

# Daiwa Securities Group Inc. (Green Bond 2018)

**Type of Engagement:** Annual Review

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## Introduction

In November 2018, Daiwa Securities Group Inc. (“Daiwa Securities Group”, or the “Company”) issued a green bond (the “Green Bond”) aimed at financing and refinancing expenditures related to renewable energy and green buildings. As of 30 June 2021, the proceeds have been allocated to five projects related to renewable energy and green buildings. In November 2021, Daiwa Securities Group engaged Sustainalytics to review the projects funded through the Green Bond and assess whether the projects met the Use of Proceeds criteria and the reporting commitments outlined in the Daiwa Securities Group Green Bond Framework (the “Framework”).<sup>1</sup> This is Sustainalytics’ third annual review of the Daiwa Securities Group’s Green Bond, following the previous review in November 2020.<sup>2</sup>

## Evaluation Criteria

Sustainalytics evaluated the projects funded from November 2018 to June 2021 based on whether the projects:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the Framework; and
2. Reported on the Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the Framework.

Table 1 lists the Eligibility Criteria and associated KPIs for the Use of Proceeds category to which the proceeds were allocated.

**Table 1: Use of Proceeds, Eligibility Criteria, and associated KPIs**

Use of Proceeds	Eligibility Criteria	KPIs
<b>Renewable Energy</b>	<p>Investment and lending through Daiwa Energy &amp; Infrastructure Co. Ltd. (DEI) for renewable energy generation projects that meet the following criteria:</p> <ul style="list-style-type: none"> <li>Expenditures are associated with the development, construction and operation of renewable energy generation projects (including those carried out by its affiliates). The eligible projects include solar photovoltaic power, wind-power, geothermal power, hydroelectric power (excluding large hydro with more than 20 MW capacity), biomass power (limited to projects with waste sources).</li> </ul>	<ul style="list-style-type: none"> <li>CO<sub>2</sub> emissions reduced by the eligible green projects (theoretical value)</li> <li>Amount of power generated by the eligible green projects (theoretical value based on output standard)</li> </ul>

<sup>1</sup> Overview of the Daiwa Securities Group Green Bond Framework is available within Sustainalytics’ Second Party Opinion: [https://www.sustainalytics.com/wp-content/uploads/2018/11/Daiwa-Securities-Group-Green-Bond-Framework-Overview-SPO\\_Final.pdf](https://www.sustainalytics.com/wp-content/uploads/2018/11/Daiwa-Securities-Group-Green-Bond-Framework-Overview-SPO_Final.pdf)

<sup>2</sup> Previous annual reviews of the Daiwa Securities Group’s Green Bond by Sustainalytics are available at:  
 Annual Review (November 2019) [https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/daiwa-securities-group-green-bond-annual-review-22112019-englishe.pdf?sfvrsn=a5d7a764\\_3](https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/daiwa-securities-group-green-bond-annual-review-22112019-englishe.pdf?sfvrsn=a5d7a764_3)  
 Annual Review (November 2020) [https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/daiwa-securities-group-green-bond-annual-review.pdf?sfvrsn=f4489ebe\\_3](https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/daiwa-securities-group-green-bond-annual-review.pdf?sfvrsn=f4489ebe_3)

	<ul style="list-style-type: none"> <li>For refinanced projects, the projects must be funded within the 24 months prior to the date of green bond issuance.</li> </ul> <p>Context: Special purpose vehicles (SPV) will be established for each renewable energy generation project and DEI will invest or lend to each SPV, restricting the use of proceeds only for renewable energy related expenditure outlined above.</p>	
<b>Green Buildings</b>	<p>Expenditures related to the construction of green buildings as well as refurbishment to convert existing buildings into green buildings by Daiwa Securities Group and/or Daiwa Property Co.,Ltd.<sup>3</sup>. The green buildings should meet the following criteria:</p> <ul style="list-style-type: none"> <li>Buildings that have received top three evaluations by credible third-party certifications within the 24 months preceding the date of a green bond issuance and/or buildings that are expected to receive the certification post issuance:           <ul style="list-style-type: none"> <li>3,4 or 5 Stars under the DBJ Green Building Certification</li> <li>B+, A or S Rank under CASBEE</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>During construction, application progress on Real Estate Certification</li> <li>After construction, the following environmental impact metrics:           <ul style="list-style-type: none"> <li>Energy consumption (J/kl)</li> <li>Energy consumption by use (%)</li> <li>CO<sub>2</sub> emission (t)</li> <li>Water consumption (m<sup>3</sup>)</li> <li>Waste generated (kg)</li> <li>Recycle rate (%)</li> <li>Level of certifications</li> </ul> </li> </ul>

## Issuing Entity's Responsibility

Daiwa Securities Group is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, amounts allocated, and project impact.

## Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of Daiwa Securities Group's Green Bond Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from Daiwa Securities Group employees and review of documentation to confirm the conformance with the Framework.

Sustainalytics has relied on the information and the facts presented by Daiwa Securities Group with respect to the Nominated Projects. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by Daiwa Securities Group.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

<sup>3</sup> Daiwa Property Co.,Ltd was dissolved through an absorption-type merger as of October 1, 2020.

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## Conclusion

Based on the limited assurance procedures conducted,<sup>4</sup> nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of Daiwa Securities Group's Green Bond, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the Framework. While Daiwa Securities Group disclosed to Sustainalytics in November 2020 that it had achieved full allocation, there have been changes in the composition of Daiwa Securities Group's project portfolio. Daiwa Securities Group has confirmed to Sustainalytics that the proceeds of Green Bond remain fully allocated, with reallocation to eligible renewable energy projects, as of 30 June 2021.

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<sup>4</sup> Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

## Detailed Findings

**Table 2: Detailed Findings**

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
<b>Use of Proceeds Criteria</b>	Verification of the projects funded by the Green Bond from November 2018 to June 2021 to determine if projects aligned with the Use of Proceeds Criteria outlined in the Framework and above in Table 1.	<p>All projects reviewed complied with the Use of Proceeds criteria.</p> <p>Sustainalytics notes that the green building project reviewed has obtained DBJ Green Building Certification's plan certification and does not intend to obtain a post construction certification. As the Framework does not specify the type of DBJ Green Building Certification, Sustainalytics does not consider this to be error or exceptions, however, considering the credibility of the environmental positive impact, it encourages Daiwa Securities Group to pursue to achieve the post construction certification.</p>	None
<b>Reporting Criteria</b>	Verification of the projects funded by the Green Bond from November 2018 to June 2021 to determine if impact of projects was reported in line with the KPIs outlined in the Framework and above in Table 1. For a list of KPIs reported please refer to Appendix 2.	All projects reviewed reported on KPI per Use of Proceeds criteria.	<p>None</p> <p>The green building project funded by the proceeds was completed on June 30, 2021, the same day as the reference date for reporting. While the Framework outlines to report on environmental impact metrics for properties after construction within the green building category, as there was no actual data for each metric as of the reporting reference date, only the progress of the application for real estate certification is reported in the impact report.</p>

## Appendices

### Appendix 1: Allocation of Green Bond Proceeds

Use of Proceeds Category	Sub category	Number of Projects	Net Bond Proceeds Allocation (billion JPY) <sup>5</sup>
Renewable Energy	Solar Power	4 <sup>6</sup>	8.0
Green Buildings	—	1 <sup>7</sup>	2.0
<b>Allocated Proceeds:</b>			10
<b>Unallocated Proceeds:</b>			0
<b>Net Proceeds from Green Bond Issuance:</b>			10

<sup>5</sup> The amounts are rounded to the nearest first decimal place.

<sup>6</sup> Sustainalytics confirmed that all 4 projects were either financed post issuance or refinanced within last 24 months prior to the green bond issuance date.

<sup>7</sup> The project has achieved plan certification of 5 star under DBJ Green Building Certification after green bond issuance.

## Appendix 2: Impact Reporting by Eligibility Criteria

### Use of Proceeds Category 1 – Renewable Energy

#	Sub-category	Annual CO <sub>2</sub> Emissions Reduced (t-CO <sub>2</sub> )	Annual Power Generation (MWh)
1	Solar Power	15,876	34,740
2	Solar Power	2,544	5,566
3	Solar Power	17,872	39,107
4	Solar Power	16,542	36,198
	Total	52,834	115,611

### Use of Proceeds Category 2 – Green Buildings

Project Status	Application Progress on Real Estate Certification	Environmental Impact Metrics <sup>8</sup>
Construction completed on June 30, 2021	Achieved plan certification of 5 star under DBJ Green Building Certification.	NA

<sup>8</sup> The green building project funded by the proceeds was completed on June 30, 2021, the same day as the reference date for reporting. While the Framework outlines to report on environmental impact metrics for properties after construction within the green building category, as there was no actual data for each metric as of the reporting reference date, only the progress of the application for real estate certification is reported in the impact report. Daiwa Securities Group intends to report on the environmental impact metrics of the property in its impact reporting from next year.

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