

## Second-Party Opinion

# Sumitomo Mitsui Financial Group, Inc. / Sumitomo Mitsui Banking Corporation's Green Bond Framework



## Evaluation Summary

Sustainalytics is of the opinion that the Sumitomo Mitsui Financial Group, Inc. / Sumitomo Mitsui Banking Corporation's Green Bond Framework is credible and impactful and aligns to the four core components of the Green Bond Principles 2021. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds – Renewable Energy, Energy Efficiency, Green Buildings, Clean Transportation, and Pollution Prevention and Control – are aligned with those recognized by the Green Bond Principles 2021. Sustainalytics considers that investments in the eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDGs 7, 9, 11, and 12.



**PROJECT EVALUATION / SELECTION** Sumitomo Mitsui Financial Group, Inc.'s IR Department and Sumitomo Mitsui Banking Corporation's Treasury Department decide the eligible projects for the green bond based on the Framework's eligibility criteria. The final decision will be made by the General Manager of Corporate Planning Department of Sumitomo Mitsui Financial Group, Inc. Sumitomo Mitsui Banking Corporation has in place environmental and social risk management processes that are applicable to all allocation decisions made under the Framework. Sustainalytics considers these risk management systems to be adequate and the project selection process to be in line with market practice.



**MANAGEMENT OF PROCEEDS** Sumitomo Mitsui Financial Group, Inc.'s IR Department will monitor and manage the allocation of green bond proceeds once a year using an internal system. The net proceeds will be extended to Sumitomo Mitsui Banking Corporation in a form of an inter-group loan. Pending allocation, unallocated proceeds will be invested in overnight or other short-term financial instruments. This is in line with market practice.



**REPORTING** Until the full allocation of proceeds, Sumitomo Mitsui Financial Group, Inc. and Sumitomo Mitsui Banking Corporation will report on the allocation of proceeds and positive environmental impacts annually on its website. Allocation reporting will include the amount of allocated and unallocated proceeds, details of the projects funded, current funded amounts, and initial funding dates. Impact reporting will provide, to the extent practicable, quantitative and qualitative indicators on a project according to eligible categories. This is in line with market practice.

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<b>Evaluation date</b>	December 20, 2021 <sup>1</sup>
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<b>Issuer Location</b>	Tokyo, Japan
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**For inquiries, contact the Sustainable Finance Solutions project team:**

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**Kosuke Kanematsu (Tokyo)**  
Project Manager  
kosuke.kanematsu@sustainalytics.com  
(+81) 3 4510 2343

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**Marie Toyama (Tokyo)**  
Project Support

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**Shintaro Yanagi (Brussels)**  
Client Relations  
susfinance.japan@sustainalytics.com  
(+31) 20 399 4482

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## Alignment with Japan's Green Bond Guidelines 2020

Sustainalytics is of the opinion that the Sumitomo Mitsui Financial Group, Inc. / Sumitomo Mitsui Banking Corporation's Green Bond Framework is in line with Japan's Green Bond Guidelines 2020 (elements described with the word "should") developed by the Ministry of the Environment of Japan.

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<sup>1</sup> This document is an update of the second-party opinion published on November 21, 2018.

## Introduction

Sumitomo Mitsui Financial Group, Inc. (SMFG) is the holding company of SMBC Group, and Sumitomo Mitsui Banking Corporation (SMBC) is the group's main operating bank. SMBC engages in the provision of financial services centered on banking. It operates through the following business segments: Wholesale, Retail, International, Market Sales, and Headquarters Management. The Bank was founded in April 2001. It is headquartered in Tokyo, Japan, with 472 branches (domestic and overseas) and over 28,000 employees (as of September 30, 2021).

SMFG and SMBC (hereinafter "SMFG/SMBC" or the "Group") have developed the Sumitomo Mitsui Financial Group, Inc. / Sumitomo Mitsui Banking Corporation's Green Bond Framework (the "Framework") in November 2018 and updated in December 2021. Under the Framework, SMFG/SMBC intend to issue green bonds and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects that generate environmental benefits. The Framework defines eligibility criteria in five areas:

1. Renewable Energy
2. Energy Efficiency
3. Green Buildings
4. Clean Transportation
5. Pollution Prevention and Control

SMFG/SMBC engaged Sustainalytics to review the Sumitomo Mitsui Financial Group, Inc. / Sumitomo Mitsui Banking Corporation's Green Bond Framework, dated December 2021, and provide a Second-Party Opinion on the Framework's environmental credentials and its alignment with the Green Bond Principles 2021 (GBP)<sup>2</sup> and Japan's Green Bond Guidelines 2020.<sup>3</sup> This Framework has been published in a separate document.<sup>4</sup>

### Scope of work and limitations of Sustainalytics' Second-Party Opinion

Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent<sup>5</sup> opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework's alignment with the GBP as administered by ICMA, and Japan's Green Bond Guidelines 2020;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer's sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.11.2, which is informed by market practice and Sustainalytics' expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of SMFG/SMBC to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. SMFG/SMBC representatives have confirmed (1) they understand it is the sole responsibility of SMFG/SMBC to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

<sup>2</sup> The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

<sup>3</sup> Ministry of the Environment, Japan, "Green Bond Guidelines, 2020", at: [http://www.env.go.jp/policy/guidelines\\_set\\_version\\_with%20cover.pdf](http://www.env.go.jp/policy/guidelines_set_version_with%20cover.pdf)

<sup>4</sup> The Sumitomo Mitsui Financial Group, Inc. / Sumitomo Mitsui Banking Corporation's Green Bond Framework is available on SMFG's website at: <https://www.smfg.co.jp/english/sustainability/materiality/environment/procurement/>

<sup>5</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics' hallmarks is integrity, another is transparency.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and SMFG/SMBC.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. The Second-Party Opinion is valid for issuances aligned with the respective Framework for which the Second-Party Opinion was written for a period of 24 months from the evaluation date stated herein.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that SMFG/SMBC have made available to Sustainalytics for the purpose of this Second-Party Opinion.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the Sumitomo Mitsui Financial Group, Inc. / Sumitomo Mitsui Banking Corporation's Green Bond Framework

Sustainalytics is of the opinion that the Sumitomo Mitsui Financial Group, Inc. / Sumitomo Mitsui Banking Corporation's Green Bond Framework is credible and impactful, and aligns to the four core components of the GBP. Sustainalytics highlights the following elements of SMFG/SMBC's Green Bond Framework:

