into a scam because it provides the client with an opportunity to first discuss any planned withdrawals with family members.

Regular fixed-amount payment method

A fixed amount of the funds held in the security trust can be withdrawn periodically to pay for living expenses (up to ¥200,000/month).

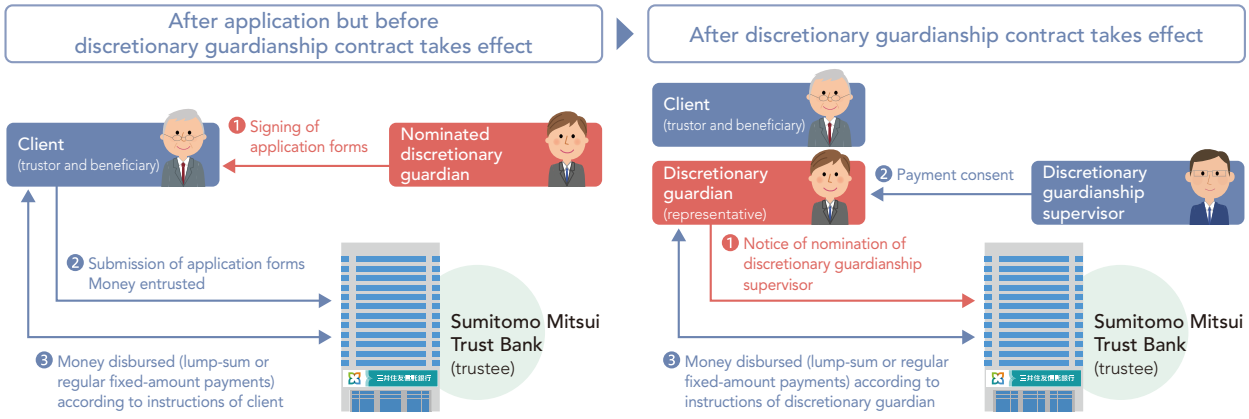
*No management fees

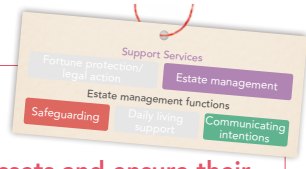


Discretionary Guardianship System Support Trust

Key Point **Under the discretionary guardianship system, a separate money trust provides an extra level of safeguarding.**

This money trust supports the discretionary guardianship system by managing the assets of its users. It safely and soundly protects assets held in the money trust because after the discretionary guardianship contract takes effect, funds can only be released (lump-sum payment) with the consent of the discretionary guardianship supervisor. Funds required for day-to-day living expenses can also be released periodically (regular fixed-amount payments), which alleviates the burden of asset management on the discretionary guardian. Until the discretionary guardianship contract comes into effect, the client or their nominated representative can take charge of procedures for lump-sum or regular fixed-amount payments. An authorization form signed by the client must be submitted each time the representative wishes to take charge of procedures on behalf of the client.





Anshin Support Trust

Key Point **Even after the onset of dementia, the trust bank can preserve the client's assets and ensure their intentions are communicated by prescribing in advance the requirements for asset disbursement.**

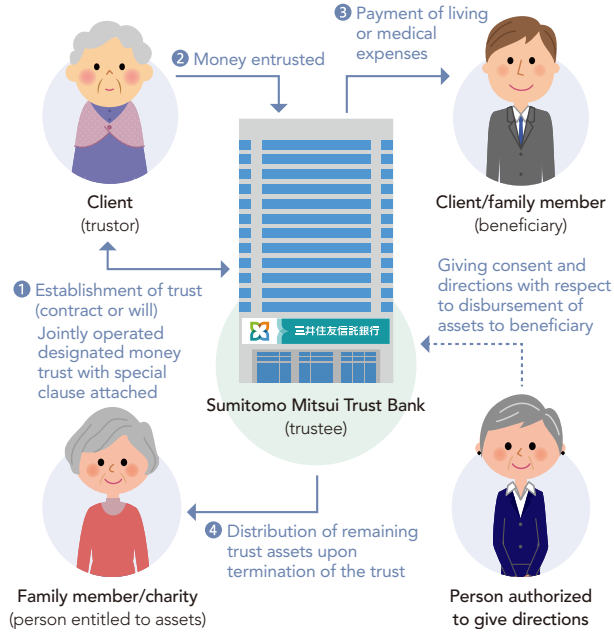
Our Anshin Support Trust leverages the unique functions of the trust bank to offer clients and their families longer-term and customized support for the preservation and management of their precious assets.

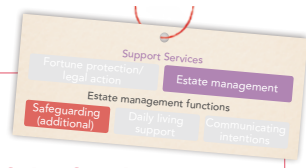
Not only is money entrusted to SuMi TRUST Bank, the Anshin Support Trust helps clients communicate their intentions well in advance by legally prescribing the requirements for the disbursement of assets and to whom remaining assets should be distributed upon termination of the trust. The trust also safeguards the client's assets because any withdrawals must meet the prescribed requirements for asset disbursement and require the approval or instruction of the designated authorizing person.

If there is no suitable relative who can serve as the person authorized to give directions for the trust, the client can conclude a discretionary guardianship contract with a responsible attorney or judicial scrivener authorizing them to perform such duties.

*In addition to the money trust described above, the Anshin Support Trust is also available in the form of a life insurance trust.

Structure of Anshin Support Trust





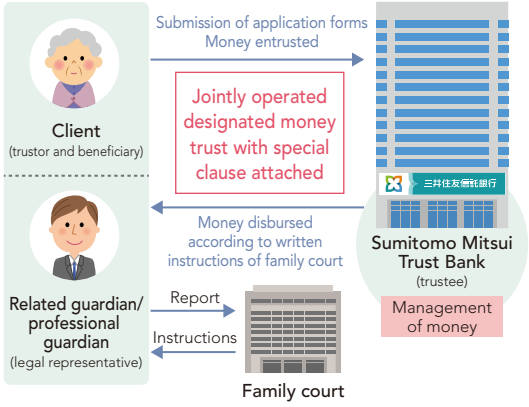
Guardianship System Support Trust

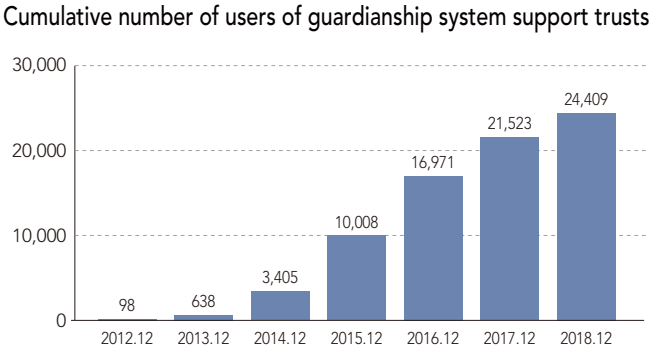
Key Point **The trust bank safeguards the client's assets pursuant to instructions of the family court to prevent guardian dishonesty.**

This is structured so that the savings and deposits needed for day-to-day payments for a person receiving assistance under the legal guardianship system are managed by a guardian while money not ordinarily used is entrusted to the trust bank.

When utilizing this trust, written instructions issued by the family court in advance are required in order to withdraw the trust assets or cancel the trust contract. In principle, a professional guardian such as an attorney or judicial scrivener will act on behalf of the client to make decisions regarding the entrustment of assets, including the trust bank to which the assets are entrusted and the amount of trust assets, and conclude a trust contract with the trust bank pursuant to instructions of the family court.

This trust provides appropriate protection from the misuse of the client's assets by an adult guardian.

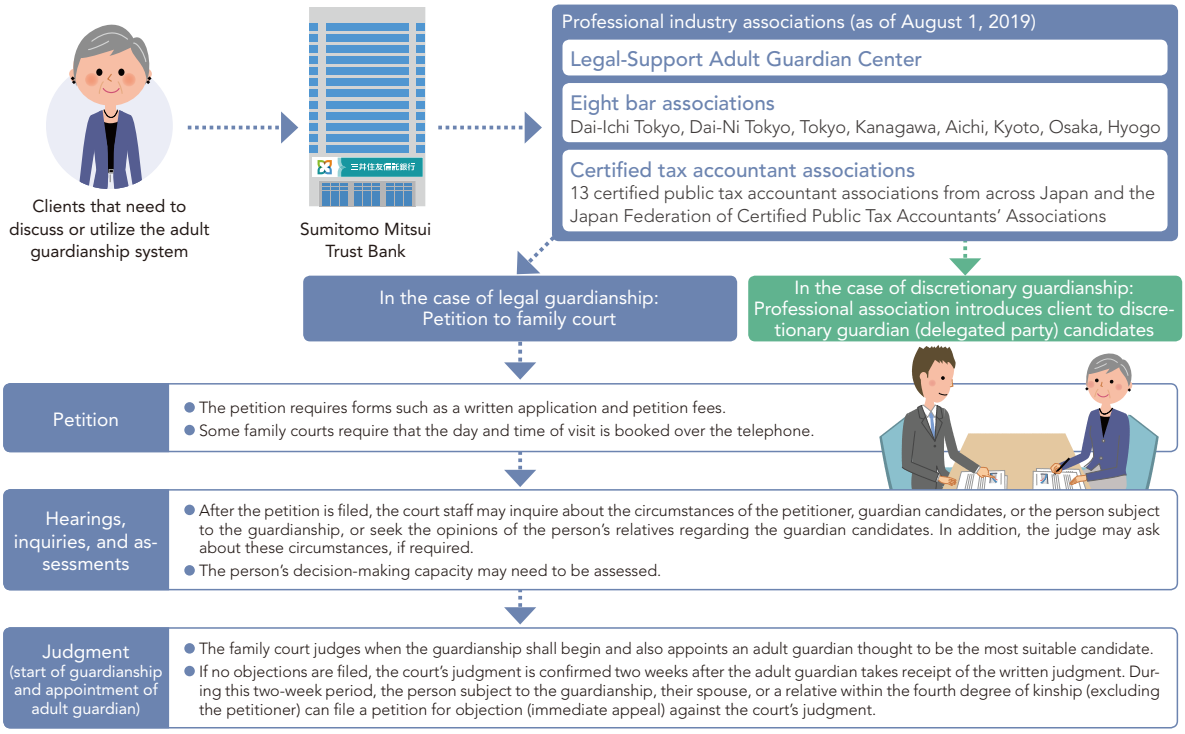


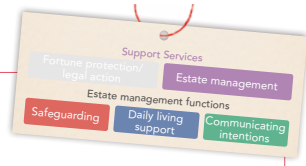


Source: Jan-Dec 2018 data on use of guardianship system support trusts, Family Bureau of General Secretariat of Supreme Court of Japan

Consultations and Inquiries related to Adult Guardianship System

SuMi TRUST Bank has entered into agreements with various associations of professional services that are active in the area of adult guardianship and refers the consultations regarding the adult guardianship system and those clients who wish to utilize the system to these professional associations.





