

SUMITOMO MITSUI FINANCIAL GROUP, INC. GREEN BOND

FRAMEWORK OVERVIEW AND SECOND OPINION BY SUSTAINALYTICS

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TABLE OF CONTENTS

1. Introduction	3
2. Overview of Issuer	3
3. Framework overview	4
3.1 Use of Proceeds	4
3.2 Project Evaluation and Selection Process	5
3.3 Management of Proceeds	6
3.4 Reporting	6
3.5 Compliance Review	7
4 Sustainalytics' Opinion	8
Section 1: Sustainalytics' Opinion on the SMFG Green Bond Framework	8
Section 2: Sustainability Performance of the Issuer	10
Section 3: Impact of Use of Proceeds	11
Conclusion	13
APPENDICES	14
Appendix 1: Sustainalytics assessment of the strength of the Equator Principles	14
Appendix 2: Green Bond/Green Bond Programme External Review Form	15
SUSTAINALYTICS	22

1. INTRODUCTION

Sumitomo Mitsui Financial Group, Inc. (SMFG) has developed a green bond framework (SMFG Green Bond Framework) under which it intends to issue a green bond the proceeds of which will be used to finance and refinance expenditures related to renewable energy, energy efficiency, green buildings, clean transportation, and pollution prevention and control. SMFG has engaged Sustainalytics to provide a second opinion on its framework and the framework's environmental credentials. As part of this engagement, Sustainalytics held conversations with various members of SMFG's management team 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 SMFG's green bond framework. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains two sections: Framework Overview – summary of SMFG's Green Bond framework; and Sustainalytics' Opinion – an opinion on the framework.

2. OVERVIEW OF ISSUER

SMFG is a Japanese bank holding company and is one of the largest financial groups in the world, having been identified as one of the “global systemically important banks (G-SIBs)”. SMFG provides a broad range of financial services both in domestic and in overseas markets in Asia, U.S and Europe. In the conduct of its business activities, SMFG aims to contribute to the sustainable development of society by offering higher added value to (1) customers, (2) shareholders and the market, (3) the environment and society, and (4) employees.

SMFG identifies Corporate Social Responsibility (CSR) as the foundation of the business strategy, with a particular focus on “Environment”, “Next Generation” and “Community” as core components of its CSR activities. As for the core component “Environment”, SMFG has been engaged in initiatives such as its environmental and project finance deals, including renewable energy projects across the globe. The group has three pillars of environmental activities: i) reducing environmental impact, ii) managing environmental risk, and iii) promoting environmental business.

With regard to the environment initiatives ii) and iii) above, Sumitomo Mitsui Banking Corporation (SMBC), the group's main operating bank, adopted the Equator Principles in 2005 and has set its internal procedures to assess the social and environmental risks arising from large-scale project finance. Based on this environmental risk management framework, SMBC extends environmental business loans and project finance loans, including loans for renewable energy projects which are diversified in terms of types and area. SMBC was named the Sustainable Bank of the Year Asia 2013, making SMBC the first Japanese bank to receive this award.

In order to accelerate its environmental initiatives, SMBC previously issued a USD-denominated green bond in October 2015 – the first green bond offering by a Japanese private financial institution. SMFG is planning to issue another green bond to further finance lending to environmentally beneficial projects. While the issuing entity will be SMFG, the entity that will allocate lending to Eligible Green Projects will be SMBC. The criteria for the Eligible Green Projects are outlined in the Framework Overview section below.

3. FRAMEWORK OVERVIEW

For the purpose of issuing a Green Bond, SMFG has developed the following framework, which addresses the four key pillars of the Green Bond Principles (GBP): use of proceeds, project evaluation and selection process, management of proceeds, and reporting.

3.1 Use of Proceeds

The proceeds of the Green Bond will be allocated towards financing projects that meet the following eligibility criteria.