- Use of Proceeds:
  - The eligible categories – Renewable Energy, Energy Efficiency, Green Buildings, Clean Transportation, and Pollution Prevention and Control – are aligned with those recognized by the GBP. Please see Section 3 for Sustainalytics' assessment of the impact of the use of proceeds.
  - SMFG/SMBC intend to allocate the proceeds to the financing of new projects as well as refinancing of existing projects. For refinancing, SMFG/SMBC have established a 24 months look-back period, which Sustainalytics views to be in line with market practice.
  - In the Renewable Energy category, SMFG/SMBC have defined that the green bond proceeds will be used to finance the development, construction and operation of facilities that generate renewable energy, including solar energy, wind energy, geothermal energy, biomass energy, and hydropower. In this category, Sustainalytics views positively the following points as being aligned with market practice:
    - Financing of solar and wind energy projects.
    - Regarding geothermal power projects, the proceeds will be allocated only to projects with direct CO<sub>2</sub> emissions of less than 100gCO<sub>2</sub>/kWh.
    - With regard to the biomass power generation projects, the proceeds will be allocated to those fueled by waste-derived materials, or specific non-waste materials such as wood/wood pellets.
      - Waste-derived materials will be limited to residues from forestry and agriculture, residues of fishery resources, waste from palm oil operations, wastewater and sewage sludge. Fuels derived from fishery resources will be restricted to those from fishery and aquaculture companies that have obtained MSC (Marine Stewardship Council) or ASC (Aquaculture Stewardship Council) certification, and waste derived from palm oil operations will be limited to waste from palm oil suppliers that are certified

by RSPO (Roundtable on Sustainable Palm Oil) or RSB (The Roundtable on Sustainable Biomaterials). The Group has also committed to excluding wastewater and sewage sludge which are derived from fossil fuel mining and processing.

- In terms of non-waste materials, SMFG/SMBC will limit the allocation of proceeds to the projects with less than 100g CO<sub>2</sub>e/kWh of lifecycle GHG emissions, and exclude palm oil and peat. For the projects that use wood and wood pellets, the feedstock will be limited to those provided by wood suppliers or power generators certified by the Forest Stewardship Council (FSC) or PEFC (Programme for the Endorsement of Forest Certification). For non-wood crops, SMFG/SMBC will exclude uncertified materials, or materials sourced from unknown suppliers. Sustainalytics notes that it is market expectation to specify all certification schemes and encourages the Group to report on any certification schemes it intends to include in its eligibility criteria.
  - For the hydropower generation projects, the proceeds will be allocated only to run-of-river power facilities without artificial reservoir or low storage capacity. The Group has made a commitment that, in a new development/construction project, it will confirm that there is no significant negative impact on the environment and society by conducting environmental and social impact assessments. Refer to Section 2 for further commentary on SMBC's risk mitigation process.
- In the Energy Efficiency category, SMFG/SMBC intend to allocate the proceeds to energy-conservation equipment, including, but not limited to, LED lighting, efficient HVAC (heating, ventilating, and air conditioning), building insulation and energy demand control systems which improve energy efficiency. While Sustainalytics does not consider energy efficiency improvement thresholds to be required in this area, SMFG/SMBC is encouraged to report on the impacts achieved.
- In the Green Buildings category, SMFG/SMBC will allocate the proceeds to:
  - The acquisition, development, and construction of residential and commercial properties and logistics facilities certified by a third party as green buildings. Certification schemes eligible for the allocation of proceeds include LEED (Gold or above), BREEAM (Excellent or above), and CASBEE (A Rank or above). Sustainalytics considers that the establishment of eligibility criteria that limit the use of proceeds to properties with top two levels of the aforementioned certification schemes is in line with market practice, as it will ensure the allocation of proceeds to green buildings that generate positive environmental impacts (refer to the details of the certification schemes in Appendix 1).
  - In terms of refurbishment/retrofit of existing buildings, SMFG/SMBC will allocate the proceeds to assets/projects that aim to achieve a 20% improvement in energy efficiency and/or 20% reduction in GHG emissions. This is aligned with market practice.
- In the Clean Transportation category, SMFG/SMBC intend to allocate the proceeds to clean energy vehicles as well as public transportation facilities.
  - In terms of clean energy vehicles, SMFG/SMBC may allocate the proceeds to the development, manufacture, or purchase of non-fossil fuel-based vehicles such as electric vehicles (EVs) and fuel cell vehicles (FCVs). The Group may also allocate the proceeds to the acquisition, development, operation, and maintenance of charging infrastructure for EVs as well as hydrogen fueling infrastructure for FCVs. Sustainalytics considers that this is aligned with market practice.
  - Regarding the development, operation and upgrade of public transportation facilities, SMFG/SMBC may finance improvement to rail transport, bicycles and other non-motorised transport. Railway vehicles are limited to ones that use electricity as its power sources or that meet the threshold for direct CO<sub>2</sub> emissions (less than 50g CO<sub>2</sub>/km per passenger or less than 25g CO<sub>2</sub>/km per ton of cargo). Sustainalytics considers that this is in line with market practice. In addition, in terms of the development, operation and upgrade of rail transport infrastructure, SMFG/SMBC have committed to limiting allocation of proceeds to facilities related exclusively to railways that meet the eligibility criteria. Sustainalytics considers such restrictions to be in line with market practice.

- In the Pollution Prevention and Control category, SMFG/SMBC intend to allocate the proceeds to the development, construction and operation of waste recycling and waste-to-energy facilities.
  - Regarding waste recycling, SMFG/SMBC have committed to excluding chemical recycling of plastic. In the case of electronic waste recycling, the Group also has committed to implementing robust waste management processes to mitigate associated environmental and social risks, in accordance with local laws and regulations of a country where projects are located.
  - In terms of waste-to-energy, the Group has committed to ensuring the segregation of waste, separating majority of recyclables such as plastic and metal from other materials in the process of waste recycling as well as in the production of feedstock for waste-to-energy. Sustainalytics recognizes that energy from waste could take out of circulation potentially recyclable materials and undermine the objectives of zero-waste circular economy, i.e. waste prevention and recycling. Additionally, in order to have low emissions intensity of such projects, the composition of residual waste, particularly fossil carbon content, is a crucial consideration. However, Sustainalytics also notes that, due to current constraints of recycling in many parts of the world, energy from waste can offer better residual waste management option than landfills in many cases. Sustainalytics recommends SMFG/SMBC to promote the removal of increasing amounts of recyclables, especially plastics and metals, and the monitoring of thermal efficiency of the financed facilities.
- Within the Framework, SMFG/SMBC have established exclusionary criteria and have committed that, from the use of proceeds, it will exclude sectors, projects, and assets associated with: fuel-based assets, fossil fuel based transportation / infrastructure and transportation with the main objective of transporting fossil fuel, defense and security, palm oil, wood pulp, nuclear power generation, coal-fired power generation as well as all mining and tobacco sectors.
- Project Evaluation and Selection:
  - SMBC's Structured Finance Department selects the candidate projects that meet the criteria of Eligible Green Projects. From the list of the candidate projects, SMFG's IR Department and SMBC's Treasury Department decide the eligible projects for the green bond based on the Framework's eligibility criteria. Through this evaluation and selection process, SMFG/SMBC may consult with external consultants such as Japan Research Institute (JRI), a Group company, and rely on their data sources. The final decision will be made by the General Manager of Corporate Planning Department of SMFG.
  - SMBC has in place environmental and social risk management processes that are applicable to all allocation decisions made under the Framework. Sustainalytics considers these processes to be adequate. Refer to Section 2 for additional details.
  - Sustainalytics considers the Group's project evaluation and selection process to be aligned with market practice.
- Management of Proceeds:
  - SMFG's IR Department will monitor and manage the allocation of proceeds once a year using an internal system.
  - The net proceeds from the Green Bonds will be extended to SMBC in a form of an inter-group loan. The Group intends to complete the allocation of proceeds to the Eligible Green Projects within 36 months after the issuance of the green bond. Pending allocation, unallocated proceeds will be invested in overnight or other short-term financial instruments.
  - SMFG/SMBC allocate any of their Green Bond proceeds to projects that have been sold, prepaid, amortised or have otherwise become ineligible will be reallocated to other Eligible Green Projects as soon as practically possible.
  - Sustainalytics considers the Group's process for the management of proceeds to be in line with market practice.
- Reporting:
  - SMFG/SMBC will report on the allocation of proceeds and positive environmental impacts annually on its website until the full allocation of proceeds and as necessary thereafter in the event of new developments.
  - Allocation reporting will include the amount of proceeds allocated to Eligible Green Projects, details of the projects funded, current funded amounts, initial funding dates, and unallocated amount. In addition, SMFG/SMBC intend to receive assertions by management to confirm that