Centenarian Support Trust (100-Year Passport)

Key Point **Incorporating a number of useful features in preparation for decreased decision-making capacity among many clients in the future when more people are likely to reach the age of 100, this trust product has been designed to help clients feel at ease and enjoy a productive life.**

A money trust armed with a host of useful features to combat the problems elderly clients may face, such as withdrawing from their bank account, when the ability to make decisions has declined because of dementia or other similar symptoms. Along with tie-up solutions under the adult guardianship system and broad-ranging client-focused consulting, the Centenarian Support Trust is the product best suited to an age when more people will likely live to be 100.

Four features in one package

Delegation of payments (pension deposits and other payments as needed) — Safeguarding / Daily living support

In preparing for dementia or other health concerns, another person can be designated in advance to take care of payment procedures.
A relative within the third degree of kinship, lawyer, or judicial scrivener can be nominated.

During dementia or ill health:

- Monthly living expenses (up to ¥200,000/month) can be paid into the trust account. This amount can be increased once a year (up to ¥200,000).
- The trust can also be used to pay large sums that might arise from medical fees, nursing care expenses, or housing costs. A person approving withdrawals can also be set up in advance.

Security — Safeguarding

To avoid falling victim to the many types of scams—of which there are up to 16,000* cases annually—a person approving withdrawals can be set up in advance.

Pension collection — Daily living support

Monthly living expenses can be deposited on a periodic basis. This money can also be used to pay for additional creature comforts or gifted to loved ones.

Considerate inheritance — Communicating intentions

Inheritance money of up to ¥5 million can be smoothly paid out to heirs designated in advance.

*According to the Metropolitan Police Department, 16,496 cases of fraud occurred in 2018 for a total loss of roughly ¥36.39 billion.

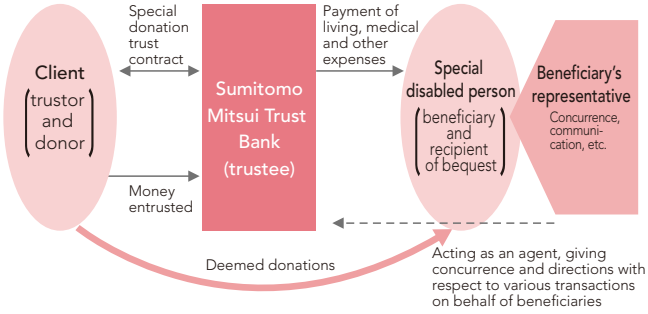
5. Helping with Lifestyles of Family and Relatives

Special Donation Trust

The special donation trust is a product for the purpose of contributing to stable living into the future for specified persons with disabilities. With this trust, funds donated are managed securely by SuMi TRUST Bank through jointly operated designated money trusts and other instruments, and disbursed to the specified person with disabilities by the bank on behalf of the client.

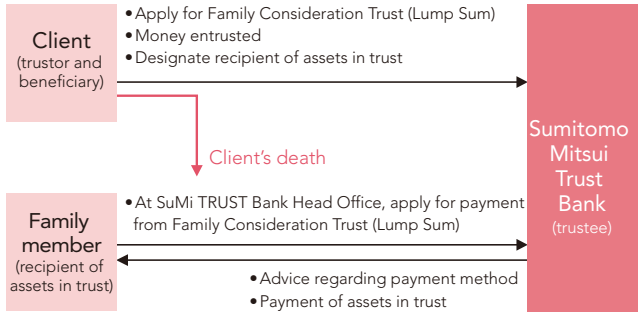
"Specified persons with disabilities" who become beneficiaries are divided into "special persons with disabilities" and "other specified persons with disabilities" according to the degree of disability. Special persons with disabilities may receive up to 60 million yen tax-free in periodic installments to cover living costs or medical expenses, while other specified persons with disabilities may receive up to 30 million yen without paying tax.

Structure of Special Donation Trusts

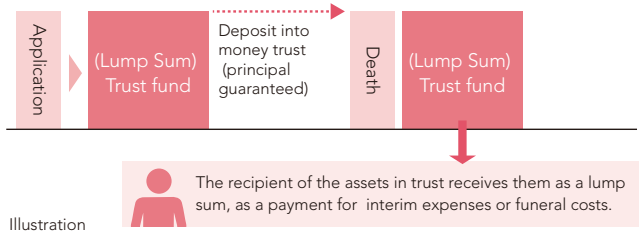


Family Consideration Trust (Lump Sum)

In the event of a bereavement, family members have to deal with various procedures, including arrangements for the funeral and inheritance-related procedures. The Family Consideration Trust (Lump Sum) is a product that, in the event of a client's death, pays out the deposited assets in trust to a recipient designated in advance by the client from among their legal heirs so as to cover interim expenses and funeral costs.



The recipient of the assets in trust receives them as a lump sum.



* Along with the lump-sum Family Consideration Trust shown above, we also offer an annuity-type product from which the assets in trust are paid to a beneficiary on a regular basis.

6. Ensuring Heirs Inherit Family Wealth

Helping Still-Living Clients to Give to the Next Generation

Annual Donation Support Trust

Annual Donation Support Trust is a service that supports the implementation of procedures for lifetime donation to relatives, such as compilation of a donation contract. Each year, SuMi TRUST Bank provides customers with information on documents necessary for the donation, helping them to not miss the opportunity for donation. This service makes it easy to execute lifetime donations. Once each year, SuMi TRUST Bank sends a donation report to both the donor and recipient.

Tuition Fund Endowment Trust

An exemption from the gift tax has been created for lump-sum donations to cover tuition funds, allowing grandparents to make a tax-free lump-sum donation to grandchildren, etc. aged under 30, to help with tuition fees and other educational costs (up to ¥15 million per grandchild, etc.).

SuMi TRUST Bank pays for the cost of education with this product in accordance with payment requests from grandchildren, etc.

Wedding and Child-Rearing Support Trust

As a tax incentive, up to 10 million yen can be given as a tax-free lump-sum donation for wedding or child-rearing purposes to a child or grandchild who is at least age 20 up until he or she turns age 50. As disbursements are made from a "money trust" that requires receipts confirming payments for wedding or child-rearing purposes, this product can clearly be the answer for donors who want their gifts to be used for marriage or child-rearing purposes.

Social Contribution Donation Trust

SuMi TRUST Bank offers products and services meant to support building a prosperous future for the next generation by enabling donation activities that serve the public interest. One such product is the social contribution donation trust, where clients select recipients every year from a list of organizations that SuMi TRUST Bank provides, and we process the donations (see Page 22).

Helping with Smooth Planning for Inheritances

Estate Planning

Estate planning is a service that provides support (consulting) aimed at summing up the client's wishes regarding the succession of their assets and drawing up a specific plan for this. Using the know-how that we have built up over decades in the field of asset management, inheritance, and will-related services, SuMi TRUST Bank offers the following consultation services.

Will Trusts

SuMi TRUST Bank offers a will trust service to assist the inheritance of deposits, securities, real estate, and other assets by the next generation in accordance with the wishes of the client. In October 2019 we launched an online will trust service with which clients can prepare their own draft of a will by following the on-screen instructions.

https://www.smtb.jp/personal/entrustment/succession/webwill/

Meanwhile, SuMi TRUST Bank provides information about the bequeathal donation system that some clients may wish to utilize in order to leave their estate for public benefit and the good of society.

One-Stop Inheritance Service

SuMi TRUST Bank offers a One-Stop Inheritance Service to ensure that complex inheritance procedures proceed smoothly. More specifically, upon application by an heir, we will provide support and carry out the following procedures on their behalf, according to their request.

- Confirmation of the legal heirs
- Investigation and identification of inherited property
- Advice in discussions concerning the division of the estate
- Change of name on savings and securities and/or their conversion into cash (we will carry out the procedures prescribed by each financial institution on the heir's behalf)
- Change of name on real estate
- Advice concerning allowances to pay tax obligations, such as income tax and inheritance tax

Trust for Single Old Age (launched in December 2019)

This is a one-stop service, based on a final letter of instruction, for clients worried about those around them if by some chance they die and certain matters need to be taken care of after their death, such as a funeral service, so-called "digital remains," household belongings, obituary, and pets. We are now entering an era where a recorded final letter of instruction can be put into action. SuMi TRUST Bank started offering this service in December 2019 at selected branches.

7. Initiatives to Improve Gerontology Literacy

Gerontology examines the various issues that occur as people age and is a field of study characterized by interdisciplinary viewpoints aimed at investigating ways to help people lead better lives. At SuMi TRUST Bank, we are focused on studying gerontology together with our clients and aim to realize the concept of productive aging whereby seniors stay in control of their own lives right to the very end and remain an integral part of society despite their old age. At SuMi TRUST Bank since 2014 it has been mandatory for all branch managers to sit and pass a gerontology exam, an accreditation that is put to good use when providing services to and consulting with elderly clients. From February 2020 employees holding a position of responsibility (section managers, team leaders, and above) in the head office and branches & departments of the Retail Total Solution Services Business will also be required to pass this exam. We plan to have these managers and leaders utilize the knowledge gained when providing guidance and training to their subordinates. As of the end of November 2019, 327 employees had successfully passed the exam.

Partnership with ILC-Japan

SuMi TRUST Holdings is a member of ILC-Japan, the Japanese branch of the International Longevity Center, a global alliance of organizations focused on gerontology. And since fiscal 2017 we have also chaired a research group hosted by ILC-Japan that studies lifestyles in societies characterized by longevity. In fiscal 2019 we invited external experts to come and discuss what kind of role companies should be fulfilling in regions where populations are rapidly aging.

Silver College Seminars

Since 2012, SuMi TRUST Bank has hosted Silver College seminars at its branches across Japan in order to provide easy-to-understand information about gerontology to the senior generation and our clients that currently assist them. Topics covered have included money, health, dementia, and housing, while the lectures given by our group of first-rate instructors have been favorably received on every occasion (see page 181).

COLUMN

Opening of Centenarian Anshin Plaza

Sumitomo Mitsui Trust Life Partners, the insurance sales arm of SuMi TRUST Bank, opened a new Centenarian Anshin Plaza office in Shinjuku in September 2019. The company plans to open up a new face-to-face consulting channel primarily focusing on clients that are currently part of the working generation by blending SuMi TRUST Bank's specialist products, services, and consulting capabilities with its own insurance consulting know-how. The Group will look to utilize this consulting channel to promote the kind of insurance business model only a trust bank can deliver—one that offers comprehensive proposals while taking into account taxation, social security, and pension systems. In this way, we aim to be the financial institution chosen by our clients as their "best partner" for a long and fulfilling life.

Please visit our website for more information.
https://www.smtb.jp/corporate/release/pdf/190823.pdf

COLUMN

Establishment of Anshin Support Corporation

The Anshin Support Corporation was established by SuMi TRUST Bank in November 2018 and having since become part of the Bank, it offers estate management and inheritance-related services to clients with no living relatives. By combining the numerous functions of the trust bank with the services of this corporation, we hope to help alleviate the concerns elderly clients may have about the future, particularly with regard to housing, healthcare, and nursing care. SuMi TRUST Bank will utilize this corporation to provide solutions so that elderly clients can use their own assets appropriately for themselves.