3.1.1 Eligibility Criteria

SMFG will extend an amount equal to the net proceeds from the sale of the SMFG Green Bond to SMBC as an inter-group loan. SMBC will apply the proceeds of such loan to finance, in whole (or in part), existing and future qualifying environment-related projects (“Eligible Green Projects”) as defined by the Group’s internal investment criteria, and the eligibility criteria, as specified below.

In order to be an Eligible Green Project, a project must meet ALL of the following criteria:

1. The project is in one or more of the Project Categories (a) to (e) below;
2. The project is categorized as Category B or Category C under the Equator Principles as published by the Equator Principles Association, and;
3. The project is one which SMFG (or, SMBC, as the case may be) has agreed to lend to (a) during the 24 months prior to the relevant issue date of a Green Bond or (b) after the issue date of a Green Bond but before the relevant maturity date of such bond.

Project Categories

Eligible Green Projects may include projects in one or more of the categories below.

(A) RENEWABLE ENERGY

The development, construction and operation of facilities that generate or transmit renewable energy, including: solar energy, wind energy, geothermal energy, biomass energy and small run-of-river hydro facilities with generation capacity of 25 megawatts or less.

(B) ENERGY EFFICIENCY

Energy-conservation equipment, including, but not limited to, LED lighting, efficient HVAC (heating, ventilating, air conditioning), building insulation and energy demand control systems which improve energy efficiency.

[Projects that meet category (c) below are excluded from category (b) in order to avoid double counting.]

(C) GREEN BUILDINGS

New building construction or existing building retrofits which meet regional, national or internationally recognized third-party verified green building certifications, such as “LEED” (Leadership in Energy and Environmental Design), “BREEAM” (Building Research Establishment

Environmental Assessment Methodology) or “CASBEE” (Comprehensive Assessment System for Built Environment Efficiency) to a level of at least “LEED Silver”, at least “BREEAM Very Good” or at least “CASBEE A Level”.

(D) CLEAN TRANSPORTATION

Expenditure that supports the shift to clean energy vehicles (including electric vehicles and supporting infrastructure) and the development, operation and upgrade of public transportation facilities (including improvement to rail transport, bicycles and other non-motorised transport).

(E) POLLUTION PREVENTION & CONTROL

Projects related to waste recycling and waste to energy.

3.2 Project Evaluation and Selection Process

Application of Eligibility Criteria in Project Selection

SMFG’s CSR Department and Corporate Treasury Department worked together to establish the criteria for Eligible Green Projects mentioned above. SMFG’s Corporate Treasury Department manages green bond funding and provides the net proceeds to SMBC in a form of senior loan. SMBC’s International Treasury Department and SMBC’s structured finance departments select projects that meet the eligibility criteria, and SMFG’s Corporate Treasury Department makes a final decision on the eligible project. Net proceeds of the green bond are to be allocated to selected eligible projects.

Environmental Objectives

SMFG is committed to incorporating CSR initiatives into its business strategy,¹ and identifies three key CSR initiatives that are important to the company:² Environment, Next Generation, and Community. With respect to the environmental initiatives, the company’s group wide environmental policy³ is aimed at contributing to sustainable society with a focus on the preservation of the global environment. SMFG’s environmental policy has laid out its commitment within eight pillars: 1) promoting environmental themed products, information and services, 2) reducing environmental risks, 3) Saving resources and energy and reducing waste, 4) complying with environmental laws and regulations, 5) disclosing environmental relevant information, 6) engaging with employees, 7) setting out objectives and goals each financial year, and 8) disclosing the environmental policy on its corporate website. To support its environmental policy, the company also identifies the priority environmental initiatives including the promotion of environmental businesses. The SMFG Green Bond Framework contributes to pillar 1 of SMFG’s environmental policy.

¹ CSR at SMFG, Sumitomo Mitsui Financial Group

<http://www.smfg.co.jp/english/responsibility/smfgcsr/>

² Key Priority Issues for SMFG, Sumitomo Mitsui Financial Group

<http://www.smfg.co.jp/english/responsibility/issue/>

³ <http://www.smfg.co.jp/english/responsibility/environment/management/>

Process to Mitigate Environmental and Social Risks

SMBC's structured finance departments initiate an environmental screening process via an "Environment Screening Form" which is completed by SMBC's structured finance departments and further examined by SMBC's Environment Analysis Department. The Environment Analysis Department assesses social and environmental risk of relevant projects, and categorize projects into categories A (significant risk), B (limited risk), or C (minimal risk) in accordance with the Equator Principles.