- the proceeds are invested in Eligible Green Projects or in overnight or other short-term financial instruments.
- Impact reporting will provide, to the extent practicable, quantitative and qualitative indicators on a project portfolio basis. In the Renewable Energy category, the Group intends to report on production capacity (MW) and tons of CO<sub>2</sub> emissions equivalent avoided. In other Use of Proceeds categories where the adequate impact measurement is not the tons of CO<sub>2</sub> emission equivalent avoided, some other appropriate indicators will be used in line with market best practices.
  - Based on the allocation and impact reporting on an annual basis, Sustainalytics considers the Group's reporting to be in line with market practice.

### Alignment with Green Bond Principles 2021

Sustainalytics has determined that the Sumitomo Mitsui Financial Group, Inc. / Sumitomo Mitsui Banking Corporation's Green Bond Framework aligns to the four core components of the GBP. For detailed information please refer to Appendix 3: Green Bond/Green Bond Programme External Review Form.

### Alignment with Japan's Green Bond Guidelines 2020

Sustainalytics is of the opinion that the Framework is in line with Japan's Green Bond Guidelines 2020 developed by the Ministry of the Environment of Japan. The guidelines communicate what an issuer should do to issue a credible green bond. Sustainalytics assessed the alignment between the Framework and the elements described with the word "should" outlined in the Japan's Green Bond Guidelines 2020. For detailed information please refer to Appendix 2: Alignment with Japan's Green Bond Guidelines 2020.

## Section 2: Sustainability Strategy of SMFG/SMBC

### Contribution of framework to Sumitomo Mitsui Financial Group, Inc. and Sumitomo Mitsui Banking Corporation's sustainability strategy

SMFG/SMBC articulate its commitment to sustainability through its Sustainability Statement,<sup>6</sup> with a focus on the following areas: (i) Environment, (ii) Community, and (iii) Next Generation.<sup>7</sup> In line with the Statement, the Group announced the "SMBC Group GREEN x GLOBE 2030"<sup>8</sup> in April 2020, which sets out 10-year KPIs for implementing environmental and social considerations in its business activities. In May 2021, in order to strengthen its measures against climate change, the Group formulated the "Roadmap Addressing Climate Change" to achieve a carbon-neutral society by 2050 and the "Action Plan Step1" which sets out detailed initiatives for the period up to fiscal 2023.<sup>9</sup> Within the Roadmap and the Action Plan, SMBC revealed the following new and revised targets related to climate change.

- Execute JPY 30 trillion (approximately USD 260 billion)<sup>10</sup> of sustainable finance, including financing to support clients' transition toward net-zero emissions and projects targeting social impact, between the Fiscal Year 2020 (FY2020) to FY 2029. Of the target amount, JPY 20 trillion (approximately USD 173 billion)<sup>11</sup> is planned to be directed towards green finance.
- Measure GHG emissions of SMBC Group's loan and investment portfolio (Scope 3) and set targets for emissions reduction toward 2030 and 2050 by FY2023.
- Achieve net zero in its group-wide operations (Scope 1 and 2) by 2030.

Through the Group Environmental Policy, SMBC Group is committed to providing financial products, information and solutions that support its client's efforts to address environmental problems.<sup>12</sup> For example,

<sup>6</sup> Sumitomo Mitsui Financial Group, Inc., "SMBC Group Statement on Sustainability", at:

[https://www.smfg.co.jp/english/sustainability/group\\_sustainability/pdf/smbc\\_statement\\_on\\_sustainability\\_en.pdf](https://www.smfg.co.jp/english/sustainability/group_sustainability/pdf/smbc_statement_on_sustainability_en.pdf)

<sup>7</sup> Sumitomo Mitsui Financial Group, Inc., "Priority Issues (Materiality)", at: <https://www.smfg.co.jp/english/sustainability/materiality/>

<sup>8</sup> Sumitomo Mitsui Financial Group, Inc., "SMBC Group GREEN x GLOBE 2030", at:

[https://www.smfg.co.jp/english/sustainability/group\\_sustainability/globe2030/](https://www.smfg.co.jp/english/sustainability/group_sustainability/globe2030/)

<sup>9</sup> Sumitomo Mitsui Financial Group, Inc., "Reinforcing Efforts against Climate Change", at: [https://www.smfg.co.jp/news\\_e/pdf/e20210512\\_01.pdf](https://www.smfg.co.jp/news_e/pdf/e20210512_01.pdf)

<sup>10</sup> Conversion by Sustainalytics (115 JPY per 1 USD)

<sup>11</sup> Conversion by Sustainalytics (115 JPY per 1 USD)

<sup>12</sup> Sumitomo Mitsui Financial Group, Inc., "Environment", at:

<https://www.smfg.co.jp/english/sustainability/esg/environment/#:~:text=Group%20Environmental%20Policy,-Basic%20concepts&text=Recognizing%20the%20importance%20of%20realizing,of%20society%20as%20a%20whole.>

SMBC has provided project finance for renewable energy projects in Japan and other countries, including solar, wind, biomass, geothermal, and hydroelectric power generation.<sup>13</sup>

In addition, SMBC Group is a signatory to various local and international sustainability initiatives such as the UN Global Compact, UNEP Finance Initiative (UNEP FI), Responsible Investment Principles (PRI), Principle of Responsible Banks (PRB), and Principles for Financial Action toward a Sustainable Society.<sup>14</sup>

Based on the above, Sustainalytics is of the opinion that the Framework is aligned with the Group's overall sustainability strategy and targets and will further SMFG/SMBC's efforts on its key sustainability priorities.