ESG-themed Initiatives in Our Asset Management Businesses

With the aim of strengthening its asset management business and seeking to become an asset manager in step with the times, Sumitomo Mitsui Trust Asset Management (SMTAM) integrated the investment management function of Sumitomo Mitsui Trust Bank into its organization on October 1, 2018. In doing so, it became Japan's largest asset manager with AUM of ¥60 trillion. As a responsible institutional investor, SMTAM will continue to pursue initiatives befitting of this position for its clients in the area of ESG investment.

Website:
https://www.smth.jp/en/csr/report/index.html

Topics of focus for ESG activities (FY2019-2020)

Topics	Specific activities	Relevant SDGs
Climate change	• Pursuit of engagement activities through the framework of the CA100+ initiative. • Pursuit of engagement activities in collaboration with LGIM. • Continued engagement with major greenhouse gas-emitting companies both in Japan and overseas.	7 AFFORDABLE AND CLEAN ENERGY, 11 SUSTAINABLE CITIES AND COMMUNITIES, 13 CLIMATE ACTION
Water resources and marine pollution	• Continued call for policies aimed at addressing marine plastic pollution. • Explanation of the need for greater awareness of water resource risks and for publicly disclosing a water resource management code of conduct, along with encouragement for action in line with the code of conduct.	6 CLEAN WATER AND SANITATION, 12 RESPONSIBLE CONSUMPTION AND PRODUCTION, 14 LIFE BELOW WATER, 15 LIFE ON LAND
Backing governance reforms	• Support for higher levels of independence on company boards and the promotion of diversity, such as higher ratios of female directors. • Pursuit of engagement activities in collaboration with LGIM. • Promotion of efforts to disclose information and prevent conflicts of interest with regard to the issues of publicly listed parent/subsidiary pairs and cross-shareholding. • Promotion of sustainable improvements in "earnings power" and appropriate capital allocation (balance between growth investments and surplus cash returns).	5 GENDER EQUALITY, 8 DECENT WORK AND ECONOMIC GROWTH, 16 PEACE, JUSTICE AND STRONG INSTITUTIONS
Promoting ESG information disclosure	• Encouragement of companies to disclose information regarding the attainment of the SDGs (i.e., their contributions to solving ESG issues and how those, in turn, contribute to earnings). • Promotion of identification of materiality and disclosure via integrated reports as information for investors (engagement activities through IICEF). • As an asset management corporate supporter of the TCFD (see the next page for more information), promotion of effective corporate information disclosure as well as initiatives aimed at appropriately linking this information disclosure with investment decision-making.	17 PARTNERSHIPS FOR THE GOALS

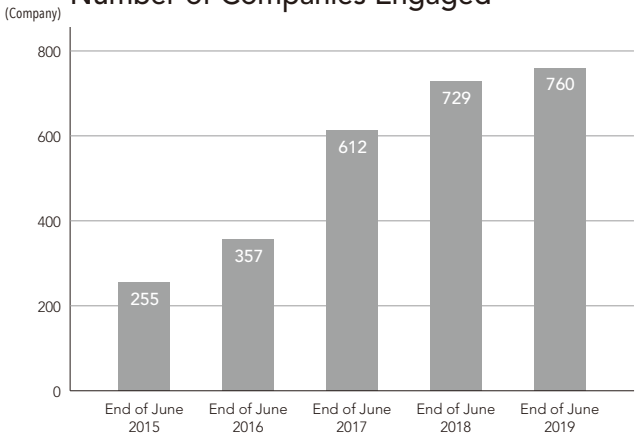
Stewardship Activity Initiatives

Improving Investee Corporate Value and ROE via Engagement

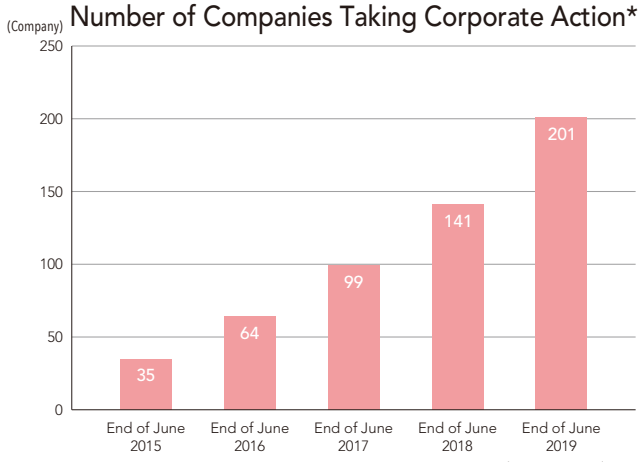
By this point, we have engaged with a broad range of companies representing roughly 90% of the total market capitalization of TSE1. This fiscal year, our challenge is to further expand the scope of companies with which we engage and to qualitatively deepen those engagements. We are working to achieve this in a variety of ways, including applying a top-down approach to engagement on prescribed focus topics and conducting in-depth analyses on companies with which we have ongoing engagement.

Moving forward, we will continue to pursue activities which contribute to better medium-to-long-term corporate value and ROE, thereby improving the overall market and securing excess returns which will help us in maximizing medium-to-long-term investment returns for our clients. We are also focused on making our engagement activities more efficient and effective by identifying the challenges that each of our investee companies faces. Improving the ROE of investee companies requires helping them rethink capital allocation, restructure business portfolios and improve corporate governance; at the same time, it requires helping them focus on challenges which could undermine ROE in the future, such as climate change or labor practices that need to be addressed. At SMTAM, we comprehensively ascertain each and every "E," "S" and "G" challenge trustee companies face before pursuing engagement activities.

Number of Companies Engaged



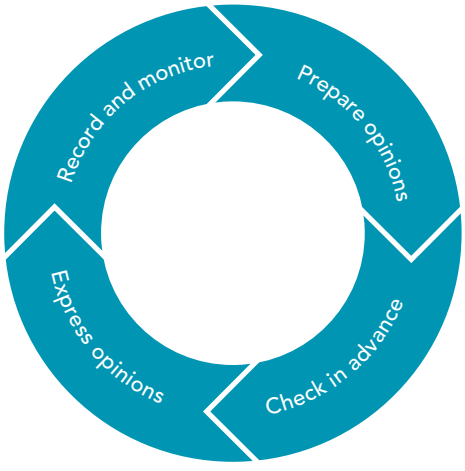
Number of Companies Taking Corporate Action*



Company numbers are cumulative

*Corporate action aligning with opinion expressed by SMTAM

SMTAM Engagement Process



Activities conducted in line with the above process are counted in our total number of engagements

(simply being in contact with a company is not counted as an engagement)

Prepare opinions

To achieve effective engagement, our analysts use non-financial information analysis results and the like to help them identify management issues and formulate effective and coherent opinions.

Check in advance

We first submit the opinions formulated by each analysts to an internal review. This both helps improve and standardize opinion quality among the analysts.

Express opinions

Our analysts meet with investee company executives and express their opinions. At each meeting, a written oath stating the analysts will not make any material proposals nor acquire insider information is signed and mutually recognized.

Record and monitor

After the meetings, we record investee companies' responses to the analysts' opinions. We monitor the companies for any changes in management and then utilize this information when identifying management issues for the next engagement.

Engagement Example Cases - Domestic

CASE 1

Non-manufacturing Company A

Climate Change

- Greenhouse gas emissions reduction
- Business strategy

Analyst's Perspective

As a logistics company whose business expansion is highly likely to create an increased environmental load, it is essential that environmental targets be included as mid-term planning KPI in order to enhance the sustainability of corporate value improvement. Also, with a growing, quantitative contraction in materials handling taking place over the medium-to-long-term in Japan, limiting the risk this poses to profitability (when Japanese business accounts for a high proportion of business assets and sales) will be a key challenge.

Opinion from SMTAM

The truck-centric transportation sector accounts for a large portion of CO_2 emissions volume by industry. With the company currently in discussion over its medium-term business plan, it seems to us that the required course of action is for it to capitalize on its expertise with various shipping modes (including trains, ships and airplanes) so it can set Scope 3-focused (i.e., emissions volume encompassing manufacturing, shipping, etc.) medium-to-long-term CO_2 reduction targets while also actively expanding sales to customers.

We view the medium-to-long-term contraction in materials handling to be the largest business risk facing the domestic logistics segment, which accounts for 60% of consolidated sales. In our opinion, the company needs to perform a detailed revision of its business portfolio to reduce business in less populated regions and increase it in the three major metropolitan areas.

Company Response

Although there are a variety of different environment-related indicators, medium-to-long-term CO_2 reduction is a priority for which we are committed to investing the necessary costs to achieve. We will look into incorporating it into our next medium-term business plan.

As you have pointed out, we need to perform a revision of our medium-to-long-term business portfolio for the domestic logistics segment. In less populated areas we will undertake a balanced contraction of business tailored to the local characteristics of each area, and, in turn, we will make the three major metropolitan areas of Japan our primary focus. Towards this end, we are discussing making revisions to our corporate group personnel system to allow personnel transfers between areas, and we are considering introducing ROIC targets for each area.

Company Action

With a view towards realizing its long-term vision, the company announced specific CO_2 emissions reduction targets as KPI to be achieved by fiscal year 2023.

In its mid-term business plan released in February 2019, the company announced that it would fundamentally reform its less profitable business by strengthening its Japanese business and revising its business portfolio.

Evaluation by SMTAM

We approve of the company's announcement of specific CO_2 emissions reduction targets.

Moving forward, we will monitor the progress being made to reduce CO_2 and to improve the profitability of domestic logistics business.

CASE 2

Manufacturing Company B1
Manufacturing Company B2

Water Resources and Marine Pollution

- Addressing marine plastic pollution
- Business strategy

Analyst's Perspective

Asia is at the center of the marine plastic pollution problem, particularly because of the large volume of PET bottles, straws and other disposable plastics. Ideally, the problem would be handled with the establishment of a recycling system in Asia, but because Asia takes in garbage from developed countries, including Japan, this problem is not just the responsibility of Asia. It is becoming increasingly important that Japanese companies, particularly the chemical companies that produce the plastic and the food companies that utilize it, get involved in addressing this problem.

Opinion from SMTAM

<Chemical Manufacturer B1 (plastic producer)>
Because it is disposable plastics that are the problem when it comes to marine plastic pollution, we predict the impact on business performance would be negligible. On the other hand, we believe that in order to avoid having an environmental stigma also applied t o automotive industrial plastics and other plastics we are focusing on (as there is growing business potential), the chemical industry as a whole needs to take action.

<Beverage Manufacturer B2 (plastic user)>
Marine plastic pollution is a problem that gets talked about, but plastic usage remains high, including among beverage manufacturers that use it to manufacture PET bottles. Although a growing number of companies are switching from plastic to paper straws, are similar alternatives being explored for PET bottles? Also, similar to the situation in the logistics field, is collaboration with competitors needed in order to catalyze action to address this problem?

Company Response

We feel that the impact on business performance accompanying a reduction in the usage of disposable plastics would be negligible. As for measures to address the risk of an unfounded souring of public opinion with regard to industrial plastics, the chemical industry as a whole, through the industry groups which represent it, is committed to combating marine plastic pollution. Furthermore, we recognize that the lack of established recycling systems in Asia presents a fundamental challenge to any effort to address the marine pollution problem.