Findings from the Environment Analysis Department's review of each Project Finance transaction constitutes an important component of the decision-making process. Covenants in the financing agreement will include environmental and social considerations as a result of review, and compliance will be monitored during the life of the loan. Should a project fail to meet the required standard on environmental and social metrics, then SMBC would request for an improvement, as one of the financing banks.

3.3 Management of Proceeds

SMFG has established and implemented systems designed to monitor and ensure the allocation of net proceeds from the Green Bond will be transferred to SMBC via an inter-group loan and further allocated to Eligible Green Projects as defined above.

Records will show an amount equal to the net proceeds from Green Bonds are allocated to assets that meet SMFG's criteria of Eligible Green Projects. Pending allocation to finance Eligible Green Projects, net proceeds will be invested in overnight or other short-term financial instruments. In addition, any Green Bond proceeds allocated to projects that have been sold, prepaid, amortised or otherwise become ineligible will be reallocated to other Eligible Green Projects.

Payment of the principal and interest on the bond will be made from SMFG's general funds and will not be directly linked to the performance of any of the Eligible Green Projects.

3.4 Reporting

Allocation Reporting

During the term of the Green Bond issued under this Framework, SMFG will provide and keep readily available, on a dedicated website, information on the allocation of the net proceeds, to be updated at least annually until full allocation and as necessary thereafter in the event of new developments. This information shall include:

- the allocation of Green Bond proceeds to Eligible Green Projects, detailing the Eligible Green Projects funded, current funded amounts, initial funding dates and contractual maturity dates, and
- assertions by management that the net proceeds of the Notes are invested [solely/either] in qualifying Eligible Green Projects or in overnight or other short-term financial instruments.

Impact Reporting

In addition, where feasible, SMFG will annually publish on a dedicated website information and assessments relating to the environmental impacts of financed Eligible Green Projects. The environmental impacts of financed Eligible Green Projects, where reported, may be calculated on a collective basis. This estimated environmental impact will be calculated in conjunction with support from The Japan Research Institute (JRI), a think tank subsidiary of the group.

SMFG will report on the following metrics:

- Tons of CO₂ equivalent reduced
- Metrics chosen upon category of financed Eligible Green Projects, such as tons of waste treated and recycled

3.5 Compliance Review

Before the first anniversary of the Green Bond issuance, SMFG will engage Sustainalytics or any successor appointed by it, to review the lending financed by SMFG's Green Bond in order to assess the compliance of the lending with the SMFG Green Bond Framework. This review will be conducted annually until full allocation of the net proceeds from the SMFG's Green Bond. Sustainalytics will provide a report of the review, which SMFG will publish on its website. In an unlikely event that the annual review identifies allocations made to activities that do not comply with the SMFG Green Bond Framework, SMFG will allocate the corresponding amounts to different lending activities that are compliant with the SMFG Green Bond Framework.

4 SUSTAINALYTICS’ OPINION

Section 1: Sustainalytics’ Opinion on the SMFG Green Bond Framework

Summary

Overall, Sustainalytics is of the opinion that the SMFG Green Bond Framework creates meaningful impact, is transparent, and aligns with the Green Bond Principles 2017. Some considerations in Sustainalytics’ assessment are listed below:

- Renewable Energy, Clean Transportation, Energy Efficiency, Green Buildings, and Pollution Prevention and Control are recognized by the 2017 Green Bond Principles as project categories with clear environmental benefit;
- Sustainalytics recognizes that, in green finance, it is best practice to invest in buildings with LEED Gold and Platinum certification. However, given the importance of green real estate in Japan, and the context of buildings increasingly accounting for greater energy consumption, Sustainalytics is of the opinion that LEED Silver is sufficiently beneficial. However, Sustainalytics encourages the issuer to finance LEED Gold and Platinum buildings wherever possible;
- SMFG’s disclosure and processes with respect to management of proceeds and project selection process are in line with market practices;
- SMFG has committed to disclosing on quantitative impact indicators for projects funded through the SMFG Green Bond.

