

# Framework Overview and Second-Party Opinion

## Sumitomo Mitsui Trust Bank Green Bond

### Evaluation Summary

Sustainalytics is of the opinion that the Sumitomo Mitsui Trust Bank, Limited (SuMi TRUST) Green Bond Framework is credible and impactful, and aligns with the four core components of the Green Bond Principles 2018. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds - (a) renewable energy, (b) energy efficiency, (c) clean transportation, (d) pollution prevention and control, and (e) green buildings are aligned with those recognized by the Green Bond Principles 2018. Sustainalytics considers that the eligible projects will lead to positive environmental impacts and advance some of the UN Sustainable Development Goals.



**PROJECT EVALUATION / SELECTION** SuMi TRUST's project evaluation and selection process includes several project teams including Wholesale Business Planning Department, Structured Finance Department, and the Sustainability Management Office. Additionally, it applies the Equator Principles and recognized third party green building certifications in evaluating and selecting projects. This is in line with market practice.



**MANAGEMENT OF PROCEEDS** SuMi TRUST will monitor the net proceeds from the sale of the bonds and track allocation to Eligible Green Projects with an internal loan data system, which is in line with market practice.



**REPORTING** SuMi TRUST intends to report on allocation of proceeds on its website on an annual basis. In addition, SuMi TRUST is committed to impact reporting on relevant environmental performance indicators, such as CO2 emissions, energy saved, and the number and certification levels of green assets that achieve third party certification. In Sustainalytics' view, reporting on these metrics is in line with market practice.

<b>Evaluation date</b>	31 August 2018
<b>Issuer Location</b>	Tokyo, Japan

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### Alignment with Japan's Green Bond Guidelines 2017

The Japanese Green Bond Guidelines communicate recommendations on 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 SuMi TRUST Green Bond Framework and the requirements outlined in the Japan's Green Bond Guidelines 2017. Sustainalytics is of the opinion that SuMi TRUST framework is in line with the JPN Green Bond Guidelines.

## Introduction

SuMi TRUST has developed a green bond framework (the “framework”) under which it is planning to issue multiple green bonds and use the proceeds to finance and/or refinance expenditures related to renewable energy, energy efficiency, clean transportation, pollution prevention and control, and green buildings.

SuMi TRUST engaged Sustainalytics to review the framework and provide a second-party opinion on the alignment of the green bond with the Green Bond Principles 2018 (the “GBP”), as administered by the International Capital Market Association (the “ICMA”),<sup>1</sup> and the framework’s environmental credentials.

As part of this engagement, Sustainalytics held conversations with various members of SuMi TRUST’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 SuMi TRUST’s green bond. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains two sections: Framework Overview – summary of the Sumitomo Mitsui Trust Bank’s Green Bond Framework; and Sustainalytics’ Opinion – an opinion on the framework.

## Overview of Issuer

Sumitomo Mitsui Trust Bank, Limited (“SuMi TRUST”) is a Japanese trust bank and is among the largest financial groups in Japan. The Group has been designated as one of the “domestic systemically important banks (D-SIBs)”. SuMi TRUST provides a broad range of financial services domestically as well as overseas.

SuMi TRUST, as a leading financial institution, is committed to the active role it plays in contributing to building a sustainable society, and recognizes the importance of embedding the principles of social responsibility within all Group activities. Through its strategic sustainability initiatives and policies based on its mission, vision and values, SuMi TRUST strives to provide greater value to its stakeholders by proactively helping address societal problems in conjunction with pursuing the Group’s own enterprise value.

SuMi TRUST’s approach to sustainability includes,<sup>2</sup>

i) Promoting proactive sustainability efforts as management commitment

SuMi TRUST strives to identify and manage sustainability issues that need to be addressed as top priorities of SuMi TRUST management, since the Group regards ESG (environmental, social and governance) as a critical foundation for management.

ii) Integrating sustainability initiatives in its business

By leveraging its function as a financial group specialized in trust banking, SuMi TRUST aims to provide comprehensive solutions to ESG issues to SuMi TRUST clients, which helps to promote the development of a sustainable society. SuMi TRUST utilizes the United Nations Sustainable Development Goals (SDG) to verify the appropriateness and societal value of the products and services provided.

iii) Providing values to community

Because providing value to society helps maintain a sound business foundation, SuMi TRUST believes this is a social responsibility required to conduct business. From this point of view, SuMi TRUST provides value to the community in various forms, while also taking into consideration the perspective of the United Nation’s SDGs.