- Although complete elimination of PET bottles is an unrealistic goal, the question is how much reduction is achievable? We are aware of biodegradable plastic technology, but applying this technology will require an industry-wide effort.
- First, the recycling rate needs to be brought as close to 100% as possible. A new office has been established to study the feasibility of switching to paper containers. Also, similar to the situation in the logistics field, we think of containers as an area of non-competition for manufacturers. The industry as a whole needs to review and revise the supply chain.

Company Action

The "Japan Initiative for Marine Environment" has been established by five organizations representing the chemical industry. In order to address the marine plastic problem, the company adopted an approach involving (1) organizing and disseminating information, (2) responding to trends within Japan, (3) engaging with Asia, and (4) accumulating scientific findings.

Evaluation by SMTAM

We will monitor bioplastic and recycling technology development trends as well as the status of chemical industry group-led initiatives to address the marine plastic problem. Additionally, we will continue to pursue dialog with beverage manufacturers and other plastic users to encourage them to address the marine plastic problem.

CASE 3

Manufacturing Company C

Promotion of ESG Information Disclosure

- Social issues
- Capital productivity

Analyst's Perspective

With drug-resistant bacteria-related problems such as nosocomial infection becoming more severe worldwide, major antibiotics manufacturers have an opportunity to contribute to society by actively addressing these problems rather than treating them as social responsibility-related risks to avoid. Also, another issue is the reduction of cross-shareholdings, primarily those with wholesalers, which are a legacy of past business practices implemented as part of efforts to increase capital efficiency.

Opinion from SMTAM

Drug-resistant bacteria are becoming a serious problem worldwide within the field of infectious agents which t he company puts extra focus on. Given how little awareness there is in Japan about this growing danger, we feel a more proactive and visible stance in addressing this problem is needed.

Regarding cross-shareholdings with client pharmaceutical wholesalers, it is our opinion that, from the standpoint of capital efficiency, these need to be reduced further.

Company Response

Addressing the problem of drug-resistant bacteria is our mission. And we are committed to actively communicating our intentions and specific initiatives for addressing it as a company.

Regarding our cross-shareholdings policy, a rapid and substantial sell-off is made difficult by the impact that the gains from such a sell-off would have on our profit and loss statement; nevertheless, we intend to continue reducing our cross-shareholdings with wholesalers.

Company Action

In May 2019, the company issued a public commitment and plan of action for addressing the problem of drug-resistant bacteria. It declared that, at a time when numerous other pharmaceutical companies were diverting resources away from research and development in the field of infectious disease, the company was looking to the future by taking on a leading role in the development of antibacterial agents and the promotion of their correct usage and distribution.

The annual securities report released by the company in June 2019 for the financial year ending March 2019 confirmed that the company reduced its cross-shareholdings by 20% compared with the end of the previous financial year.

Evaluation by SMTAM

We approve of the company's public commitment and plan of action for addressing the problem of drug-resistant bacteria, which has been backed up by its proactive and visible stance.

We also approve of the reduction in cross-shareholdings which has been undertaken by the company but will continue to engage in dialog with it to encourage even further reductions.

Engagement Example Cases - Global

At SMTAM, our emphasis on ESG engagement activities extends worldwide. We focus on (1) engagement activities that are based on action principles or guidelines, such as the PRI, (2) activities aimed at addressing misconduct and other problems in accordance with international norms, and (3) independent activities aimed at promoting greater efficiency in corporate management and the establishment of outstanding corporate governance. For example, our (1) engagement activities that are based on action principles or guidelines, like the PRI, include active efforts to help companies with ESG issues limit their risk, such as by serving as the lead manager handling PRI working group promotion.

CASE 4

Glencore Switzerland Resource Mining Company (CA100+ target company)

Climate Change

- Greenhouse gas emissions reduction

Engagement Specialist's Perspective

Among mining and resource extraction companies, those whose business involves coal mining have financial exposure which requires mitigation. Scenario-based business planning, such as for future capital rationing or stranded asset risk avoidance, needs to be disclosed.

Opinion from SMTAM

Globally speaking, this company is seen as having a major impact on greenhouse gas emissions and is a target company of the CA100+ initiative. It is our view that (1) disclosure and implementation of plans to reduce greenhouse gas emissions to the levels set under the Paris Agreement; (2) disclosure of information in line with the recommendations of the TCFD (Task Force on Climate-related Financial Disclosures); and (3) creation of climate-change related governance systems and structures are needed.

Company Response

As you have pointed out, we have significant exposure to the coal industry and are aware of the risks presented by a transition to a low-carbon society, particularly the potential stranding of coal assets. Our intention is to put greater emphasis on high-quality coal, whereby we can increase our profitability without increasing our production volume, while at the same time reducing our contribution to global warming.

Company Action

In February 2019, the company announced limits on the size of its coal production.

Evaluation by SMTAM

We approve of the company's expressed intentions to optimize its coal business and assets. We will continue to engage the company in dialog about measures it can take to help mitigate climate change.

CASE 5

Copart USA Low-quality used vehicle online auction company (Thirty Percent Coalition target company)

Backing Corporate Governance Reform

- Diversity

Engagement Specialist's Perspective

As the company works to expand its business operations, having a diverse Board of Directors will help ensure the effectiveness of business management decisions and requires hiring a broad range of human resources.

Opinion from SMTAM

Of the S&P 500 Index companies, Copart is the only company without any female directors on its Board of Directors. We believe that hiring more women and increasing diversity in general will contribute to better management efficiency and more effective personnel hiring and business decision-making. We recommend making concerted efforts to expand diversity.

Company Response

Our personnel hiring is handled primarily on the basis of merit. Although we cannot provide a specific time-frame, we are aware of this issue and will announce our diversity enhancement plans at an appropriate point in the future.

Company Action

In July 2019, the company appointed a woman to the position of Outside Director.

Evaluation by SMTAM

While this issue is not one which can be evaluated with a one-size-fits-all approach, Copart's response addresses it only at a bare minimum and does not meet the ideal level of at least 30% female representation among directors. We will continue to engage Copart in dialog about expanding its hiring of female personnel and improving the diversity of its Board of Directors.

CASE 6

Elbit Systems Israel Military and defense-related company

Promotion of ESG Information Disclosure

- Information disclosure related to concerns about cluster bomb manufacturing

Engagement Specialist's Perspective

Because of the exposure to humanitarian concern-related reputational risks that cluster bomb manufacturing presents, it would be preferable that the company withdraw from this line of business.

Opinion from SMTAM

Cluster bombs are classified as inhumane weapons under the Oslo Convention and other international conventions, and their manufacture and use is prohibited. We are concerned that the purchase of national defense companies risks exposing Elbit Systems to cluster bomb-related business. We feel that the corporate reputational risks are too great to justify any involvement in cluster bomb manufacturing. At the very least, Elbit Systems needs to clarify and disclose its risk and future plan of action with regard to this line of business.

Company Response

With regard to having no involvement in cluster bomb-related business or any business which conflicts with international conventions, we intend to make a clear and open announcement of our policies moving forward.

Company Action

In January 2019, Elbit Systems announced a policy of having no exposure to this line of business.

Evaluation by SMTAM

We approve of Elbit Systems' prompt approval and disclosure of this policy. We have removed it from our ESG screening list of investment exclusion stocks.

CASE 7

BAYER Germany Agrochemical and Pharmaceutical Company

Social Issues

- Handling of lawsuit risks

Engagement Specialist's Perspective

Bayer needs to implement measures to mitigate the risks of and effects from potential lawsuits related to the agrochemical products of a purchased company.

Opinion from SMTAM

Following its purchase of an agrochemical business that was announced in 2015 and concluded in 2018, lawsuits over the issue of weedkiller carcinogenicity were launched against Bayer. Because of this, we think it is essential that Bayer disclose relevant information to investors, such as the maximum anticipated compensation, in order to dispel any lingering uncertainty.

Company Response

At the time that we made our purchase, we determined that we would be able to adequately manage the risk of lawsuits, and we do not believe that the law suits are indicative of management problems.

Because this matter is still being dealt with in court, it would be inappropriate to disclose monetary amounts at this time.

Company Action

In August 2019, Bayer held an investors' meeting to try and dispel any lingering uncertainty, and among the information provided was that pertaining to Bayer's settlement with the weedkiller-related victims.

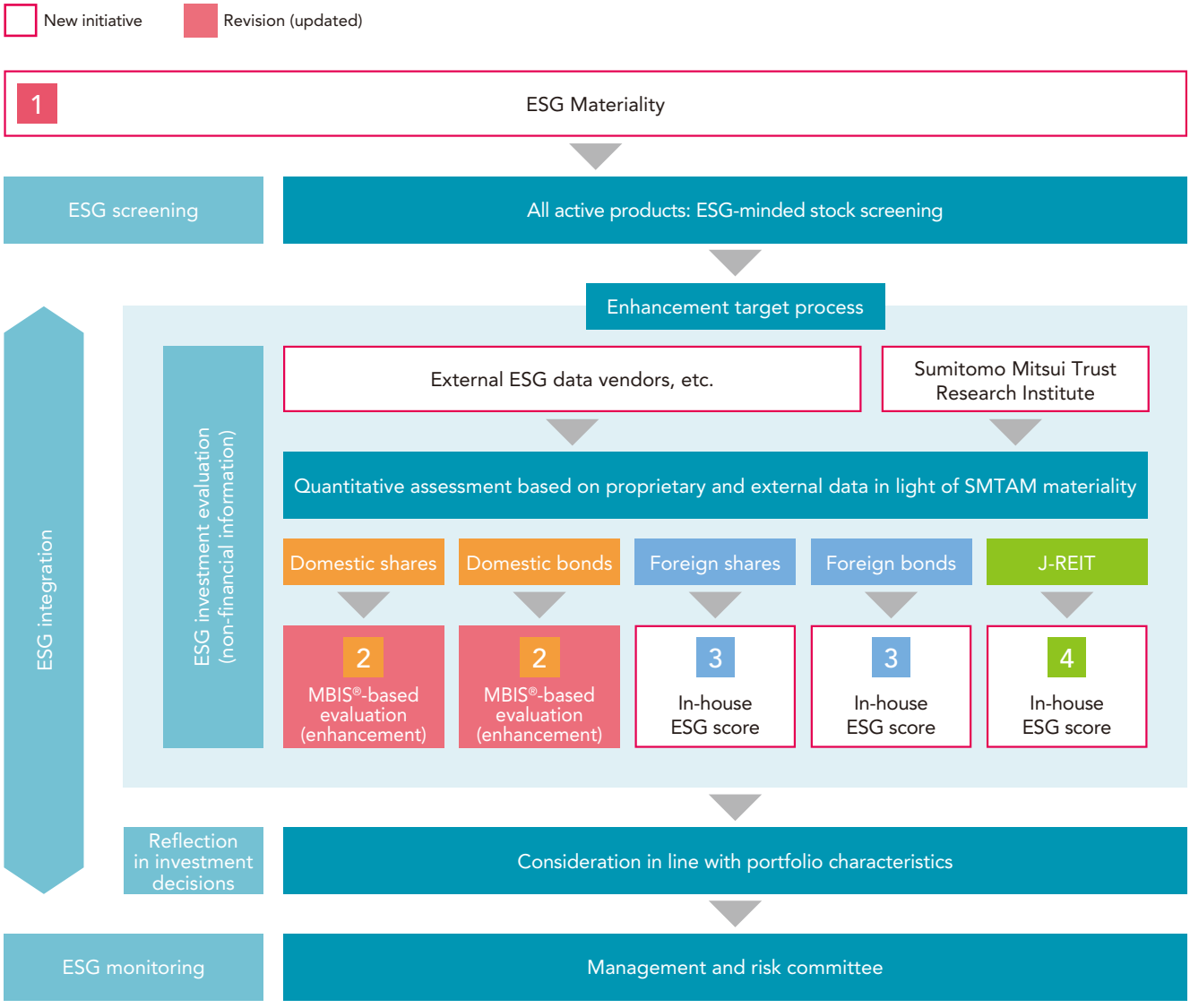
Evaluation by SMTAM

Given how rigidly Bayer responded to investors previously, this clarification of the company's handling with regard to areas of lingering uncertainty, including lawsuit settlements, is a step in the right direction and shows that it is listening to shareholders' concerns. We will continue to encourage Bayer to take action to dispel investors' concerns about the company, including the status of the ongoing legal situation.