Alignment with Green Bond Principles 2017: Sustainalytics has determined that the SMFG Green Bond Framework aligns with the four pillars of the Green Bond Principles 2017. For detailed information please refer to Appendix 2: Green Bond/Green Bond Programme External Review Form.

Alignment with Japan’s Green Bond Guidelines 2017

Sustainalytics is of the opinion that the Japanese Green Bond Guidelines are in line with the ICMA Green Bond Principles. In addition, The Japanese Green Bond Guidelines communicate what an issuer should do to issue a credible green bond, and also highlight what an issuer is recommended to do. Sustainalytics assessed the alignment between the SMFG Green Bond Framework and the “should” items outlined in the Japan’s Green Bond Guidelines.

ICMA Green Bond Principles and Japan’s Green Bond Guidelines, 2017 ⁴	Alignment with GBP and with Japan’s Green Bond Guidelines?	Sustainalytics’ comments on alignment with Japan’s Green Bond Guidelines. ⁵
1. Use of Proceeds	Yes	Eligible project categories (Renewable Energy, Energy Efficiency, Green Buildings, Clean Transportation, and Pollution Prevention and Control) in the SMFG Green

⁴ Green Bond Guidelines, 2017, Summary, Ministry of the Environment, Japan; <https://www.env.go.jp/en/policy/economy/gb/summary2017.pdf>

⁵ For detailed comments on alignment with ICMA GBP, please see Appendix 2.

		Bond Framework are outlined with clear details and are recognized by Japan's Green Bond Guidelines as providing clear environmental benefit. SMFG also identifies social and environmental risk (any potential negative impact) associated with the eligible projects, and explains how they manage the risk through the application of the Equator Principles.
2. Process for Project Evaluation and Selection	Yes	SMFG's framework well describes information, required by Japan's Green Bond Guidelines, on 1) "Environmental sustainability objectives" (In this report: Environmental Objectives), 2) "Criteria" for evaluating and selecting specific green projects (in this report: "Eligibility Criteria" and "Application of Eligibility Criteria in Project Selection"), and 3) "Process" to evaluate and select eligible green projects (In this report: "Process to Mitigate Environmental and Social Risks" and "Application of Eligibility Criteria in Project Selection").
3. Management of Proceeds	Yes	SMFG's framework clarifies that SMFG manages proceeds by 1) keeping the list of all Eligible Green Project loans based on SMFG's internal loan data system, 2) recoding the amount of the allocated and unallocated proceeds (which will be invested in short-term financial instruments) to match to the total proceeds allocated by the green bond, and 3) making sure that the proceeds are tracked and managed, which are all followed by Japan's Green Bond Guidelines. SMFG explains this to green bond investors.
4. Reporting	Yes	SMFG's framework clearly commits to disclose the five items annually, which are required by Japan's Green Bond Guidelines: List of projects that have been allocated, brief description of projects, amount allocated, environmental benefits, and information on unallocated proceeds.

Section 2: Sustainability Performance of the Issuer

Contribution of framework to SMFG's sustainability strategy

SMFG states that its CSR is the foundation for SMFG's business strategies.⁶ SMFG manages its CSR strategy based on its CSR policy and three material issues: "Environment", "Next Generation" and "Community." In addition, SMFG sets out an environmental vision and policy, as well as key environmental initiatives which aim to preserve and improve the global environment through its core business activities.⁷ As described in the SMFG Green Bond Framework, SMFG's environmental policy has eight pillars. Sustainalytics' ESG research assesses SMFG as having a strong policy as (i) the policy is approved by senior management or the board of directors, (ii) the company reports regularly on environmental issues, and (iii) the company commits to monitoring its environmental performance.