<sup>1</sup> ICMA’s Green Bond Principles 2018; <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

<sup>2</sup> Sumitomo Mitsui Trust Holdings, Integrated Report 2018 (Japanese); <https://www.smth.jp/ir/disclosure/2017/all.pdf>

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SuMi TRUST plans to issue green bonds to facilitate lending towards environmentally-related projects. All existing and new projects to be financed through proceeds of green bonds must be eligible under the Use of Proceeds criteria outlined in the Framework Overview section below and provide clear environmental benefits, which will be assessed and, where feasible, quantified.

## Framework Overview

For the purpose of issuing a green bond, SuMi TRUST has developed the following framework which addresses the four core components of the Green Bond Principles (GBP): use of proceeds, project evaluation and selection process, management of proceeds, and reporting. The framework belongs to SuMi TRUST, and a summary overview of the framework is provided below.

### Use of Proceeds

The proceeds of the green bond will be allocated towards financing/refinancing projects that meet the following eligibility criteria.

#### Eligibility Criteria

SuMi TRUST shall apply the use of proceeds to finance or refinance, in whole or in part, existing and future qualifying environmentally-related projects ("Eligible Green Projects") as defined by its internal investment criteria as specified below.

For the purpose of this section, "Eligible Green Projects" means that projects meet ALL of the following criteria:

- i) A project is in one or more of the Eligible Project Categories (a) to (e) below;
- ii) For any project categorized as (a) to (d) below, a project is categorized as Category B or Category C under the Equator Principles as published by the Equator Principles Association<sup>3</sup>, and;
- iii) Financing disbursed by SuMi TRUST to an existing or new project which has taken place either (a) within 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 maturity date of the bond.

#### Eligible 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, equipment and systems that generate or transmit renewable energy, including: solar energy, wind energy, geothermal energy (with direct emissions of less than 100gCO<sub>2</sub>/kWh), biomass (except sustainable feedstock and viable forest based biomass) energy and small run-of-river hydro facilities with generation capacity of 25 megawatts or less or refurbishments of existing larger hydro power plants without any increase in the size of impoundment facilities.

##### (b) Energy Efficiency

Refurbishments or renovation of properties in order to significantly improve energy efficiency, infrastructure, equipment, technology and processes related to smart grids, energy storage, automation and intelligence in the power transmission network, distribution and related systems.

##### (c) Clean Transportation

Expenditure that supports the shift to clean energy vehicles (including electric/hydrogen 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).

##### (d) Pollution Prevention and Control

The development, construction and operation of pollution prevention and control facilities, such as waste recycling.

##### (e) Green Buildings

<sup>3</sup> According to the Equator Principles, Category A projects are defined as projects with potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible or unprecedented. Category B projects have potential limited adverse environmental and social risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures. Category C projects have minimal or no adverse environmental and social risks and/or impacts. Net proceeds of green bond can be allocated to existing and new Category B or C projects which will fall into one or more of the categories (a) to (c) above.

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New, existing or refurbished buildings which have received at least one regional, national or internationally recognized standard or certification, 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 Gold”, at least “BREEAM Excellent” or at least “CASBEE A Level” respectively.

### Exclusionary Criteria

In addition to the eligibility criteria described above, SuMi TRUST’s screening criteria excludes:

- i) Non-committed transactions;
- ii) Non-Performing Loans or loans on a watch list; and
- iii) Assets pledged to other financing programmes

For clarification purposes, the following are excluded from the Green Bond Framework: defense and security, palm oil, wood pulp, nuclear power generation, coal-fired power generation, mining and tobacco sectors as well as all fossil fuel based assets, fossil fuel based transportation / infrastructure and transportation with the main objective of transporting fossil fuel.