ESG Integration Enhancement

Since 2015, we have sought to apply ESG integration to the active management of domestic shares, domestic corporate bond investments and other operations by incorporating MBIS®, our proprietary developed non-financial information evaluation tool, into traditional investment methods. As soon as these efforts got on track, they immediately started producing results; so, in order to further accelerate them, we have worked to enhance ESG integration by expanding our methods and target assets (see Figure 1-4 below).

We are currently also revising our approach to ESG-minded stock screening. With regard to the stock of companies which manufacture Controversial Weapons, specifically cluster bombs and anti-personnel mines, it has always been our policy to remove them as active fund investment candidates when their corporate situation does not make engagement possible. We have added biological and chemical weapons as reasons for exclusion, and this now extends not only to the companies' stocks but also bonds. Japan has signed and ratified conventions prohibiting the development, production and stockpiling of these four categories of weapons, as well as governing their destruction.



1 Identification of ESG Materiality

We have performed identification of ESG materiality. Previously, we have used the UN Global Compact as our ESG guidelines when developing our response policies for ESG issues; however, based on a review of the SDGs, the SASB (Sustainability Accounting Standards Board), etc., we have reorganized our ESG investment evaluation items and response policies within a framework of "ESG materiality."

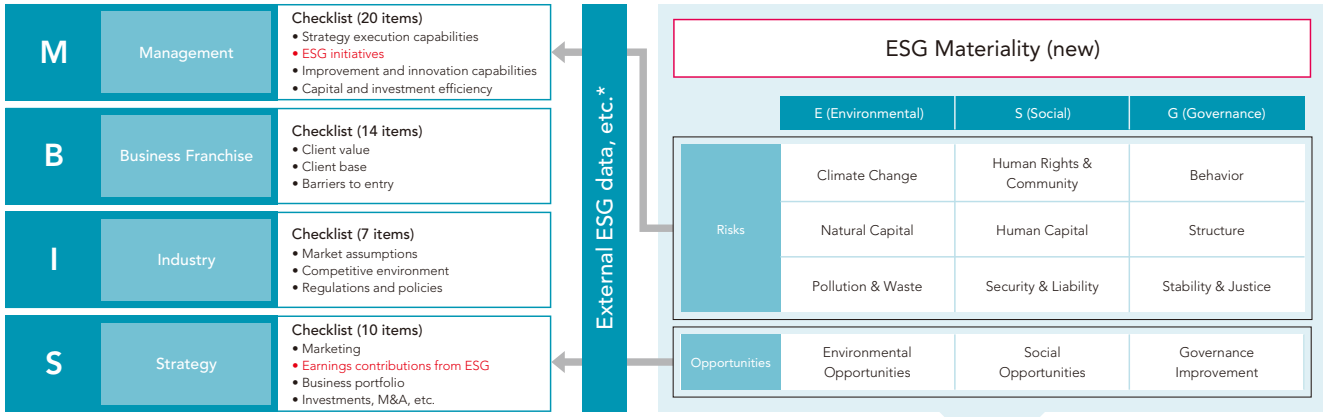
	E (Environmental)	S (Social)	G (Governance)
Risks	Climate Change	Human Rights & Community	Behavior
	Natural Capital	Human Capital	Structure
	Pollution & Waste	Security & Liability	Stability & Justice
Opportunities	Environmental Opportunities	Social Opportunities	Governance Improvement

2 MBIS® Evaluation Enhancement

The MBIS® is our proprietary, non-financial information evaluation tool which we have used since 2015 to evaluate domestic shares and bonds. Our analysts use MBIS® to help them gather, analyze and evaluate non-financial information which cannot be expressed in terms of financial data for the companies they cover; such information includes the level and sustainability of added value for a company's products and services, the governance system which supports the added value the company provides, and the company's impact on the societal and environmental foundations which sustain its growth.

MBIS® is an acronym which stands for "Management" (M), "Business Franchise" (B), "Industry" (I) and "Strategy" (S). It is the "M" which comes into play when evaluating efforts aimed at risks associated with ESG issues, and it is the "S" which comes into play when evaluating efforts aimed at commercializing and capitalizing the opportunities associated with ESG issues.

Now, in line with the newly established ESG materiality framework, we are reorganizing and revising the MBIS® evaluation items pertaining to ESG issues and are working to enhance MBIS® evaluation through, among other means, the use of external ESG data vendor-driven ESG evaluations. Although the concept of the SDGs has already been a part of our evaluations, we are working to bolster it further so that we incorporate the 17 goals more fully into our engagement and evaluation.



Strengthen Connection with SDGs



https://www.un.org/sustainabledevelopment/

3 Utilization for In-house ESG Scoring and Stock Selection

Clarifying core ESG evaluation factors as part of establishing ESG materiality has made it possible to perform in-house ESG scoring, even in regards to the stocks of foreign companies and other assets outside the scope of MBIS® evaluation. Using ESG materiality as a base, we identify the ESG issues of investee companies and then utilize external ESG data and other resources to perform three-tiered, in-house ESG scoring. This score is taken into account when qualitatively assessing earnings and valuation in the case of shares, or creditworthiness or spread in the case of corporate bonds, and it is thus reflected in stock selection.*

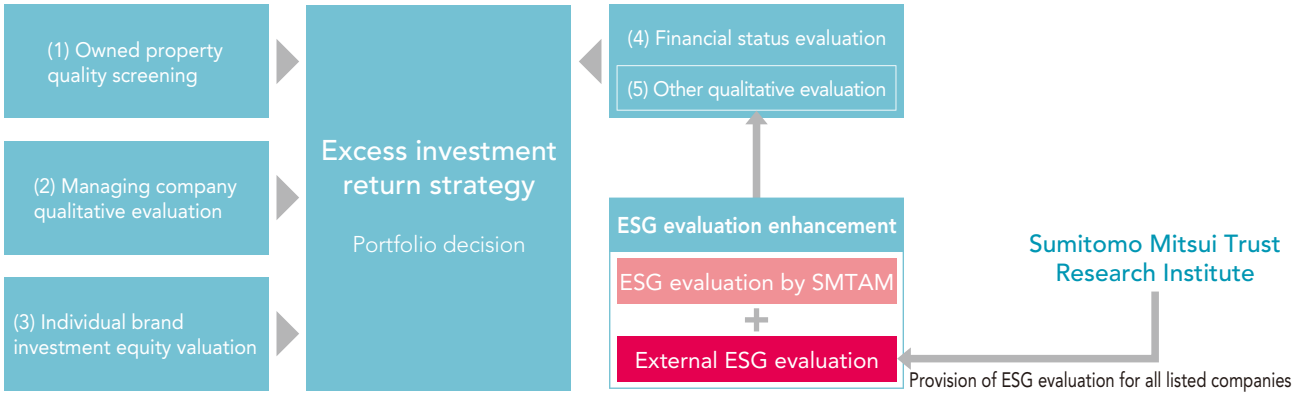
Also, amongst domestic shares, in-house ESG scoring enables ESG evaluation of companies not covered by our analysts. For domestic corporate bonds as well, in-house ESG scoring is used for stock selection in addition to the traditional MBIS® evaluation.

* Evaluations conducted by analysts using external ESG data and other resources for reference

4 ESG Integration Enhancement in J-REIT Funds

ESG Integration Enhancement

In order to maximize medium-to-long-term investment return for our customers, we prioritize sustainable growth in the value of investment shares. In the area of J-REIT management, it has been our practice to independently evaluate each investment corporation's ESG efforts, such as the environmental-friendliness of owned properties, and to then make investment decisions with results of this evaluation in mind. There has been remarkable progress in the ESG efforts of the various investment corporations, and the Sumitomo Mitsui Trust Research Institute, which advises us on J-REIT management, has also developed an ESG evaluation system which provides us with ESG scores that have allowed us to enhance ESG integration in J-REIT management.



J-REIT ESG Evaluation by Sumitomo Mitsui Trust Research Institute

The Sumitomo Mitsui Trust Research Institute (SMTRI) is a think-tank established in 1988 which specializes in urban and real estate-related research and consulting. Thanks to the firm foundation which it has built after many years of research and study in these areas, SMTRI not only provides real estate investment evaluation-related research services but also robust consulting services for the domestic and foreign real estate markets, real estate finance and infrastructure and PPP.

With regard to J-REIT analysis, SMTRI has served as an investment advisor to institutional investors since the start of J-REIT in March 2004.

Now, SMTRI uses the J-REIT-related knowledge it has cultivated over many years to enable it to evaluate the appropriateness of individual investor corporations' handling of ESG issues, which is based on publicly available documentation, and to provide investors with ESG scores for J-REIT.

Evaluations look at four major considerations: the ESG promotion framework and initiatives related to the environment, society and governance. Each item has its own checklist by which it is scored. The checklists are developed based on a comprehensive survey of the various initiatives disclosed by the individual investment corporations and then they are selected in consideration of how well they address SDGs as well.

* Scheduled to be completed by December 2019

Active Involvement in the Principles for Responsible Investment (PRI)

Established with the support of the United Nations, the Principles for Responsible Investment (PRI) encourage institutional investors to incorporate environmental, social and governance (ESG) factors into their investment decision-making processes. The 100 signatory institutions to the PRI at the time of its launch in April 2006 represented total assets under management (AUM) of US$6.5 trillion, but as of March 2019, the number of signatories had increased to 2,372, representing total AUM of around US$82 trillion and a strong indication of the growing importance of responsible investment. Since becoming a signatory to the PRI in May 2006, we have drafted policies in accordance with the six principles and implemented initiatives in light of the latest developments.

