

## Daiwa Securities Group Inc.

**Type of Engagement:** Annual Review

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### Introduction

In November 2018, Daiwa Securities Group Inc. (Daiwa Securities Group) issued a green bond aimed at financing and refinancing expenditures related to renewable energy and green buildings (the “Green Bond”). In November 2019, Daiwa Securities Group engaged Sustainalytics to review the projects funded through the Green Bond and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the Daiwa Securities Group Green Bond Framework (the “Green Bond Framework”).<sup>1</sup>

### Evaluation Criteria

Sustainalytics evaluated the projects funded in 2018 and 2019 based on whether the projects:

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

Table 1 lists the Use of Proceeds and Eligibility Criteria, while Table 2 list the associated KPIs.

**Table 1: Use of Proceeds and Eligibility Criteria**

Use of Proceeds	Eligibility Criteria
<b>(A) 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> <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>(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.. 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</li> </ul>

<sup>1</sup> The Daiwa Securities Group Green Bond Framework: [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).

	<p>issuance and/or buildings that are expected to receive the certification post issuance:</p> <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>
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### Table 2: Key Performance Indicators

Impact reporting will include the following indicators on an individual project basis, and Daiwa Securities Group plans to disclose calculation for the indicators where possible:

Key performance indicators	
<b>(A) Renewable Energy</b>	<ul style="list-style-type: none"> <li>• CO2 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>
<b>(B) Green Buildings</b>	<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>– CO2 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, estimated and realized costs of projects, 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's employees and review of documentation to confirm the conformance with the Green Bond 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.

### Conclusion

Based on the limited assurance procedures conducted,<sup>2</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 Green Bond Framework. Daiwa Securities Group has disclosed to Sustainalytics that the proceeds of the Green Bond were fully allocated as of 28 June 2019.

### Detailed Findings

**Table 3: 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 in 2018 and 2019 to determine if projects aligned with the Use of Proceeds Criteria outlined in the Green Bond Framework and above in Table 1.	All projects reviewed complied with the Use of Proceeds criteria.	None
<b>Reporting Criteria</b>	Verification of the projects funded by the Green Bond in 2018 and 2019 to determine if impact of projects was reported in line with the KPIs outlined in the Green Bond Framework and above in Table 2. For a list of KPIs reported please refer to Appendix 2.	All projects reviewed reported on at least one KPI per Use of Proceeds criteria.	None

<sup>2</sup> Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs 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.

## Appendix 1: List of Project Categories Reviewed

### Use of Proceeds Category 1 – Renewable Energy

Sub-category	Number of Projects	Date of Allocation for financed and refinanced projects	All projects in category meet Use of Proceeds Criteria
Solar Energy	5	Confirmed that all 5 projects were either refinanced within last 24 months prior to the green bond issuance date or financed post issuance	Yes

### Use of Proceeds Category 2 – Green Buildings

Sub-category	Number of Projects	Certification Level	Certification Date	All projects in category meet Use of Proceeds Criteria
Green Buildings	1	5 stars under the DBJ Green Building Certification	Expected to receive upon completion of construction of the building	Yes

## Appendix 2: Impact Reporting by Eligibility Criteria

### Use of Proceeds Category 1 – Renewable Energy

Project Number	Sub-category	Annual CO2 Emissions Reduced (t-CO2)	Annual Power Generation (MWh)	KPIs for all projects in category meet Reporting Criteria
A	Solar Power	2,297	4,837	Yes
B	Solar Power	19,022	40,045	
C	Solar Power	2,702	5,688	
D	Solar Power	2,701	5,686	
E	Solar Power	19,004	40,008	

### Use of Proceeds Category 2 – Green Buildings

Project Number	Project Status	Application Progress on Real Estate Certification	Environmental Impact Metrics <sup>3</sup>	KPIs for all projects in category meet Reporting Criteria
F	Under construction	Achieved pre-certification of 5 star under DBJ Green Building Certification. Expected to achieve official certification after completion.	NA	Yes

<sup>3</sup> Daiwa Securities Group is committed to reporting the environmental impact indicators after completion of construction of the buildings.

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## Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that supports investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, the firm partners with institutional investors who integrate ESG information and assessments into their investment processes. Spanning 30 countries, the world's leading issuers, from multinational corporations to financial institutions to governments, turn to Sustainalytics for second-party opinions on green and sustainable bond frameworks. Sustainalytics has been certified by the Climate Bonds Standard Board as a verifier organization, and supports various stakeholders in the development and verification of their frameworks. In 2015, Global Capital awarded Sustainalytics "Best SRI or Green Bond Research or Ratings Firm" and in 2018 and 2019, named Sustainalytics the "Most Impressive Second Party Opinion Provider. The firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance in 2018, and in 2019 was named the "Largest Approved Verifier for Certified Climate Bonds" by the Climate Bonds Initiative. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan and the Minister of the Environment Award in the Japan Green Contributor category of the Japan Green Bond Awards in 2019.

For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com)

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