With the exception of using a portion of the proceeds for cost of issuance, SuMi TRUST commits to not use any of the proceeds except for purposes of financing or refinancing, in whole or in part, existing and future qualifying environmentally-related projects that meet the eligibility criteria.

## Project Evaluation and Selection Process

### Application of Eligibility and Exclusionary Criteria in Project Selection

SuMi TRUST’s Sustainability Management Office, Wholesale Business Planning Department, Structured Finance Department and Treasury Unit of Global Markets worked together to establish the criteria for Eligible Green Projects mentioned above. SuMi TRUST’s Wholesale Business Planning Department and Structured Finance Department will select a project pool that meets all the criteria for Eligible Green Projects, and, after verification by the Sustainability Management Office, the Wholesale Business Planning Department would make the final decision on which of the nominated eligible projects will be selected. Net proceeds of the green bond are to be allocated to selected eligible projects.

In the selection process described above, SuMi TRUST will apply its screening to exclude: non-committed transactions, non-performing loans or loans on a watch list, and assets pledged to other financing programmes.

### Environmental Objectives

SuMi TRUST recognizes that financial institutions have an important role to play in the global effort to reduce human-made climate change impacts and has outlined five action guidelines for mitigating climate change:<sup>4</sup>

- 1) implementation of measures and support to help mitigate climate change,
- 2) provision of products and services,
- 3) collaboration with stakeholders,
- 4) education and training, and
- 5) information disclosure.

SuMi TRUST has coined the word “Eco-Trustution” to represent its environmental financial business based on solving ecological issues, which include financing and investment in environmentally friendly companies, valuation of natural capital, support for environmental friendliness in real estate, support for smart city projects, and support for energy efficiency. SuMi TRUST emphasizes that addressing climate change issues is crucial for the group, and that doing so will also direct more business opportunities to the Group.

<sup>4</sup> Sumitomo Mitsui Trust Holdings, CSR Report 2017, Climate Change; <https://www.smth.jp/en/csr/report/2017/CC-E-all.pdf>

### **Process to Mitigate Environmental and Social Risks**

According to the "Implementation Guidelines for the Equator Principles", the Structured Finance Department (Social & Environmental Risk Assessment Team) carries out environmental and social risk/impact reviews on projects subject to the Equator Principles to confirm whether protections for the environment and communities are adhered to by the borrower. In environmental and social risk/impact reviews, projects in category (a) to (d) above are categorized into one of three Equator Principle Categories (Categories A, B, and C) based on its environmental and social risks and/or impacts. For category (e), projects are certified by "LEED", "BREEAM", "CASBEE" or any other regional, national or internationally recognized standard or certification, based on assessment of environmental performance of a relevant building.

For project categories (a) to (d) above, the Structured Finance Department (Social & Environmental Risk Assessment Team) conducts detailed reviews based on environmental impact assessment reports that take into account the risk/impact category, the status of the country (designated or non-designated country) where the project is located, and industry. The review outcomes are sent to a credit supervision department, where comprehensive risk assessments for credit decisions are conducted based on the review results.<sup>5</sup>

As stipulated in the relevant loan agreement on origination, projects subject to the Equator Principles are required to submit regular reports stipulating compliance with relevant environmental and social laws, regulations and rules as well as approvals and permits. Based on regular reports submitted by the borrower, SuMi TRUST then checks for compliance with rules relating to the environment and communities.

### **Management of Proceeds**

SuMi TRUST has established and implemented systems designed to monitor and ensure that the net proceeds from its Green Bonds are allocated to Eligible Green Projects as defined above.

Records will show that an amount equal to the net proceeds of the bonds is allocated to the financing of existing and future Eligible Green Projects. SuMi TRUST will monitor and account for an amount equal to the net proceeds from the sale of the bonds to ensure the allocation of such amount to Eligible Green Projects. Pending the allocation of the net proceeds of a green bond to finance Eligible Green Projects, the net proceeds will be invested in overnight or otherwise short-term financial instruments.