The PRI evaluates each signatory with respect to their commitment to and progress on implementing the six principles based on their reports. A score of A+ is the highest, while E is the lowest. As shown in the table to the right, we have collected favorable scores on the whole and received a comprehensive assessment score of A+ for the fifth year in a row. We will continue with our active involvement in the PRI going forward and will make every effort to maintain and improve our ratings.

PRI Assessment of SMTAM 2019	
Strategy and governance (comprehensive assessment)	A+
Integration status of listed equity into responsible investment	A+
Active ownership in listed equity	A+
Engagement	A+
Exercise of voting rights	A+
Fixed income investment (e.g., government bonds)	A
Fixed income investment (e.g., corporate bonds)	A

Principle 1 **We will incorporate ESG issues into investment analysis and decision-making processes.**

We analyze and evaluate non-financial information, such as management thoroughness, strategy execution capabilities, and capacity for reform, with the aim of identifying improvements in or maintenance of sustainable corporate value at investee companies. Furthermore, we seek to implement initiatives (ESG integration) that utilize the knowledge gained from our analyses and evaluations in our investment management operations.

Principle 2 **We will be active owners and incorporate ESG issues into our ownership policies and practices.**

We conduct engagements and exercise voting rights with ESG issues in mind; through these activities, we encourage investee companies to implement appropriate initiatives to tackle ESG challenges.

Principle 3 **We will seek appropriate disclosures on ESG issues by the entities in which we invest.**

We seek appropriate disclosure of ESG issues from investee companies.

Principle 4 **We will promote acceptance and implementation of the Principles within the asset management industry.**

We actively promote engagement and awareness-raising activities with investee companies so these Principles gain acceptance and are implemented in the asset management industry.

Principle 5 **We will work together to enhance our effectiveness in implementing the Principles.**

We collaborate with investment institutions in Japan and overseas through participation in PRI-sponsored working groups and involvement in signatory bodies established with the aim of resolving ESG issues in order to improve effectiveness in implementing the Principles.

Principle 6 **We will report on our activities and progress towards implementing the Principles.**

We implement these Principles and produce and issue reports that meet the requirements for signatories to disclose their activities and progress towards implementing them.



ESG-themed Initiatives in Our Real Estate Businesses

The amount of CO_2 emitted from the construction and operation of buildings is said to account for approximately 40% of all CO_2 emissions in Japan, including indirect emissions. In addition, as humans spend a long time indoors, the indoor environment affects the health and productivity of the occupants. Given the significant impact of real estate property on the three aspects of the environment, society, and the economy, integrated initiatives for achieving the SDGs are thought to be highly beneficial for improving the sustainability of the three aspects.

The Group aims to promote and increase properties that give consideration to the environment, such as cities and buildings with high energy and resource efficiency and buildings that contribute to improving production efficiency. We will advance initiatives that contribute to increasing property values through features such as high environmental performance that reduce risk and enhance income.

Challenges for Achieving the Goals

- Making the environmental performance of properties visible
- Making the added value of environmentally friendly properties visible
- Increasing awareness in the real estate market about the added value of environmentally friendly properties
- Expanding corporate initiatives toward creating added value

Initiatives for Solving the Challenges

- Support acquisition of environmental performance certifications, such as CASBEE for Real Estate and CASBEE for Urban Development.
- Support the realization of environmentally friendly construction through construction consulting and assistance to help subsidy applicants qualify.
- Promote and raise awareness of environmentally friendly properties through committees and lectures.
- Create businesses that contribute to promoting environmentally friendly properties, including green finance and environmentally friendly property funds.

KPIs for Solving the Challenges

Support acquisition of environmental performance certifications

At least 20 certifications a year

(Aggregate total so far: 140 certifications)

Support environmentally friendly construction

At least 2 cases a year

(Aggregate total so far: 12 cases)

Promotion and awareness-raising of environmentally friendly properties (Articles, lectures, etc.)

At least 10 activities a year

(Aggregate total so far: Over 160 activities)

Environment (Energy, water, resources, biodiversity, etc.)

Society (Indoor environment, health/comfort, safety/security, etc.)

Economy (Property value, corporate value, etc.)



Fundamentals Driving the Shift to Environmentally Friendly Property

The Paris Agreement was adopted in December 2015 at the 21st Conference of Parties (COP21) to the United Nations Framework Convention on Climate Change (UNFCCC), and came into effect in November 2016. The goals of the agreement include holding the increase in the global average temperature to below 2°C above pre-industrial levels.

On the domestic policy front, new non-residential buildings with floor space of 2,000m^2 or more need to comply with energy saving standards under the Building Energy Efficiency Act (publicly issued in 2015) since the law came into force in 2017. Meanwhile, there has been progress in improving and broadening programs that offer government subsidies for projects with high environmental performance such as the "leading projects" program for sustainable buildings.

Global investment and financial sectors recognize that addressing global environmental problems is essential. More than 2,000 institutions in the United States and Europe have become signatories to the Principles for Responsible Investment (PRI), a United Nations-led global platform for investment that factors in environmental, social, and governance (ESG) issues, since its launch in 2006. Under the United Nations Environment Programme Finance Initiative (UNEP FI), more than 200 financial institutions based in Japan and overseas, including banks, insurers, and brokerages, are working together to integrate ESG risks into financial system functions. Furthermore, the Principles for Responsible Banking (PRB) advocated for by UNEP FI as a framework for sustainable banking practices came into force in 2019. [The SuMi TRUST Group has been a signatory to PRI, UNEP FI and PRB since their launch.]

Used for investment decision-making, Global Real Estate Sustainability Benchmark (GRESB) was created in 2009, mainly for a group of large pension funds in Europe, to measure sustainability performance in the real estate sector. In 2019, 70 companies in Japan participated in the GRESB assessment. Of those, 44 were real estate investment trusts (REITs) that together comprise about 91.5% of Japan's total REIT market capitalization.

In 2015, more than 200 institutions in Japan's asset management and finance sectors announced their adoption of Japan's Stewardship Code, which spells out principles for responsible investors. The Corporate Governance Code, which includes principles to encourage listed companies to respond to sustainability concerns, also took effect as an attachment to the Tokyo Stock Exchange's securities listing requirement.

For real estate, there is a growing emphasis on environmental considerations.

Initiatives of SuMi TRUST Bank related to Environmentally Friendly Property

Harnessing its broad client base as a trust bank, SuMi TRUST Bank has expanded into a wide range of businesses requiring cutting-edge expertise that leverages the Group's comprehensive capabilities in fields ranging from real estate brokerage, securitization, consulting, and appraisals to property investment.

SuMi TRUST Bank has proposed many ideas relating to environmental real estate, with a focus on showing how environmental performance can create added value in ways that are readily understandable. The efforts to raise awareness on this topic go back to a paper we published in 2005 on the added value created by environmentally friendly property.

In 2010, SuMi TRUST Bank became the first Japanese financial institution to establish a section dedicated to environmentally friendly property. In addition to the expertise-based real estate business foundation, the Bank has worked to orient its businesses toward promoting environmentally friendly property through pioneering initiatives in environmental real estate.

Main Initiatives as a Pioneer in Environmentally Friendly Property

[Inception] A commemorative paper entitled "A Note on Environmental Value Added for Real Estate" for the 10th anniversary of Tokyo Association of Real Estate Appraisers received grand prize in 2005 (see page 74)	**[Initiatives related to CASBEE]** • Lead organizer of subcommittee examining CASBEE property appraisal since 2007; launched "CASBEE for Real Estate" certification system in 2013 (see page 69)
[Organizing Study Groups] • Lead organizer of a sustainable real estate study group since 2007; released results of studies in 2009 and 2016 • Lead organizer of a smart city study group in 2013; released results of studies in 2016	**[Initiatives related to Real Estate Appraisal and Evaluation]** • Chair of a working group on environmental added value, organized by Japan Association of Real Estate Appraisers (JAREA), since 2007 • Member of office building performance evaluation and display manual committee; released a manual on office building performance evaluation and display in 2017
[Initiatives linked to UNEP] • Member of a property working group organized as part of the United Nations Environment Programme Finance Initiative (UNEP FI) since 2007; released a collection of case studies and a handbook for Responsible Property Investment (RPI) in sequence	**[Initiatives with National and Local Authorities]** • Member of a MLIT-sponsored study committee on the promotion and spread of environmentally friendly property; the committee launched in 2008 • Member of Tokyo metro government's low carbon partnership committee for small and medium-sized buildings; the committee launched in 2012 by the Tokyo Bureau of Environment • Member of Smart Wellness Office Research Committee, sponsored by Japan Sustainable Building Consortium; announced results of a study on economic impact of buildings with CASBEE evaluations in 2015 (see page 75)

Business Lineup for Environmentally Friendly Property

1. Consulting to Support Applications for "CASBEE for Real Estate" Certification

Initiatives related to CASBEE for Real Estate

CASBEE for Real Estate is a system developed in 2012 for the purpose of promoting widespread use of environmental building performance evaluations in the real estate market. While maintaining consistency with CASBEE® certifications for buildings (new construction and existing buildings), CASBEE for Real Estate sharply narrows down evaluation items and takes into account consistency with environmental performance items that are focused on overseas.

CASBEE for Real Estate can be also used for GRESB assessment, so use of this track is spreading, especially among REITs and real estate companies that are sensitive to sustainability concerns.

It consists of evaluation items that help show initiatives related to the Sustainable Development Goals (SDGs) and environmental, social, and governance (ESG) issues.

SuMi TRUST Bank is a participant in developing CASBEE for Real Estate as an organizer of the subcommittee for CASBEE property appraisal, which is sponsored by the Institute for Building Environment and Energy Conservation.

Table Evaluation items in CASBEE for Real Estate (In the case of office buildings)

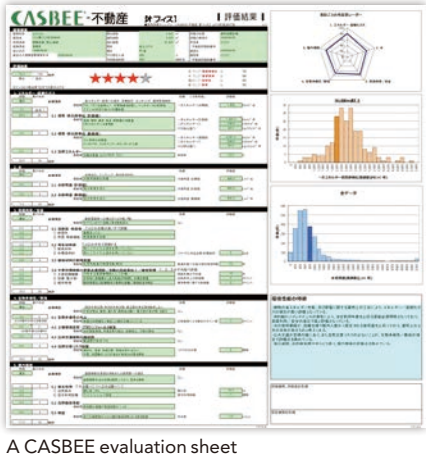
Energy/ Greenhouse gases	Target setting and monitoring/energy saving standards/O&M*3 system, usage and emissions intensity (calculated values), usage and emissions intensity (actual values), natural energy forms
Water	Target setting and monitoring/O&M system, water usage volume (calculated values), water usage volume (results)
Use of resources/ Safety	Conforms to new earthquake resistance standards, high earthquake resistance/seismic isolation and vibration damping, etc., usage of recycled materials, service life of structure materials, necessary renewal interval for main equipment functions, higher self-sufficiency ratio (electricity, etc.), operation and maintenance
Biodiversity/ Sustainable site	No use of invasive alien species, enhancement of biodiversity, soil environment quality/regeneration of brownfields, public transportation access, measures in preparation for natural disaster risks
Indoor environment	Attainment of building sanitation and environmental management standards, use of daylight, natural ventilation function, view

*1 Underlined items are prerequisites (they must be met to pass an evaluation).
*2 Items in red are related to universal metrics the United Nations Environment Programme's Sustainable Buildings and Climate Initiative (UNEP SBCI) is studying.
*3 O&M: operation and maintenance

Consulting to Support Applications for CASBEE for Real Estate Certification

SuMi TRUST Bank engages in consulting services to support applications for the CASBEE for Real Estate certification.