SMFG's policy is also integrated in its business activities as SMFG states that it promotes environment-themed products and services. For example, SMFG, through its group companies, has provided environment-themed financial products and services such as environmental assessment loans, and project finance for renewable energy businesses. Sustainalytics is of the opinion that the integration of SMFG's environmental policy in its business activities could be strengthened by adding quantitative and timebound targets with respect to promoting environmentally impactful products and financing environmentally impactful projects.

Overall, Sustainalytics is of the opinion that SMFG has a strong environmental policy that is integrated in its business activities, and the SMFG Green Bond Framework contributes to pillar 1 of the environmental policy, "promoting environmental themed products, information and services."

Well positioned to address common environmental and social risks associated with the projects

Overall, Sustainalytics is of the opinion that SMFG is well positioned to manage key environmental and social risks associated with the SMFG Green Bond projects. Some key environmental and social risks associated with projects are utilization of viable forest or food products as biomass, and worker safety and pollution control in construction and development projects. The strength of SMFG's risk management is based on the following:

- SMFG has stated to Sustainalytics its commitment not to use viable forest and food products as biomass for energy production. Sustainalytics encourages SMFG to formalize this commitment in its framework.
- The Equator Principles (EP), which apply to four financial products including project finance, project related corporate loans, are commonly widely accepted as credible standard and widely used by worldwide financial institutions. SMFG is committed to assessing social and environmental risk of relevant projects based on EP, which demonstrates its robust system to

⁶ CSR at SMFG, Sumitomo Mitsui Financial Group

<http://www.smfg.co.jp/english/responsibility/smfgcsr/>

⁷ Promoting Environmental Businesses, Sumitomo Mitsui Financial Group

<http://www.smfg.co.jp/english/responsibility/environment/business/>

contribute to environment and social risk mitigation. For a detailed assessment of the strength of the EPs, see Appendix 1.

- The Environment Analysis Department assesses social and environmental risk of relevant projects, and categorize projects in accordance to the Equator Principles. Covenants in the financing agreement will include environmental and social considerations as a result of review, and compliance to the EPs will be monitored during the life of the loan.

Section 3: Impact of Use of Proceeds

Impact of renewable energy in Japan

The energy self-sufficiency ratio of Japan is low especially compared to OECD countries⁸, in which Japan imports about 84% of energy.⁹ The energy source that Japan heavily depended on before the Great East Japan Earthquake in 2011 was nuclear power which Japan had set as a national strategic priority since 1973.¹⁰ However, it became necessary for Japan to revise its energy mix and strategic plan after the country experienced an accident at Fukushima Daiichi Nuclear Plant and subsequent shutdown of nuclear plants across Japan due to residents' concerns. In the new strategic plan, the target of renewable energy including wind, solar, geothermal, biomass and hydro is set at 22-24% by 2030 – a significant increase from 1.1% before the earthquake. Given the Japan's small ratio of energy self-sufficiency and national strategic plan to tackle the global warming through the promotion of renewable energy, it is clear that the demand in renewable energy will increase and there will be growing needs to finance the construction and operation renewable energy facilities in Japan. As well, given the COP22 targets and commitments, and the need for a global transition to a low-carbon economy, there is also a clear need for promoting the development of renewable energy projects globally.

Importance of green real estate in climate change mitigating in Japan

According to Japan's Ministry of Land Infrastructure, Transport and Tourism,¹¹ meeting the energy demand has become increasingly challenging since the Great East Japan earthquake. In addition, the energy consumption from building sector has been significantly increasing, and the building sector itself consists of one third of whole energy use in Japan.¹² Because of the growing demand and consumption of energy from the building industry, the government places an emphasis on the building energy efficiency while reestablishing the new Building Energy Efficiency Act in 2017, in which the construction of certain size of buildings are required to meet the energy efficiency standards or notify the administrative agency