The payment of the principal and interest on the bonds will be made from the bank's general funds and will not be directly linked to the performance of any Eligible Green Projects.

SuMi TRUST will review and update the Eligible Green Projects to which the net proceeds of the bond are allocated. Any proceeds allocated to projects that have been sold, prepaid, amortized or otherwise become ineligible shall be reallocated to other Eligible Green Projects. SuMi TRUST will use best efforts to substitute any redeemed loans or any other form of financing that are no longer financed or refinanced by the net proceeds and/or if any such loans or any other form of financing cease to be an Eligible Asset as soon as practically possible once an appropriate substitution option has been identified.

### **Reporting**

#### **Allocation Reporting**

During the life of any relevant Green Bond, SuMi TRUST will provide and keep readily available, on a dedicated website, information on the allocation of the net proceeds of the Green Bonds, to be updated at least annually until full allocation and as necessary thereafter in the event of new developments. This information shall include:

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<sup>5</sup> The details of project finance's evaluation and selection process can be found at the website below:  
[https://www.smth.jp/en/csr/management/equator\\_principles/index.html](https://www.smth.jp/en/csr/management/equator_principles/index.html)

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- i. allocation of the net proceeds of those bonds to Eligible Green Projects, which include (a) a brief description of the Eligible Green Projects funded and (b) the current funded amounts, and loan agreement dates
- ii. assertions by management that the net proceeds of that tranche or series of green bonds are invested either in qualifying Eligible Green Projects or if unallocated, invested in overnight or other short-term financial instruments.

Sustainalytics will provide an annual review on the allocation of the use of proceeds as well as impact reporting to verify that allocation and reporting is aligned with the framework.

### Impact Reporting

In addition, SuMi TRUST will annually publish on a dedicated website information and assessments relating to the environmental impacts of financed Eligible Green Projects. In the case of Renewable Energy projects, SuMi TRUST intends to report on the tonnes of CO2 emission equivalent avoided.

For other project categories, SuMi TRUST plans to apply appropriate impact metrics in the report. These could include: the amount of energy saved (MW) for Energy Efficiency, emissions of CO2 per passenger (kilometre) travelled for Clean Transportation, tonnes of waste reduced/recycled for Pollution and Prevention Control, and the number and certification level of buildings (e.g. LEED Platinum or CASBEE S) for Green Building.

The environmental impacts of financed Eligible Green Projects, where reported, may be calculated on a portfolio/collective basis.

### Compliance Review

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

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the Sumitomo Mitsui Trust Green Bond Framework

#### Summary

Sustainalytics is of the opinion that the SuMi TRUST Green Bond Framework is credible and impactful, and aligns with the four core components of the Green Bond Principles 2018. Sustainalytics highlights the following elements of SuMi TRUST's green bond framework:

- Use of Proceeds:
  - Renewable Energy, Energy Efficiency, Clean Transportation, Pollution Prevention and Control, and Green Buildings are recognized by the 2018 Green Bond Principles and Japan's Green Bond Guidelines 2017 as project categories with clear environmental impact.
  - The proceeds may be allocated towards assets/projects in order to improve energy efficiency. Sustainalytics recognizes that, with respect to investments in energy efficiency, the market best practice is to disclose a minimum threshold for energy efficiency improvements. Sustainalytics recommends disclosing a specific energy efficiency improvement targets to further strengthen SuMi TRUST's framework.
  - The eligibility criterion for green buildings is based on international and regional third-party certification standards, such as LEED, BREEAM, and CASBEE, with a focus on the top two levels of certifications. Sustainalytics has assessed the certifications as having a positive impact (Please see Appendix 1 for the assessment details). Sustainalytics also views that the focus on the top two levels of certifications aligns with market best practice considering that they provide a higher level of positive impact and are generally preferred by investors as a benchmark.
- Project Selection Process:
  - Several projects teams including Wholesale Business Planning Department, Structured Finance Department, and the Sustainability Management Office are responsible for evaluating and selecting projects. Additionally, given that that SuMi TRUST will evaluate and select the assets/projects based on the Equator Principles (for Renewable Energy, Energy Efficiency, Clean Transportation, and Pollution Prevention and Control) and third-party green building certifications (for Green Buildings), Sustainalytics recognizes that these processes ensure selection of projects which align with eligibility criteria and mitigate potential risks. This is in line with market practice.
- Management of Proceeds:
  - SuMi TRUST implemented internal loan data systems to monitor and ensure that the net proceeds from its Green Bonds are allocated to Eligible Green Projects, which is in line with market practice.
- Reporting:
  - SuMi TRUST will annually report on the impact of Eligible Green Projects funded through the bond, where feasible and measurable. The key performance indicators for impact reporting include tonnes of CO2 emission equivalent avoided, the amount of energy saved, emissions of CO2 per passenger kilometer travelled, tonnes of waste reduced/recycled, and the number and certification level of buildings. While Sustainalytics recognizes that these indicators are in line with the market standard, it also encourages SuMi TRUST to disclose environmental key performance indicators for green building projects.
  - SuMi TRUST commits to conducting annual reviews until the maturity date as per market best practice.