CASBEE accredited professionals with the proper qualification support the selection of real estate applying for certification while also evaluating the environmental performance of real estate and supporting the submission of applications for certification to certifying bodies.



A CASBEE evaluation sheet

Problem Discovery and Proposals for Improvement via CASBEE for Real Estate

SuMi TRUST Bank offers proposals on initiatives that work in concert with CASBEE for Real Estate evaluations to identify problems and suggest improvements aimed at bolstering environmental performance.

We will continue to provide services that use the CASBEE system in our business promoting environmentally friendly property.

TOPIC

Head Office Building of SuMi TRUST Bank Received CASBEE for Real Estate "S" Rank Certification

CASBEE for Real Estate had widen its applicable scope to include commercial properties and logistics facilities from its original focus on office buildings so as to broaden the range of properties eligible for this certification, and since December 2016 this certification has become applicable to sectional owned properties. As the first property evaluated under the broader scope, the head office building of SuMi TRUST Bank (the three floors below ground, and the 13 floors above ground) received a CASBEE for Real Estate "S" rank certification.



Examples: Consulting to Support Applications for CASBEE for Real Estate Certification

Owners	Property	Rank	Certification date
Isetan Mitsukoshi Holdings	1 Isetan Shinjuku Main Store	S	2016/3/4
Manulife Life Insurance Company	2 Manulife Place Dojima	S	2019/5/29
Premier Investment Corporation	3 NTT CRED Okayama Building	S	2018/3/28
Japan Retail Fund Investment Corporation	4 Ito-Yokado Yotsukaido	S	2018/2/28
Activia Properties Inc.	5 Tokyu Plaza Omotesando Harajuku	S	2019/3/29
AEON REIT Investment Corporation	6 AEON MALL Kofu Showa	S	2019/3/29
GLP J-REIT	7 GLP Atsugi II	S	2019/6/30
Industrial & Infrastructure Fund Investment Corporation	8 IIF Nishinomiya Logistics Center Extension Building	S	2019/3/28
Mitsubishi Estate Logistics REIT Investment Corporation	9 Logicross Atsugi	S	2019/3/29
Daiwa House REIT Investment Corporation	10 iias Tsukuba	S	2019/9/30
Invesco Office J-REIT, Inc.	11 Kinshicho Prime Tower	S	2019/9/30
Sekisui House REIT, Inc.	12 Garden City Shinagawa Gotenyama	S	2019/3/15
ORIX JREIT Inc.	13 Seafort Square Center Building	S	2019/2/28
Japan Prime Realty Investment Corporation	14 Housing Design Center Kobe	S	2019/6/21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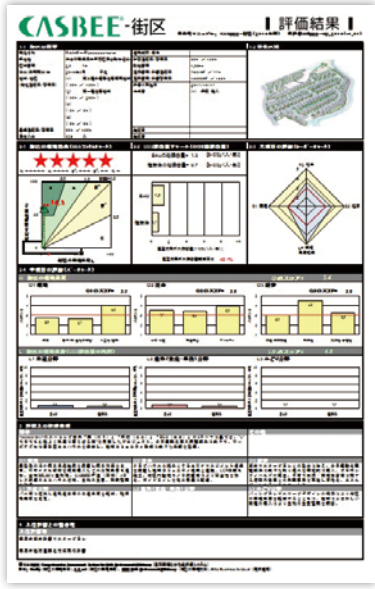
2. Consulting to Support Applications for "CASBEE for Urban Development" Certification

About CASBEE for Urban Development



CASBEE® (Comprehensive Assessment System for Built Environment Efficiency) is a system for evaluating the environmental performance of buildings and urban development, which is being developed and promoted in Japan under the leadership of the Ministry of Land, Infrastructure, Transport and Tourism. It is comprised of tools, such as CASBEE for Buildings and CASBEE for Real Estate.

Among CASBEE®'s various tools, CASBEE for Urban Development is an environmental performance evaluation for assessing the overall development of housing and commercial areas (urban development).

It evaluates environmental quality from the three aspects of the environment, society, and the economy as well as reduction in the environmental footprint.

It consists of evaluation items that help show initiatives related to the Sustainable Development Goals (SDGs) and environmental, social, and governance (ESG) issues.

CASBEE for Urban Development Evaluation Items	Environment (Resources, nature, architecture)	Society (Fairness, safety/ security, etc.)	Economy (Traffic, growth potential, etc.)	Environmental Footprint Reduction (CO_2 reduction)
Related SDGs (examples)	12 RESPONSIBLE CONSUMPTION AND PRODUCTION, 15 LIFE ON LAND	3 GOOD HEALTH AND WELL-BEING, 11 SUSTAINABLE CITIES AND COMMUNITIES	8 DECENT WORK AND ECONOMIC GROWTH, 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	7 AFFORDABLE AND CLEAN ENERGY, 13 CLIMATE ACTION

SuMi TRUST Bank carries out environmental performance evaluations using CASBEE for Urban Development, as well as provides advice on application procedures for certification and support services, including supports for CASBEE reviews.

Case Study A

LIST GARDEN nococo-town

In July 2018, LIST GARDEN nococo-town, a large eco-town in Totsuka, Yokohama City, became the first ever recipient of the highest rank certification ("S" rank) for CASBEE for Urban Development.

CASBEE for Urban Development's certification results are made public. They are introduced in mediums such as magazines and exhibited in model rooms, and help show that the eco-town offers quality housing, promotes the neighborhood's vitalization, and proactively contributes to the local community.



CASBEE-WO (Wellness Office)

Given the spread of ESG investment in the real estate market and the needs for health & productivity management and reforms aimed at improving intellectual productivity, a new office model assessment system known as CASBEE-WO (Wellness Office) was launched in June 2019. As part of the CASBEE scheme, this new system focuses on evaluating buildings in terms of health and comfort for office workers.

The SuMi TRUST Group has been involved in the development of CASBEE-WO through an MLIT study group tasked with promoting ESG investment and the Smart Wellness Office (SWO) Research Committee. We also plan to expand our consulting services up ahead to support certification applications.

Assessment components under CASBEE-WO

Category		Assessment component
Basic performance	Health, comfort	Space, interior, sound, light, air & ventilation, refreshment, exercise
	User-friendliness	Mobility & communication, telecommunications
	Safety	Disaster readiness, countermeasures for harmful substances, water quality, security
Operational management	Maintenance	Maintenance
	Satisfaction	Satisfaction
Program		Exercise program

3. Construction-Phase Support for Environmental Considerations

The first bank in Japan to develop a land trust product in the 1980s, SuMi TRUST Bank has been involved in managing and developing many buildings and condominiums, and it provides construction consulting services based on knowhow from such projects.

We offer advice relating to factoring in environmental considerations in our menu of construction consulting services such as on the installation of energy-saving systems in buildings, ways to take into account landscapes and ecosystems, extension of building life spans, and adoption of recycling systems.

Examples: Construction-phase support for environmental considerations

Company Name	Location	Use	Number of Floors	Floor Area	Target Rank
Clarion	Saitama Prefecture	Headquarters office and research center	10 floors above ground, 1 rooftop floor	Approx. 19,000 m^2	A (certification completed)
Chuo Labour Bank	Tokyo	Central branch	1 basement floor, 9 floors above ground, 2 rooftop floors	Approx. 6,000 m^2	A (self-evaluation)
	Kanagawa Prefecture	Office	1 basement floor, 7 floors above ground, 1 rooftop floor	Approx. 10,000 m^2	B+ (notification)
AEON MALL	Tokyo	Commercial facility	5 floors above ground	Approx. 150,000 m^2	A (certification completed)
FUJI	Ehime Prefecture	Commercial facility	3 floors above ground	Approx. 140,000 m^2	B+ (certification completed)
Ito-Yokado	Kanagawa Prefecture	Commercial facility	4 floors above ground	Approx. 29,000 m^2	B+ (notification)
Toyo Seikan Group Holdings	Tokyo	Office*1	2 basement floors, 21 floors above ground, 1 rooftop floor	Approx. 72,400 m^2	S (certification completed)
Daikin Industries	Osaka Prefecture	Office, R&D facility*1	1 basement floor, 6 floors above ground	Approx. 48,000 m^2	S (self-evaluation)
Hiroshima Mazda	Hiroshima Prefecture	Office, observation deck, product sales and dining facilities*1	2 basement floors, 14 floors above ground	Approx. 11,500 m^2	A (notification)
Anritsu	Kanagawa Prefecture	Office*2	7 floors above ground	Approx. 28,000 m^2	S (self-evaluation)
Shimane Bank	Shimane Prefecture	Central branch*1	1 basement floor, 13 floors above ground	Approx. 12,000 m^2	S (self-evaluation)

*1 Selected for the MLIT-led "leading projects" program for sustainable buildings.
*2 Selected for the METI-led "net zero energy building" experimental pilot program.

As interest in environmental issues has grown, so has the number of properties applying for CASBEE® certification* or providing notification of self-evaluation in the past several years. In addition, some projects have been selected by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) for the "leading projects" program for sustainable buildings and by the Ministry of Economy, Trade, and Industry (METI) for the "net zero energy building" experimental pilot program.

* The comprehensive assessment system for built environment efficiency (CASBEE) certification is an environmental performance evaluation system for buildings being developed and promoted in Japan under the guidance of MLIT.



Case Study B

HIROSHIMA ORIZURU TOWER

Situated adjacent to the Atomic Bomb Dome (Hiroshima Peace Memorial), this office building underwent full-scale renovations. The existing framework was reused and the building enlarged to accommodate a higher level of earthquake resistance. A large canopy, louvers, and a "spiral slope" walking ramp were also built into the newly expanded sections. The building reduces its CO_2 footprint by utilizing various energy-saving features, including solar shading and cross ventilation. Visitors to the building can access the HIROSHIMA HILL observation deck under the giant canopy on the roof, enjoy numerous activities in ORIZURU Square, and learn about its CO_2 reduction initiatives.

The ORIZURU TOWER was selected for the MLIT's leading projects program for promoting CO_2 reduction in housing and buildings.

4. Making the Value of Smart Towns and Cities Visible, Supporting Concept Formulation

Developing smart towns and cities that adopt next-generation "smart community*" social systems at the local level is an important step from the standpoint of regional development. In the past few years, these towns and cities have combined a series of complex reforms from changes to citizen lifestyles and local transportation systems to the introduction of area energy networks, including the recapture of heat and unused energy, to go together with effective use of electricity.

*See METI's website for details.

To realize smart towns and cities, it is necessary to create economic value added commensurate with higher costs while establishing clear targets from the basic planning stage onward for environmental, social, and governance (ESG) issues for the city or town.