### Approach to managing environmental and social risks associated with the projects

While Sustainalytics recognizes that the net proceeds from the bonds issued under the Framework will be directed towards eligible projects that are expected to have positive environmental impact, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes, which may damage SMFG/SMBC's reputation as a lender to projects. Some key environmental and social risks associated with the eligible projects, could include risks related to biodiversity and land use change, water, land and air pollution, occupational health and safety, and community relations due to large scale infrastructure and construction projects

To assess and manage environmental and social risks associated with its investments and loans, the Group has in place a Credit Policy,<sup>15</sup> which includes the following policies and procedures for due diligence and monitoring:

- SMBC Group established restrictions and exclusionary criteria for businesses and sectors that are likely to have a significant impact on the environment and society. Through the policy, SMBC Group has committed to ensuring that there is no illegal deforestation, burning, or labor in accordance with local laws and regulations for businesses involving deforestation. In accordance with the policy, for large-scale farm development projects, SMBC will require project operators to publicly declare their compliance with NDPE (No Deforestation, No Peat, No Exploitation).<sup>16</sup> Moreover, SMBC has committed to restricting financing to new projects that are perceived to have a significant negative impact on wetlands specified in the Ramsar Convention and UNESCO-designated World Natural Heritage sites.<sup>17</sup>
- The Procedures for Environmental and Social Risk Assessment sets out SMBC's policies and due diligence procedures in compliance with the Equator Principles (EP), a globally recognized framework to manage environmental and social risks associated with financing to large-scale development projects. For loans that fall under the scope of EP, the Environmental and Social Risk Analysis Department (ESAD) confirms that requirements set by the EP are met and conducts site visits where necessary. For projects that meet certain conditions, the ESAD conducts an additional review based on SMBC's sector checklists. The results of the environmental and social risk assessments will be taken into consideration in the credit approval process. In terms of the Environmental Monitoring process, covenants in the financing agreement will include environmental and social considerations as a result of the review. Afterwards, compliance with the EPs will be monitored during the life of the loan.<sup>18</sup>
- Furthermore, SMBC Group sets out its Statement on Human Rights,<sup>19</sup> which commits to respecting human rights in accordance with international standards, including the Universal Declaration of Human Rights (UDHR) and the Guiding Principles on Business and Human Rights (UNGPR) by the United Nations. Regarding development projects, SMBC Group requires project operators to obtain Free, Prior and Informed Consent (FPIC) from indigenous peoples impacted by the project and give due consideration to working conditions of the project.<sup>20</sup>

<sup>13</sup> Sumitomo Mitsui Financial Group, Inc., "Promotion of Environmental Businesses", at: <https://www.smfg.co.jp/english/sustainability/materiality/environment/business/>

<sup>14</sup> Sumitomo Mitsui Financial Group, Inc., "Participation in Initiatives and Reference Guidelines", at: [https://www.smfg.co.jp/english/sustainability/group\\_sustainability/structure/](https://www.smfg.co.jp/english/sustainability/group_sustainability/structure/)

<sup>15</sup> Sumitomo Mitsui Financial Group, Inc., "Management of Environmental Risks", at: <https://www.smfg.co.jp/english/sustainability/materiality/environment/risk/>

<sup>16</sup> European Palm Oil Alliance, "No Deforestation, Peat, and Exploitation", at: <https://palmoilalliance.eu/ndpe-commitment/>

<sup>17</sup> Sumitomo Mitsui Financial Group, Inc., "Management of Environmental Risks", at: <https://www.smfg.co.jp/english/sustainability/materiality/environment/risk/>

<sup>18</sup> Sumitomo Mitsui Financial Group, Inc., "Working with the Equator Principles", at:

<https://www.smfg.co.jp/english/sustainability/materiality/environment/risk/equator/>

<sup>19</sup> Sumitomo Mitsui Financial Group, Inc., "Respect for Human Rights", at: [https://www.smfg.co.jp/english/sustainability/group\\_sustainability/forrights/](https://www.smfg.co.jp/english/sustainability/group_sustainability/forrights/)

<sup>20</sup> Sumitomo Mitsui Financial Group, Inc., "Respect for Human Rights", at: [https://www.smfg.co.jp/english/sustainability/group\\_sustainability/forrights/](https://www.smfg.co.jp/english/sustainability/group_sustainability/forrights/)

Based on these policies, standards and assessments, Sustainalytics is of the opinion that SMFG/SMBC have implemented adequate measures and is well-positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

### Section 3: Impact of Use of Proceeds

All five use of proceeds categories are aligned with those recognized by the GBP. Sustainalytics has focused on three below where the impact is specifically relevant in the local and global context.

#### Importance of renewable energy

In 2019, the amount of CO<sub>2</sub> emissions from the global electricity sector was 13.6 Gt, which accounted for 41% of energy-related CO<sub>2</sub> emissions.<sup>21</sup> According to the "Sustainable Development Scenario (SDS)," <sup>22</sup> which was published by the International Energy Agency (IEA) to depict the steps to achieve the Paris Agreement climate goals, the electricity sector needs to reduce CO<sub>2</sub> emissions by an average of 4% per year by 2030. However, the amount of CO<sub>2</sub> emissions from the sector decreased by 1.3% in 2019, far below the level set by the SDS.<sup>23</sup> Furthermore, in the SDS, the sector is required to increase the ratio of renewable energy significantly, from 27% of electric power production in 2019 to approximately 50% by 2030.<sup>24</sup>

In Japan, renewable energy accounted for 18.1% of total electricity generation, while thermal power from fossil fuels accounted for 75.7% in FY2019.<sup>25</sup> In April 2021, the Japanese government has committed to reducing greenhouse gas (GHG) emissions by 46% by FY2030 compared to FY2013.<sup>26</sup> The government aims to raise the share of renewable energy to 36-38% by FY 2030, as part of its energy mix consistent with its FY2030 GHG reduction target.<sup>27</sup> Furthermore, the government pledged to achieve net-zero GHG emissions by 2050 and launched the "Green Growth Strategy"<sup>28</sup> which sets out policy directions and action plans to support the achievement of carbon neutrality by 2050. In the strategy, the government states that it will promote the use of renewable energy, with the reference goal of achieving 50-60% renewable energy share in the country's energy supply by 2050.