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### Alignment with Green Bond Principles 2018

Sustainalytics has determined that the SuMi TRUST green bond framework aligns with the four core components of the Green Bond Principles 2018. 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 SuMi TRUST's 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. Sustainalytics assessed the alignment between the SuMi TRUST Green Bond Framework and the requirements outlined in the Japanese Green Bond Guidelines.

ICMA Green Bond Principles and Japan's Green Bond Guidelines, 2017 <sup>6</sup>	Alignment with GBP and with Japan's Green Bond Guidelines?	Sustainalytics' comments on alignment with Japan's Green Bond Guidelines. <sup>7</sup>
1. Use of Proceeds	Yes	SuMi TRUST's selected eligible criteria, renewable energy, energy efficiency, clean transportation, pollution prevention and control, and green buildings, are clearly suggested as green projects with clear environmental benefits in the Japanese green bond guideline. Additionally, the information on the green bond proceeds, green project categories as well as the process to mitigate the negative impacts are all described in the framework and will be accessible to the investors.
2. Process for Project Evaluation and Selection	Yes	SuMi TRUST outlines action guidelines for mitigating climate change that it can take as a financial institution. Furthermore, SuMi TRUST ensures that projects are evaluated and selected by the Wholesale Business Planning Department, ensuring that selected projects are aligned with the criteria for Eligible Green Projects.
3. Management of Proceeds	Yes	SuMi TRUST's framework clearly explains that the proceeds will be tracked and managed using internal loan data systems and that any unallocated proceeds will be invested in overnight or other short-term financial instruments.
4. Reporting	Yes	SuMi TRUST has confirmed that it will report relevant information annually and includes a list and description of green projects, allocated and unallocated amounts, information on unallocated proceeds, as well as environmental impact of the funded projects.

<sup>6</sup> Green Bond Guidelines, 2017, Summary, Ministry of the Environment, Japan: <https://www.env.go.jp/en/policy/economy/gb/summary2017.pdf>

<sup>7</sup> For detailed comments on alignment with ICMA GBP, please see [Appendix](#).

## Section 2: Sustainability Performance of the SuMi TRUST Bank

### Contribution of framework to SuMi TRUST Group's sustainability strategy and targets

SuMi TRUST Group has developed policies and action guidelines on sustainability and climate change specifically, with responsibility for these policies among the Board of Directors,<sup>8</sup> ensuring that sustainability remains on the agenda of the company's business strategy. Furthermore, SuMi TRUST Group is a signatory of several initiatives that foster sustainability in the financial sector, such as to the UN Global Compact, Principles for Financial Action towards a Sustainable Society,<sup>9</sup> Principles for Responsible Investment and UNEP FI. Moreover, SuMi TRUST Group is member of the Climate Action 100+ initiative<sup>10</sup> and has integrated the Equator Principles, further highlighting the importance of sustainability within the company.