SuMi TRUST Bank supports projects for smart towns and cities on many fronts such as devising frameworks that link various initiatives on environmental contributions etc. to economic value added and formulating project concepts. Through our provision of financial functions such as home mortgages, we also help projects get executed.

Concept Diagram for Making the Value of Smart Towns Visible

Town Goals	Initiatives to Achieve Goals	Creation of Environmentally Friendly Property Value
Environmental goals Reduce energy use (rate) Reduce potable water use (rate) Improve resource reuse (rate) Protect and restore natural resources ⋮ **Safety and soundness goals** No. days with lifeline provisions secured in case of emergencies ⋮	Securing district landscape, sunlight and ventilation Solar power cells, fuel cells High-efficiency facilities, home energy management systems (HEMS) Storage batteries, emergency-use power generators Security (district-wide, individual buildings) ⋮	Reduce utility costs Reduce operation and management costs Create safe, comfortable and healthy living environment Reduce risks from disasters and blackouts Lower interest rates on home mortgages ⋮

Case Study C

Fujisawa Sustainable Smart Town

The "Fujisawa Sustainable Smart Town" is a project currently being carried out by Panasonic Corporation at the former site of Panasonic's Fujisawa factory.

Panasonic Corporation, Fujisawa City, and eleven partner companies, including SuMi TRUST Bank, are collaborating to promote the project, which marked the town's opening in spring 2014.

SuMi TRUST Bank is participating in various ways, such as designing smart town evaluation indicators (environmentally friendly property values) and creating project-specific product plans for environmentally friendly housing loans.

This project is also praised for its community-wide comprehensive CO_2 reduction efforts together with town management. It was selected for subsidies under the MLIT-led "leading projects" program for sustainable buildings (formerly known as the 2013 No.1 "leading projects for promoting CO_2 reduction" program for housing and buildings).



Delivering Value

Added Value of Environmentally Friendly Property 1

—Added Value Derives from Property Profitability

It is often said environmental friendly property "costs more than usual and is difficult to invest in," but price theory in real estate investment suggests such buildings are able to generate added value equal to or greater than their additional cost.

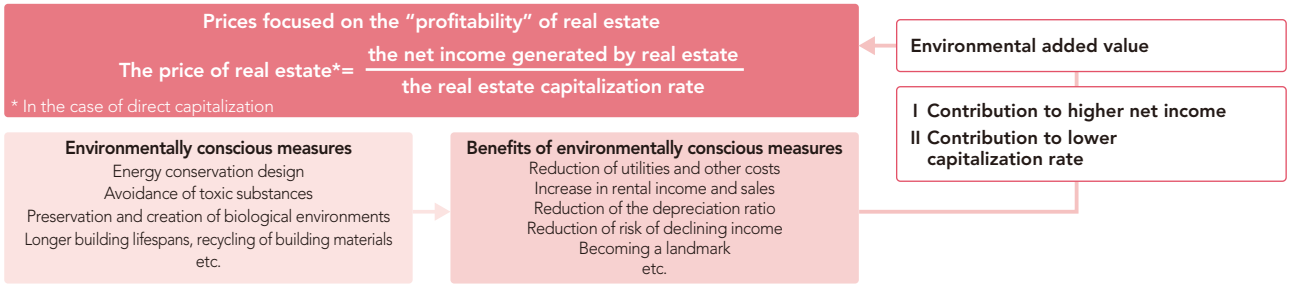
From the perspective of profitability (how much and how long do properties generate steady profits), a property's price derives from net income (revenue minus costs) divided by the real estate capitalization rate. The greater gross income including rents is, and the lower the costs of utilities, maintenance, and building management are, the higher net income is, and so the higher the valuation of a property. In addition, stable properties with less income fluctuation risk are awarded higher valuations as investors require a lower yield from them.

Environmentally friendly property can earn higher net income by reducing utility expenses via energy savings and maintenance and operating expenses via the enhanced durability of parts and materials. Furthermore, such buildings can also generate higher gross income on higher rents stemming from higher productivity enabled by their enhanced office environments and the cachet boost from their environmental credentials.

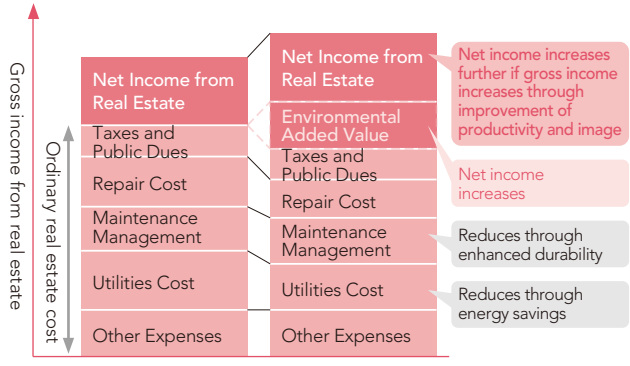
Furthermore, environmentally friendly property is less exposed to future environment-related tax hikes or tougher regulations, so the capitalization rate for such buildings factors in less environmental risk. A lower depreciation rate resulting from a longer life span as well as enhanced appeal as environmentally friendly can also lower the capitalization rate.

For the reasons above, SuMi TRUST Bank believes that environmentally friendly property will realize added value.

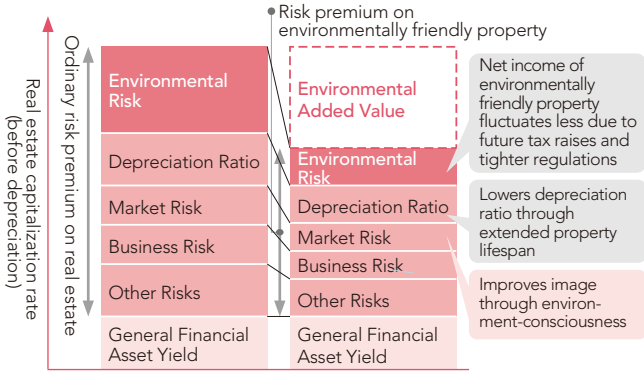
Conceptual diagram of environmental added value (1) Prices focused on the "profitability" of real estate



Conceptual diagram of environmental added value (2) Reflection in net income



Conceptual diagram of environmental added value (3) Reflection in capitalization rate



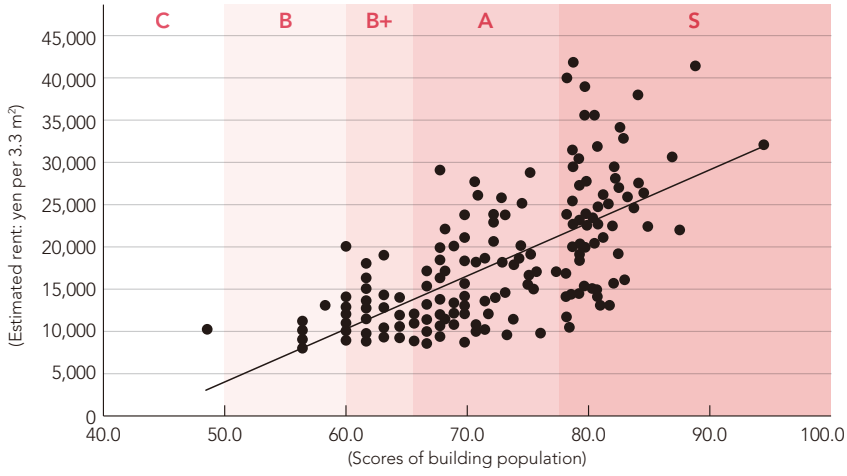
Source: Partial revision of "A Note on Environmental Value Added for Real Estate," a commemorative paper written by Masato Ito in 2005 for the 10th anniversary of Tokyo Association of Real Estate Appraisers

Added Value of Environmentally Friendly Property 2
—Helping to Make Added Value Visible

Study on Economic Impact of Buildings with CASBEE Evaluations

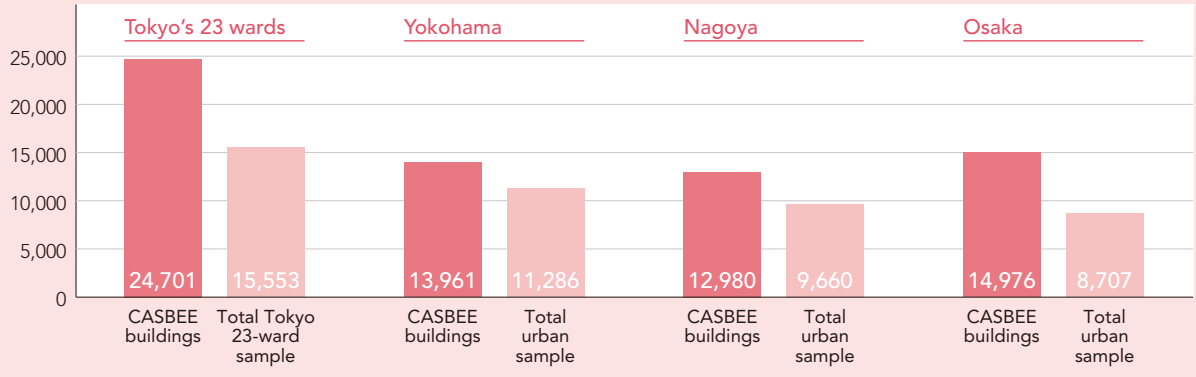
Given the paucity of research in Japan showing a correlation between the environmental performance of buildings and economic benefits, SuMi TRUST Bank implemented a study into the economic impact of buildings with CASBEE® evaluations as the leader of a working group examining economic benefits under the aegis of the Japan Sustainable Building Consortium's Smart Wellness Office Research Committee. The study analyzed buildings with CASBEE® certification and non-evaluated buildings and found average market rents in buildings with CASBEE certifications or applications were about 3.6% higher. This suggests each point in the CASBEE scoring system (adjusted so 100 points is the maximum score) equates to a market rent 0.5% higher than the average. These results were announced at symposiums, the Architecture Institute of Japan convention, and other events.

Correlation between CASBEE Score and Market Rents (Single regression analysis)



Source: Data is from a fiscal year 2014 report issued by Japan Sustainable Building Consortium's Smart Wellness Office Research Committee.

Comparison of average rents: Yen per 3.3 m²



Source: Data is from a fiscal year 2014 report issued by Japan Sustainable Building Consortium's Smart Wellness Office Research Committee.

Summary of multiple regression analysis results for CASBEE buildings

CASBEE evaluations, etc.	Sample size	Coefficients	Differential in average rent
CASBEE flag (whether or not buildings have CASBEE evaluations)	517	564.160	+3.64%
CASBEE rank (five-level evaluation rankings)	517	263.525	+1.70%
CASBEE score (evaluation score with a maximum score of 100)	183	78.974	+0.46%
Service performance (Q2) score	183	1702.667	+9.9%
Intellectual productivity evaluation	180	319.318	+1.86%

Source: Data is from a fiscal year 2014 report issued by Japan Sustainable Building Consortium's Smart Wellness Office Research Committee.