Under the Renewable Energy category, SMFG/SMBC intends to allocate green bond proceeds to projects related to solar energy, wind energy, geothermal energy, biomass energy, and hydropower. Considering the above, Sustainalytics is of the opinion that SMFG/SMBC's use of proceeds will contribute to reducing CO<sub>2</sub> emissions in the power sector globally and to the achievement of Japan's medium- to long-term climate goals.

#### Contribution to CO<sub>2</sub> reduction by promoting clean transportation

In 2018, the amount of CO<sub>2</sub> emissions from the global transportation sector was approximately 8.2 Gt, which accounted for around 24% of energy-related CO<sub>2</sub> emissions.<sup>29</sup> By means of transportation, road vehicles (passengers and freight) account for nearly three-quarters of CO<sub>2</sub> emissions from the sector.<sup>30</sup> According to the International Transport Forum (ITF), CO<sub>2</sub> emissions from the transportation sector are expected to increase by 16% from the 2015 level by 2050, even if existing commitments by countries to the transportation-related decarbonization efforts is completely fulfilled.<sup>31</sup> The ITF requires that, in order to limit the global average temperature rise to 1.5°C, CO<sub>2</sub> emissions from the transportation sector be reduced by 70% from the

<sup>21</sup> International Energy Agency (IEA), "Tracking Power 2020", at: <https://www.iea.org/reports/tracking-power-2020>

<sup>22</sup> International Energy Agency (IEA), "Report extract Sustainable Development Scenario", at: <https://www.iea.org/reports/world-energy-model/sustainable-development-scenario>

<sup>23</sup> International Energy Agency (IEA), "Tracking Power 2020", at: <https://www.iea.org/reports/tracking-power-2020>

<sup>24</sup> International Energy Agency (IEA), "Renewable power", at: <https://www.iea.org/reports/tracking-power-2020/renewable-power>

<sup>25</sup> "Agency for Natural Resources and Energy, "FY2019 Energy Supply and Demand Report (Final Figures) (Japanese only)", at: <https://www.meti.go.jp/press/2021/04/20210413004/20210413004-1.pdf>

<sup>26</sup> Press conference by the Prime Minister on the greenhouse gas reduction targets and the declaration of a state of emergency," the Office of the Prime Minister", at: [https://www.kantei.go.jp/jp/99\\_suga/statement/2021/0422kaiken.html](https://www.kantei.go.jp/jp/99_suga/statement/2021/0422kaiken.html)

<sup>27</sup> Ministry of Economy, Trade and Industry, "Outline of the Basic Energy Plan (Draft)", at: [https://www.enecho.meti.go.jp/committee/council/basic\\_policy\\_subcommittee/2021/046/046\\_004.pdf](https://www.enecho.meti.go.jp/committee/council/basic_policy_subcommittee/2021/046/046_004.pdf)

<sup>28</sup> Ministry of Economy, Trade and Industry, "Green Growth Strategy through Achieving Carbon Neutrality in 2050 (Japanese only)", at: <https://www.meti.go.jp/press/2021/06/20210618005/20210618005-3.pdf>

<sup>29</sup> International Energy Agency (IEA), "Tracking Transport 2020", at: <https://www.iea.org/reports/tracking-transport-2020>

<sup>30</sup> International Energy Agency (IEA), "Transport", at: <https://www.iea.org/topics/transport>

<sup>31</sup> International Transport Forum, "Executive Summary ITF Transport Outlook 2021" at: <https://www.itf-oecd.org/sites/default/files/transport-outlook-executive-summary-2021-english.pdf>



2015 level by 2050.<sup>32</sup> The IEA's "Net Zero by 2050—A Roadmap for the Global Energy Sector" states that to achieve the goal of net-zero emissions by 2050 on a global level, the market share of zero-emission vehicles, including EVs and FCVs, must be increased from 5% in 2020 to 64% by 2030 and 100% by 2050.<sup>33</sup> It also states that railway transportation has the lowest energy consumption and CO<sub>2</sub> emission consumption among all motorized means of passenger transportation. Therefore, its share should be increased to 20% of all passenger transportation by 2050 toward achieving net zero emissions by 2050.<sup>34</sup>

In FY2019, Japan's transportation sector emitted 206 Mt of CO<sub>2</sub>, accounting for 18.6 % of the country's total emissions.<sup>35</sup> In conjunction with its current NDC submitted in 2020, Japan set a goal to reduce the CO<sub>2</sub> emissions in the transportation sector by 28% by FY2030 compared to the FY2013 levels.<sup>36</sup> The Japanese government aims to reduce CO<sub>2</sub> emissions from the transport sector through measures to promote next-generation vehicles (such as EVs) while facilitating public transportation and a modal shift to rail freight transportation.<sup>37</sup> Especially, as part of the Green Growth Strategy,<sup>38</sup> which was formulated to achieve net-zero GHG emissions by 2050, the government announced its commitment to promoting automotive electrification. The government has stated that all new cars in the market should be switched to an electrified (EVs, Hybrid Vehicles, Plug-in Hybrid Vehicles, or FCVs) model by 2035, and the electrification policy would also be applied to commercial vehicles in a phased manner. Additionally, as railways emit less CO<sub>2</sub> than other transportation means, the Japanese government plans to achieve the sector's FY2030 reduction target by curbing automobile use through a modal shift to railways as well as improving the energy efficiency of railways. In terms of the CO<sub>2</sub> emission intensity, the CO<sub>2</sub> emissions per passenger of railways is about 87% less compared to automobiles and about 81.3% less than airplanes, and CO<sub>2</sub> emissions per ton of freight of railways is about 91% less than freight cars and about 43.6% less than vessels.<sup>39</sup>

In the Clean Transportation category, SMFG/SMBC will allocate the green bond proceeds to projects related to zero-emission vehicles, railways, and other low-carbon transport. Based on the above, Sustainalytics is of the opinion that SMFG/SMBC's use of proceeds is expected to support the penetration of low-carbon means of transportation and contribute to the emission reduction in the global transportation sector.

### Importance of green buildings

During 2010-2019, the world's final energy consumption by buildings rose by around 8% and reached 128 exajoule (EJ). As a result, CO<sub>2</sub> emissions from buildings (indirect emissions from power generation are considered) reached a record high of 10 Gt in 2019, accounting for 28% of the world's total emissions.<sup>40</sup> The floor area of the world's buildings has been increasing at an annual rate of around 2.5% since 2010. On the other hand, energy consumption per unit of building floor (final energy consumption per square meter) has been decreasing at an annual rate of 0.5% to 1%, meaning that the improvement of buildings' energy efficiency has been below the rate of increase in floor area.<sup>41</sup> In the SDS,<sup>42</sup> the IEA explained that energy consumption per unit must be reduced by at least 2.5% annually to limit the temperature rise to 1.5°C. Therefore, it is indispensable for not only developed countries but also for emerging and developing countries to improve new and existing buildings' energy efficiency as a measure to address climate change.