In addition, SuMi TRUST Group's action guidelines for climate change include the development of products and services that help mitigate climate change, and the company discloses several initiatives to promote climate change mitigation, such as engagement with companies to disclose climate change related information, providing equity-like funding for renewable energy projects, expanding assets under management in solar and wind power, providing solar loans for home-owners for solar panel installations and launching its Environmental Rating Loans with evaluation of natural capital preservation.<sup>11</sup> SuMi TRUST Group also reports on its progress towards environmental and climate change action points, such as the total CO<sub>2</sub> avoided from renewable energy projects supported and reduction of water and GHG emissions at its own operations.

Given SuMi TRUST Group's action guidelines, initiatives and board level responsibility for climate change, Sustainalytics is of the opinion that the SuMi TRUST Group is well positioned to issue green bonds and that the issuance of green bonds will help the company to advance its sustainability strategy.

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

Based on the use of proceeds, the main ESG risks related to the projects financed are environmental and social risks related to large energy, transportation and real estate infrastructure projects, as well as occupational health and safety for construction work. Sustainalytics considers SuMi TRUST Bank to be well prepared to manage related social and environmental risks based on the following:

- i. SuMi TRUST Bank applies the Equator Principles for project finance and project-related corporate loans<sup>12</sup>. SuMi TRUST Bank excludes projects from being financed from the green bond proceeds that have been classified as having potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible or unprecedented according to the Equator Principles. Project evaluation takes into consideration environmental and social impact assessments.
- ii. SuMi TRUST Bank limits financing from its green bond to hydro power plants with a capacity below 25 MW, excluding large hydro power plants that often have a high environmental and social impact. In addition, SuMi TRUST Bank excludes the following sectors: defense and security, palm oil, wood pulp, nuclear power generation, coal-fired power generation, mining and tobacco sectors as well as all fossil fuel based assets, fossil fuel based transportation / infrastructure and transportation with the main objective of transporting fossil fuel.

<sup>8</sup> SuMi TRUST Group corporate website: [https://www.smth.jp/en/about\\_us/management/governance/index.html](https://www.smth.jp/en/about_us/management/governance/index.html)

<sup>9</sup> The Principles for Financial Action towards a Sustainable Society is a set of voluntary guidelines established by Japan's major financial institutions

<sup>10</sup> Climate Action 100+ is an initiative led by investors to engage systemically important greenhouse gas emitters and other companies across the global economy that have significant opportunities to drive the clean energy transition and help achieve the goals of the Paris Agreement. <https://climateaction100.wordpress.com/>

<sup>11</sup> SuMi TRUST Group Annual Integrated Report 2017: <https://www.smth.jp/en/csr/report/2017/all.pdf>

<sup>12</sup> SuMi TRUST Bank corporate website: [https://www.smth.jp/en/csr/management/equator\\_principles/index.html](https://www.smth.jp/en/csr/management/equator_principles/index.html)

### Section 3: Impact of Use of Proceeds

All five use of proceeds categories are recognized as impactful by GBP.

#### Importance of renewable energy, energy efficiency, green buildings and low carbon transportation

Prior to the Fukushima-Daiichi nuclear disaster in 2011, nuclear energy accounted for almost 30% of Japan's total electricity production.<sup>13</sup> However, as a result of the nuclear disaster, Japan shut down all of its nuclear power plants, with only 9 of the 42 operable reactors currently operating<sup>14</sup>. The shut-down significantly reduced the country's energy-generating capacity and increased Japan's dependency of carbon-heavy energy sources, such as oil, coal and natural gas. As Japan committed to a 26% and 18% carbon reduction in 2030 compared to 2013 and 1990 levels respectively,<sup>15</sup> increasing renewable energy supply and improving energy efficiency is important for Japan to achieve its GHG reduction target. In addition, renewable energy production also contributes to the country's new energy plan for 2030,<sup>16</sup> which aims to reduce nuclear power use from 28% in 2010 to 20 – 22% in 2030, while increasing renewable energy (wind, solar, geothermal, biomass and hydro) from 10% to 22 – 24%.<sup>17</sup>