⁸ Japan's Energy, Ministry of Economy, Trade and Industry Agency for Natural Resources and Energy, Japan

http://www.enecho.meti.go.jp/en/category/brochures/pdf/japan_energy_2016.pdf

⁹ Nuclear Power in Japan, World Nuclear Association

<http://www.world-nuclear.org/information-library/country-profiles/countries-g-n/japan-nuclear-power.aspx>

¹⁰ Nuclear Power in Japan, World Nuclear Association

<http://www.world-nuclear.org/information-library/country-profiles/countries-g-n/japan-nuclear-power.aspx>

¹¹ Overview of the Act on the improvement of Energy Consumption Performance of Buildings (Building Energy Efficiency Act), Ministry of Land Infrastructure, Transport and Tourism, Japan

<https://www.mlit.go.jp/common/001134876.pdf>

¹² Overview of the Building Energy Efficiency Act, Ministry of Land Infrastructure, Transport and Tourism, Japan

<http://www.mlit.go.jp/common/001178846.pdf>

with jurisdiction if the requirement cannot be met.¹³ In Addition, as part of the Japan’s plan to achieve its commitments on CO₂ targets for Paris Agreement, the government promotes the conformity with the energy efficiency standards set by the Act along with other initiatives including the growth of green building certification system such as CASBEE.¹⁴ Given the above context, there is a clear need in Japan for buildings to be energy efficiency, reflected in the significant consumptions and priority set by a national strategy.

Therefore, Sustianalytics is of the opinion that SMFG’s green bond’s contribution in meeting the need to finance renewable energy and green building projects in Japan, will result in positive environmental outcomes.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This green bond advances the following SDG goals 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
Green Buildings	13. Climate Action	13.3 Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning
Clean Transportation	9. Industry, Innovation and Infrastructure	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and trans-border infrastructure, to support economic
Pollution prevention and control	3. Ensure healthy lives and promote well-being for all at all ages	3.9 By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination

¹³ Overview of the Act on the improvement of Energy Consumption Performance of Buildings (Building Energy Efficiency Act), Ministry of Land Infrastructure, Transport and Tourism, Japan
<https://www.mlit.go.jp/common/001134876.pdf>

¹⁴ Plan for Global Warming Countermeasures (Japanese), Ministry of Environment, Japan
<https://www.env.go.jp/press/files/jp/102816.pdf>

Conclusion

The SMFG Green Bond Framework is transparent and provides clarity regarding the use of proceeds and the expected outcomes of the green bond investments. Renewable energy, Energy Efficiency, Green Buildings, Clean Transportation, and Pollution Prevention and Control are included in the GBP and Japan's Green Bond Guidelines 2017 as an eligible green project categories that offer clear environmental benefits. Additionally, SMFG's project selection process is based on external standards such as the Equator Principles. This ensures that projects funded through bond proceeds have minimal or limited adverse environmental or social impacts. Sustainalytics is of the opinion that the SMFG Green Bond aligns with the four pillars of the GBP 2017, and Japan's Green Bond Guidelines 2017.

APPENDICES

Appendix 1: Sustainalytics assessment of the strength of the Equator Principles

SMFG adheres to the Equator Principles (EPs) to ensure that the projects it finances are developed and operate in accordance with international environmental and social standards. In Sustainalytics' view, the credibility of the EP as a risk management tool for large-scale projects derives from its ability to ensure:

- (i) *A mandatory review of all projects with respect to their level of impact in a comprehensive range of environmental and social areas*

Principle 1 of the EP mandates a review and categorisation of all projects as having significant (Category A), limited (Category B), or minimal (Category C) environmental and social impact. Impact is assessed on the eight IFC Performance Standards on Environmental and Social Sustainability. These cover a wide range of issues to address environmental and social risk, including management of environmental and social impacts, community health, resource efficiency and pollution prevention, and labour conditions.

- (ii) *Strong mitigation process for projects with significant or limited adverse environmental and social impact*

The EPs (specifically Principles 2-6) also require all¹⁵ Category A and B projects to conduct environmental and social impact assessments, develop and maintain environmental management systems, demonstrate effective stakeholder engagement, and establish a grievance mechanism to address concerns around the project's environmental and social performance. Sustainalytics is of the opinion that the above mentioned components combine to form a strong overall process for mitigating impacts throughout the life of project.