<sup>32</sup> International Transport Forum, "Executive Summary ITF Transport Outlook 2021" at: <https://www.itf-oecd.org/sites/default/files/transport-outlook-executive-summary-2021-english.pdf>

<sup>33</sup> International Energy Agency (IEA), "Net Zero by 2050 A Roadmap for the Global Energy Sector", at:

[https://iea.blob.core.windows.net/assets/beceb956-0dcf-4d73-89fe-1310e3046d68/NetZeroBy2050-ARoadmapfortheGlobalEnergySector\\_CORR.pdf](https://iea.blob.core.windows.net/assets/beceb956-0dcf-4d73-89fe-1310e3046d68/NetZeroBy2050-ARoadmapfortheGlobalEnergySector_CORR.pdf)

<sup>34</sup> International Energy Agency (IEA), "Net Zero by 2050 A Roadmap for the Global Energy Sector", at:

[https://iea.blob.core.windows.net/assets/beceb956-0dcf-4d73-89fe-1310e3046d68/NetZeroBy2050-ARoadmapfortheGlobalEnergySector\\_CORR.pdf](https://iea.blob.core.windows.net/assets/beceb956-0dcf-4d73-89fe-1310e3046d68/NetZeroBy2050-ARoadmapfortheGlobalEnergySector_CORR.pdf)

<sup>35</sup> Ministry of Land, Infrastructure, Transport and Tourism, "Carbon dioxide emissions in the transport sector", at:

[https://www.mlit.go.jp/sogoseisaku/environment/sosei\\_environment\\_tk\\_000007.html](https://www.mlit.go.jp/sogoseisaku/environment/sosei_environment_tk_000007.html)

<sup>36</sup> "Submission of Japan's Nationally Determined Contribution (NDC)", at:

[https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Japan%20First/SUBMISSION%20OF%20JAPAN'S%20NATIONALLY%20DETERMINED%20CONTRIBUTION%20\(NDC\).PDF](https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Japan%20First/SUBMISSION%20OF%20JAPAN'S%20NATIONALLY%20DETERMINED%20CONTRIBUTION%20(NDC).PDF)

<sup>37</sup> Submission of Japan's Nationally Determined Contribution (NDC)", at:

[https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Japan%20First/SUBMISSION%20OF%20JAPAN'S%20NATIONALLY%20DETERMINED%20CONTRIBUTION%20\(NDC\).PDF](https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Japan%20First/SUBMISSION%20OF%20JAPAN'S%20NATIONALLY%20DETERMINED%20CONTRIBUTION%20(NDC).PDF)

<sup>38</sup> Ministry of Economy, Trade and Industry, "Green Growth Strategy through Achieving Carbon Neutrality in 2050 (Japanese only)", at:

<https://www.meti.go.jp/press/2021/06/20210618005/20210618005-3.pdf>

<sup>39</sup> Ministry of Land, Infrastructure, Transport and Tourism, "Carbon dioxide emissions in the transport sector", at:

[https://www.mlit.go.jp/sogoseisaku/environment/sosei\\_environment\\_tk\\_000007.html](https://www.mlit.go.jp/sogoseisaku/environment/sosei_environment_tk_000007.html)

<sup>40</sup> International Energy Agency (IEA), "Tracking Buildings 2020", at: <https://www.iea.org/reports/tracking-buildings-2020>

<sup>41</sup> International Energy Agency (IEA), "Tracking Buildings 2020", at: <https://www.iea.org/reports/tracking-buildings-2020>

<sup>42</sup> International Energy Agency (IEA), "Report extract Sustainable Development Scenario", at: <https://www.iea.org/reports/world-energy-model/sustainable-development-scenario>

In Japan, as of FY2019, final energy consumption by buildings increased by approximately 20% compared to 1990,<sup>43</sup> and CO<sub>2</sub> emissions accounted for approximately 30% of Japan's total emissions.<sup>44</sup> <sup>45</sup> Given the importance of buildings in the Country's energy demand and CO<sub>2</sub> emissions, the Japanese government enforced the Act on the Improvement of Energy Consumption Performance of Buildings (Building Energy Efficiency Act)<sup>46</sup> in 2015 and has been striving to improve the energy efficiency of buildings. Some of these initiatives include mandating buildings to meet energy efficiency standards in stages. Moreover, in the NDC<sup>47</sup> submitted in 2020, in which Japan pledged to reduce its GHG emissions by 26% by FY2030 from the FY2013 level, the government set the goal of reducing CO<sub>2</sub> emissions by 40% for buildings, toward the achievement of the nation's FY2030 GHG emissions reduction target.

Under the Green Building category, SMFG/SMBC intend to allocate green bond proceeds to green buildings that have received a green building certification from a third-party institution. Evaluation items under the certification schemes specified in the Framework's eligibility criteria include energy efficiency and other environmental features such as water use and waste discharge. Given the above, Sustainalytics is of the opinion that SMFG/SMBC's intended use of proceeds in the Green Building category is expected to reduce the environmental impact of the buildings in Japan as well as in the world and support the achievement of Japan's climate target through the reduction of energy consumption and CO<sub>2</sub> emissions derived from buildings.

#### Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The bonds issued under the Sumitomo Mitsui Financial Group, Inc. / Sumitomo Mitsui Banking Corporation's Green Bond Framework advances the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Energy Efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Green Buildings	9. Industry, innovation and infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Clean Transportation	11. Sustainable cities and communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Pollution Prevention and Control	12. Responsible consumption and production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse

<sup>43</sup> Agency for Natural Resources and Energy, "FY2019 Energy Supply and Demand Report (Final Figures) (Japanese only)", at:

<https://www.meti.go.jp/press/2021/04/20210413004/20210413004-1.pdf>

<sup>44</sup> "Greenhouse Gas Emissions in Fiscal Year 2019 (Final Figures) (Japanese only)", at: <https://www.env.go.jp/press/files/jp/116118.pdf>

<sup>45</sup> The combined data for the residential sector and commercial and other sector are referred to as the final energy consumption and CO<sub>2</sub> emissions for buildings.

<sup>46</sup> Ministry of Land, Infrastructure, Transport and Tourism, "Overview of the Act on the Improvement of Energy Consumption Performance of Buildings", at: <http://www.mlit.go.jp/common/001134876.pdf>

<sup>47</sup> "Submission of Japan's Nationally Determined Contribution (NDC)", at:

[https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Japan%20First/SUBMISSION%20OF%20JAPAN'S%20NATIONALLY%20DETERMINED%20CONTRIBUTION%20\(NDC\).PDF](https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Japan%20First/SUBMISSION%20OF%20JAPAN'S%20NATIONALLY%20DETERMINED%20CONTRIBUTION%20(NDC).PDF)

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## Conclusion

SMFG/SMBC have developed the Sumitomo Mitsui Financial Group, Inc. / Sumitomo Mitsui Banking Corporation's Green Bond Framework under which it may issue green bonds and use the proceeds to finance and/or refinance projects related to Renewable Energy, Energy Efficiency, Green Buildings, Clean Transportation, and Pollution Prevention and Control. Sustainalytics considers that the projects funded by the green bond proceeds are expected to have provide positive environmental impact.

The Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Framework is aligned with the overall sustainability strategy of the Group and that the green use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 7, 9, 11, and 12. Additionally, Sustainalytics is of the opinion that SMFG/SMBC have adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the proceeds.

Based on the above, SMFG/SMBC are well-positioned to issue green bonds and that the Framework is robust, transparent, and in alignment with the four core components of GBP and Japan's Green Bond Guidelines 2020.

## Appendices

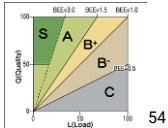
### Appendix 1: Overview and Comparison of Green Building Certification Schemes

	LEED <sup>48</sup>	BREEAM <sup>49</sup>	CASBEE Certification <sup>50</sup>
<b>Background</b>	Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by the non-profit U.S. Green Building Council (USGBC) and covers the design, construction, maintenance and operation of buildings.	BREEAM (Building Research Establishment Environmental Assessment Method) was first published by the Building Research Establishment (BRE) in 1990. Based in the UK. Used for new, refurbished and extension of existing buildings.	The Comprehensive Assessment System for Built Environment Efficiency (CASBEE) Certification is a green building certification scheme in Japan, which a third party certifies the environmental performance of buildings. The certification scheme includes, based on types of buildings: CASBEE for Buildings, CASBEE for Real Estate, and CASBEE for Housing.
<b>Certification levels</b>	Certified Silver Gold Platinum	Pass Good Very Good Excellent Outstanding	C (Poor) B- (Slightly Poor) B+ (Good) A (Very Good) S (Excellent)  * 4-grade evaluation for CASBEE for Real Estate excluding C rank
<b>Areas of Assessment: Environmental Project Management</b>		Management (Man) addresses various aspects: project management, deployment, minimal environmental disturbance worksite and stakeholder engagement.	CASBEE assesses two main factors: inside and outside the building site, which translate into Q (Built Environment Quality) and, L (Built Environment Load), respectively.  * The above are not applied to CASBEE for Real Estate
<b>Areas of Assessment: Environmental Performance of the Building</b>	<ul style="list-style-type: none"> <li>• Energy and atmosphere</li> <li>• Sustainable Sites</li> <li>• Location and Transportation</li> <li>• Materials and resources</li> <li>• Water efficiency</li> <li>• Indoor environmental quality</li> <li>• Innovation in Design</li> <li>• Regional Priority</li> </ul>	<ul style="list-style-type: none"> <li>• Energy</li> <li>• Land Use and Ecology</li> <li>• Pollution</li> <li>• Transport</li> <li>• Materials</li> <li>• Water</li> <li>• Waste</li> <li>• Health and Wellbeing</li> </ul> Innovation	<ul style="list-style-type: none"> <li>• Energy Efficiency</li> <li>• Resource efficiency</li> <li>• Local environment</li> <li>• Indoor environment</li> </ul> * Areas for assessment of CASBEE for Real Estate are energy/GHG, water, resource, biodiversity, indoor environment

<sup>48</sup> U.S. Green Building Council (USGBC), "LEED rating system", at: <https://new.usgbc.org/leed>

<sup>49</sup> BREEAM, "What is BREEAM?", at: <https://www.breeam.com/>

<sup>50</sup> Institute for Building Environment and Energy Conservation, "CASBEE certification scheme (Japanese only)", at: <http://www.ibec.or.jp/CASBEE/certification/certification.html>

<p><b>Requirements</b></p>	<p>Prerequisites (independent of level of certification) + Credits with associated points.</p> <p>These points are then added together to obtain the LEED level of certification.</p> <p>There are several different rating systems within LEED. Each rating system is designed to apply to a specific sector (e.g. New Construction, Major Renovation, Core and Shell Development, Schools- /Retail- /Healthcare New Construction and Major Renovations, Existing Buildings: Operation and Maintenance).</p>	<p>Prerequisites depending on the levels of certification + Credits with associated points</p> <p>This number of points is then weighted by item<sup>51</sup> and gives a BREEAM level of certification, which is based on the overall score obtained (expressed as a percentage). Majority of BREEAM issues are flexible, meaning that the client can choose which to comply with to build their BREEAM performance score.</p> <p>BREEAM has two stages/ audit reports: a 'BREEAM Design Stage' and a 'Post Construction Stage', with different assessment criteria.</p>	<p>Score-based performance level.</p> <p>CASBEE uses the BEE (Built Environment Efficiency) as its assessment indicator, which is calculated from Q (Built Environment Quality) as the numerator and L (Built Environment Load) as the denominator. Q and L are obtained through the classification and rearrangement of the four areas of assessment.</p> <p>* CASBEE for Real Estate does not use BEE, additional point system. Certification will not be given, if required item are not met.</p>
<p><b>Performance display</b></p>	 <p>Platinum 80+ points earned 52</p>	 <p>53</p>	 <p>54</p>
<p><b>Qualitative considerations</b></p>	<p>Worldwide recognition and application</p>	<p>Worldwide recognition and application</p>	<p>CASBEE is continuously developed based on industry-government-academia collaboration under the support of Ministry of Land, Infrastructure, Transport and Tourism. In Japan, many local governments have made CASBEE assessment results mandatory for building permits.</p>

<sup>51</sup> BREEAM weighting: Management 12%, Health and wellbeing 15%, Energy 19%, Transport 8%, Water 6%, Materials 12.5%, Waste 7.5%, Land Use and ecology 10%, Pollution 10% and Innovation 10%. One point scored in the Energy item is therefore worth twice as much in the overall score as one point scored in the Pollution item

<sup>52</sup> U.S. Green Building Council, "Green building leadership is LEED", at: <https://new.usgbc.org/leed>

<sup>53</sup> BREEAM, "What is BREEAM?", at: <https://www.breeam.com/>

<sup>54</sup> Institute for Building Environment and Energy Conservation, "Method of Evaluation and Built Environment Efficiency (BEE)", at: [http://www.ibec.or.jp/CASBEE/CASBEE\\_outline/method.html](http://www.ibec.or.jp/CASBEE/CASBEE_outline/method.html)