Energy efficiency in general decreases the dependency on fossil fuel-based sources. The building sector accounts for one third of total energy use in Japan,<sup>18</sup> indicating the importance of measures to increase energy efficient buildings, as manifested in the Building Energy Efficiency Act in 8 July 2015.<sup>19</sup>

Moreover, the transport sector accounts for 18.8% of Japan's CO<sub>2</sub> emissions, according to 2016 data.<sup>20</sup> While the country reduced its GHG emissions from the sector by 3.8% between 2016 and 2013,<sup>21</sup> further investments in clean transportation projects are needed to support Japan's transition towards a low-carbon economy and achieve its GHG reduction targets.

Given the importance of renewable energy, building energy efficiency and the transport sector, Sustainalytics is of the opinion that the use of proceeds in these categories is impactful and contributes to meeting Japan's GHG emission targets.

#### Importance of Pollution Prevention and Control

Japan has an advanced waste management system, which has evolved out of several regulatory changes because of waste problems from industrialization and population growth.<sup>22</sup> Total amounts of waste have decreased by 19% from 2000 to 2014.<sup>23</sup> While incineration is the main waste treatment method in Japan,<sup>24</sup> the country's recycling rate was at 20.6% in 2014.

<sup>13</sup> Nuclear Power in Japan, World Nuclear Association; <http://www.world-nuclear.org/information-library/country-profiles/countries-g-n/japan-nuclearpower.aspx>

<sup>14</sup> World Nuclear Association: Nuclear Power in Japan, updated July 2018: <http://world-nuclear.org/information-library/country-profiles/countries-g-n/japan-nuclear-power.aspx>

<sup>15</sup> <https://climateactiontracker.org/countries/japan/>

<sup>16</sup> Long-term Energy Supply and Demand Outlook, Ministry of Economy, Trade and Industry: [http://www.meti.go.jp/english/press/2015/pdf/0716\\_01a.pdf](http://www.meti.go.jp/english/press/2015/pdf/0716_01a.pdf)

<sup>17</sup> Japan's Energy, Ministry of Economy, Trade and Industry Agency for Natural Resources and Energy: [http://www.enecho.meti.go.jp/en/category/brochures/pdf/japan\\_energy\\_2016.pdf](http://www.enecho.meti.go.jp/en/category/brochures/pdf/japan_energy_2016.pdf)

<sup>18</sup> Overview of the Building Energy Efficiency Act (Japanese), Ministry of Land Infrastructure, Transport and Tourism, Japan; <http://www.mlit.go.jp/common/001178846.pdf>

<sup>19</sup> The act provides regulatory measures to ensure compliance with energy efficiency standards for large-scale non-residential buildings, and encourages the use of green building certification systems, such as CASBEE. 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>

<sup>20</sup> Japan's National Greenhouse Gas Emissions in Fiscal Year 2016 (Preliminary Figures); <https://www.env.go.jp/press/files/en/750.pdf>

<sup>21</sup> Global Greenhouse Gas Emissions Data; <https://www.epa.gov/ghgemissions/global-greenhouse-gas-emissions-data>

<sup>22</sup> Ministry of the Environment, History and Current State of Waste Management in Japan, February 2014: <https://www.env.go.jp/en/recycle/smcs/attach/hcswm.pdf>

<sup>23</sup> Annual Report on Environmental Statistics 2017; [http://www.env.go.jp/en/statistics/contents/2017/E2017\\_all.pdf](http://www.env.go.jp/en/statistics/contents/2017/E2017_all.pdf)

<sup>24</sup> [https://unfccc.int/files/ghg\\_emissions\\_data/application/pdf/jpn\\_ghg\\_profile.pdf](https://unfccc.int/files/ghg_emissions_data/application/pdf/jpn_ghg_profile.pdf)

## Sumitomo Mitsui Trusts Bank Green Bond

### 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
Energy Efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency
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	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
Green Building	11. Sustainable Cities and Communities	11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management

### Conclusion

The SuMi TRUST Green Bond Framework provides clarity regarding the use of its proceeds on Renewable Energy, Energy Efficiency, Clean Transportation, Pollution Prevention and Control, and Green Buildings, which are all eligible green project categories according to the Green Bond Principles. Additionally, SuMi TRUST bases its selection process on the Equator Principles, ensuring that projects funded through the bond proceeds have minimal or limited negative environmental or social impacts. Based on the above points, Sustainalytics considers SuMi TRUST's green bond to be robust, credible and transparent.