- (iii) *Continuous independent assurance of a project's environmental and social impact*

Principle 7 of the EP require that Category A and as appropriate, Category B projects are subject to an independent review to assess the strength of the mitigation processes outlined above, and to assess compliance with the EP. Additionally, Principle 9 of the EP also requires the appointment of an independent environmental and social consultant to verify ongoing monitoring and reporting of project impacts.

¹⁵ Please note that for projects implemented in a set list of 'Designated Countries,' compliance with host country laws meets these mitigation requirements. This is because these countries are assessed as having robust environmental and social governance, legislation systems and institutional capacity designed to protect their people and the natural environment.

Appendix 2: Green Bond/Green Bond Programme External Review Form

Green Bond / Green Bond Programme External Review Form

Section 1. Basic Information

Issuer name: Sumitomo Mitsui Financial Group, Inc. (SMFG)

Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:

Review provider's name: Sustainalytics

Completion date of this form: September 21st, 2017

Publication date of review publication: September 22nd, 2017

Section 2. Review overview

SCOPE OF REVIEW

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

- | | |
|--|--|
| <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 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

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

Please refer to Green Bond Framework and Second Opinion Document above.

Section 3. Detailed review

1. USE OF PROCEEDS

Overall comment on section (if applicable):

In order to be an Eligible Green Project, a project must meet ALL of the following criteria:

1. The project is in one or more of the Project Categories (a) to (e) below;
2. The project is categorized as Category B or Category C under the Equator Principles as published by the Equator Principles Association, and;
3. The project is one which SMFG (or, SMBC, as the case may be) has agreed to lend to (a) during the 24 months prior to the relevant issue date of a Green Bond or (b) after the issue date of a Green Bond but before the relevant maturity date of such bond.

Project Categories

Eligible Green Projects may include projects in one or more of the categories below.

(A) RENEWABLE ENERGY

The development, construction and operation of facilities that generate or transmit renewable energy, including: solar energy, wind energy, geothermal energy, biomass energy and small run-of-river hydro facilities with generation capacity of 25 megawatts or less.

(B) ENERGY EFFICIENCY

Energy-conservation equipment, including, but not limited to, LED lighting, efficient HVAC (heating, ventilating, air conditioning), building insulation and energy demand control systems which improve energy efficiency.

[Projects that meet category (c) below are excluded from category (b) in order to avoid double counting.]

(C) GREEN BUILDINGS

New building construction or existing building retrofits which meet regional, national or internationally recognized third-party verified green building certifications, such as "LEED" (Leadership in Energy and Environmental Design), "BREEAM" (Building Research Establishment Environmental Assessment Methodology) or "CASBEE" (Comprehensive Assessment System for Built Environment Efficiency) to a level of at least "LEED Silver", at least "BREEAM Very Good" or at least "CASBEE A Level".

(D) CLEAN TRANSPORTATION

Expenditure that supports the shift to clean energy vehicles (including electric vehicles and supporting infrastructure) and the development, operation and upgrade of public transportation facilities (including improvement to rail transport, bicycles and other non-motorised transport).

(E) POLLUTION PREVENTION & CONTROL

Projects related to waste recycling and waste to energy.

Sustainalytics is of the opinion that these project categories are recognized by the GBP 2017 as having environmental impact. Sustainalytics encourages the issuer to finance LEED Gold and Platinum buildings wherever possible;

Use of proceeds categories as per GBP:

- Renewable energy
- Pollution prevention and control
- Terrestrial and aquatic biodiversity conservation
- Sustainable water management
- Eco-efficient products, production technologies and processes
- Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs
- Energy efficiency
- Sustainable management of living natural resources
- Clean transportation
- Climate change adaptation
- Other (please specify): Green Buildings

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):
SMFG’s CSR Department and Corporate Treasury Department worked together to establish the criteria for Eligible Green Projects mentioned above. SMFG’s Corporate Treasury Department manages green bond funding and provides the net proceeds to SMBC in a form of senior loan. SMBC’s International Treasury Department and SMBC’s structured finance departments select projects that meet the eligibility criteria, and SMFG’s Corporate Treasury Department makes a final decision on the eligible project. Net proceeds of the green bond are to be allocated to selected eligible projects.
Sustainalytics is of the opinion that that this is in line with market practice.