## Appendix 2: Alignment with Japan's Green Bond Guidelines 2020

Four elements	Alignment	Sustainalytics' comments
1. Use of Proceeds	Yes	Eligible project categories (Renewable Energy, Energy Efficiency, Green Buildings, Clean Transportation, and Pollution Prevention and Control) described in the Framework are recognized by Japan's Green Bond Guidelines 2020 as project categories with clear environmental benefits. In the Framework, SMFG/SMBC also provide details of the use of proceeds, along with their measures to manage and mitigate environmental risks associated with the eligible projects, allowing investors to access in advance. Furthermore, SMFG/SMBC have confirmed to Sustainalytics that in the event of refinancing assets that require long-term maintenance through multiple issuances of green bonds, they will disclose the assets' age, remaining useful life, and the amount to be refinanced, evaluate the long-term sustainability of environmental benefits, and obtain, if necessary, a third-party evaluation.
2. Process for Project Evaluation and Selection	Yes	In the Framework, SMFG/SMBC explain environmental goals that they aim to achieve through the issuance of green bonds. They also describe, in the Framework, the eligibility and exclusionary criteria as well as the process for assessing and selecting eligible projects.
3. Management of Proceeds	Yes	In the Framework, SMFG/SMBC explain that, until the maturity of green bond, SMFG's IR Department will monitor and manage the allocation of proceeds once a year using an internal system. The Group intends to complete the allocation of proceeds to the Eligible Green Projects within 36 months after the issuance of the green bond. Pending allocation, unallocated proceeds will be invested in overnight or other short-term financial instruments.
4. Reporting	Yes	In the Framework, SMFG/SMBC describe that they will report on the allocation of proceeds and positive environmental impacts annually, until the full allocation of proceeds, and on a timely basis in case of material developments thereafter. Allocation reporting will include the amount of proceeds allocated to Eligible Green Projects, details of the projects funded, unallocated amount, expected timing of allocation, and management method of unallocated proceeds to the extent practicable. Impact reporting will provide, to the extent practicable, quantitative and qualitative indicators. In the Renewable Energy category, the Group intends to report on production capacity (MW) and tons of CO <sub>2</sub> emissions equivalent avoided. In other Use of Proceeds categories, appropriate indicators will be reported in line with market best practices.

## Appendix 3: Green Bond / Green Bond Programme - External Review Form

### Section 1. Basic Information

<b>Issuer name:</b>	Sumitomo Mitsui Financial Group, Inc. and Sumitomo Mitsui Banking Corporation
<b>Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:</b>	Sumitomo Mitsui Financial Group, Inc. / Sumitomo Mitsui Banking Corporation's Green Bond Framework
<b>Review provider's name:</b>	Sustainalytics
<b>Completion date of this form:</b>	December 20, 2021
<b>Publication date of review publication:</b>	

### Section 2. Review overview

#### SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

#### ROLE(S) OF REVIEW PROVIDER

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):                       |  |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

#### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Evaluation Summary above.

### Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

## 1. USE OF PROCEEDS

Overall comment on section (if applicable):

The eligible categories for the use of proceeds – Renewable Energy, Energy Efficiency, Green Buildings, Clean Transportation, and Pollution Prevention and Control – are aligned with those recognized by the Green Bond Principles 2021. Sustainalytics considers that investments in the eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDGs 7, 9, 11, and 12.

### Use of proceeds categories as per GBP:

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Renewable energy  | <input checked="" type="checkbox"/> Energy efficiency  |
| <input checked="" type="checkbox"/> Pollution prevention and control  | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation  | <input checked="" type="checkbox"/> Clean transportation   |
| <input type="checkbox"/> Sustainable water and wastewater management  | <input type="checkbox"/> Climate change adaptation   |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                            | <input checked="" type="checkbox"/> Green buildings  |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBP | <input type="checkbox"/> Other (please specify):   |

If applicable please specify the environmental taxonomy, if other than GBP:

## 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Sumitomo Mitsui Financial Group, Inc.'s IR Department and Sumitomo Mitsui Banking Corporation's Treasury Department decide the eligible projects for the green bond based on the Framework's eligibility criteria. The final decision will be made by the General Manager of Corporate Planning Department of Sumitomo Mitsui Financial Group, Inc. Sumitomo Mitsui Banking Corporation has in place environmental and social risk management processes that are applicable to all allocation decisions made under the Framework. Sustainalytics considers these risk management systems to be adequate and the project selection process to be in line with market practice.

### Evaluation and selection

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability objectives            | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories               |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |



- Summary criteria for project evaluation and selection publicly available       Other (*please specify*):

#### Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification       In-house assessment
- Other (*please specify*):

### 3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

Sumitomo Mitsui Financial Group, Inc.'s IR Department will monitor and manage the allocation of green bond proceeds once a year using an internal system. The net proceeds will be extended to Sumitomo Mitsui Banking Corporation in a form of an inter-group loan. Pending allocation, unallocated proceeds will be invested in overnight or other short-term financial instruments. This is in line with market practice.

#### Tracking of proceeds:

- Green Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (*please specify*):

#### Additional disclosure:

- Allocations to future investments only       Allocations to both existing and future investments
- Allocation to individual disbursements       Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds       Other (*please specify*):

### 4. REPORTING

Overall comment on section (*if applicable*):

Until the full allocation of proceeds, Sumitomo Mitsui Financial Group, Inc. and Sumitomo Mitsui Banking Corporation will report on the allocation of proceeds and positive environmental impacts annually on its website. Allocation reporting will include the amount of allocated and unallocated proceeds, details of the projects funded, current funded amounts, and initial funding dates. Impact reporting will provide, to the extent practicable, quantitative and qualitative indicators on a project according to eligible categories. This is in line with market practice.

**Use of proceeds reporting:**

- Project-by-project  On a project portfolio basis
- Linkage to individual bond(s)  Other (please specify):

**Information reported:**

- Allocated amounts  Green Bond financed share of total investment
- Other (please specify): details of the projects funded, current funded amounts, initial funding dates, and unallocated amount. In addition, management's assertions to confirm that the proceeds are invested in Eligible Green Projects or in overnight or other short-term financial instruments

**Frequency:**

- Annual  Semi-annual
- Other (please specify):

**Impact reporting:**

- Project-by-project  On a project portfolio basis
- Linkage to individual bond(s)  Other (please specify):

**Information reported (expected or ex-post):**

- GHG Emissions / Savings  Energy Savings
- Decrease in water use  Other ESG indicators (please specify): annual production capacity of renewable energy projects

**Frequency**

- Annual  Semi-annual
- Other (please specify):

**Means of Disclosure**

- Information published in financial report  Information published in sustainability report
- Information published in ad hoc documents  Other (please specify): SMFG's website

- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS** (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**

**Type(s) of Review provided:**

- |  |  |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit                        | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):            |  |

**Review provider(s):**

**Date of publication:**

**ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP**

- i. Second-Party Opinion: An institution with environmental expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. Certification: An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. Green Bond Scoring/Rating: An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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