Evaluation and selection

- Defined and transparent criteria for projects eligible for Green Bond proceeds
- Documented process to determine that projects fit within defined categories
- 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):

SMFG has established and implemented systems designed to monitor and ensure the allocation of net proceeds from the Green Bond will be transferred to SMBC via an inter-group loan and further allocated to Eligible Green Projects as defined above.

Records will show an amount equal to the net proceeds from Green Bonds are allocated to assets that meet SMFG's criteria of Eligible Green Projects. Pending allocation to finance Eligible Green Projects, net proceeds will be invested in overnight or other short-term financial instruments. In addition, any Green Bond proceeds allocated to projects that have been sold, prepaid, amortised or otherwise become ineligible will be reallocated to other Eligible Green Projects.

Sustainalytics is of the opinion that this is in line with market practice.

Tracking of proceeds:

- Green Bond proceeds segregated or tracked by the issuer in a systematic 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):

Allocation Reporting

During the term of the Green Bond issued under this Framework, SMFG will provide and keep readily available, on a dedicated website, information on the allocation of the net proceeds, to be updated at least annually until full allocation and as necessary thereafter in the event of new developments. This information shall include:

- the allocation of Green Bond proceeds to Eligible Green Projects, detailing the Eligible Green Projects funded, current funded amounts, initial funding dates and contractual maturity dates, and
- assertions by management that the net proceeds of the Notes are invested [solely/either] in qualifying Eligible Green Projects or in overnight or other short-term financial instruments.

Impact Reporting

In addition, where feasible, SMFG will annually publish on a dedicated website information and assessments relating to the environmental impacts of financed Eligible Green Projects. The environmental impacts of financed Eligible Green Projects, where reported, may be calculated on a collective basis. This estimated environmental impact will be calculated in conjunction with support from The Japan Research Institute (JRI), a think tank subsidiary of the group.

SMFG will report on the following metrics:

- Tons of CO2 equivalent reduced
- Metrics chosen upon category of financed Eligible Green Projects, such as tons of waste treated and recycled.

Sustainalytics is of the opinion that this is 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
- GB financed share of total investment
- Other (please specify):

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):

Frequency:

- Annual Semi-annual
 Other (please specify):

Information reported (expected or ex-post):

- GHG Emissions / Savings Energy Savings
 Other ESG indicators (please specify): tons of waste treated and recycled

Means of Disclosure

- Information published in financial report Information published in sustainability report
 Information published in ad hoc documents Other (please specify): 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.)

<http://www.smfg.co.jp/english/>
<https://www.env.go.jp/en/policy/economy/gb/summary2017.pdf>

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- Consultancy (incl. 2nd opinion) Certification
 Verification / Audit Rating
 Other (please specify):

Review provider(s):

Date of publication:

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

- (i) **Consultant Review:** An issuer can seek advice from consultants and/or institutions with recognized expertise in environmental sustainability or other aspects of the issuance of a Green Bond, such as the establishment/review of an issuer's Green Bond framework. "Second opinions" may fall into this category.
- (ii) **Verification:** An issuer can have its Green Bond, associated Green Bond framework, or underlying assets independently verified by qualified parties, such as auditors. In contrast to certification, verification may focus on alignment with internal standards or claims made by the issuer. Evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria.
- (iii) **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against an external green assessment standard. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties / certifiers.
- (iv) **Rating:** An issuer can have its Green Bond or associated Green Bond framework rated by qualified third parties, such as specialised research providers or rating agencies. Green Bond ratings are separate from an issuer's ESG rating as they typically apply to individual securities or Green Bond frameworks / programmes.

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SUSTAINALYTICS

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