## Appendices

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

	LEED <sup>25</sup>	BREEAM <sup>26</sup>	CASBEE Certification Rank <sup>27</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.	CASBEE (Comprehensive Assessment System for Built Environment Efficiency) represents a green building management system from Japan, evaluating and rating the environmental performance of buildings and the built environment. CASBEE is formed of four assessment tools tailored to different scales: housing, building, district and city.
<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)
<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, respectively, L (Built Environment Load).
<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> <li>• Innovation</li> </ul>	<ul style="list-style-type: none"> <li>• Energy Efficiency</li> <li>• Resource efficiency</li> <li>• Local environment</li> <li>• Indoor environment</li> </ul>
<b>Requirements</b>	Prerequisites (independent of level of certification) + Credits with associated points.  These points are then added together to obtain	Prerequisites depending on the levels of certification + Credits with associated points  This number of points is then weighted by item <sup>28</sup> and	Score-based performance level  CASBEE uses the BEE (Built Environment Efficiency) as its assessment indicator,



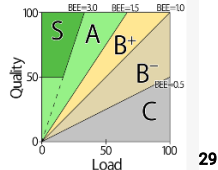
<sup>25</sup> More information on the LEED certification scheme at: <https://new.usgbc.org/leed>

<sup>26</sup> More information on the BREEAM certification scheme at: <https://www.breeam.com/>

<sup>27</sup> CASBEE, BASBEE; <http://www.ibec.or.jp/CASBEE/english/>

<sup>28</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

# Sumitomo Mitsui Trusts Bank Green Bond

	<p>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>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>BREAAM has two stages/ audit reports: a 'BREEAM Design Stage' and a 'Post Construction Stage', with different assessment criteria.</p>	<p>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>Buildings may receive ranks ranging from C (poor) to S (excellent), in order of increasing BEE value.</p> <p>For authorization, a building must receive a report from the CASBEE Certification system, which is afterwards assessed by the local government.</p>
<p><b>Performance Display</b></p>			
<p><b>Qualitative considerations</b></p>	<p>Worldwide recognition and application</p>	<p>Worldwide recognition and application</p>	<p>In Japan, many local governments have made CASBEE assessment results mandatory for building permits compared to similar tools available.</p>

<sup>29</sup> Built Environment Efficiency, CASBEE; <http://www.ibec.or.jp/CASBEE/english/beeE.htm>

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

### Section 1. Basic Information

<b>Issuer name:</b>	Sumitomo Mitsui Trust Bank, Limited
<b>Green Bond ISIN or Issuer Green Bond Framework Name, if applicable: <i>[specify as appropriate]</i></b>	Sumitomo Mitsui Trust Green Bond
<b>Review provider's name:</b>	Sustainalytics
<b>Completion date of this form:</b>	31 August 2018
<b>Publication date of review publication: <i>[where appropriate, specify if it is an update and add reference to earlier relevant review]</i></b>	3 September 2018

### 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 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 <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 Green Bond Framework and Second Opinion Document above.

### Section 3. Detailed review

# Sumitomo Mitsui Trusts Bank Green Bond

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)*:

According to the SuMi Trust Green Bond Framework, “Eligible Green Projects” means projects that meet ALL of the following criteria:

- i) A project is in one or more of the Eligible Project Categories from (a) to (e) below;
- ii) For any project categorized as (a) to (d) below, a project is categorized as Category B or Category C under the Equator Principles as published by the Equator Principles Association<sup>30</sup>, and;
- iii) Financing disbursed by SuMi TRUST to an existing or new project which has taken place either (a) within 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 maturity date of the bond.

### Eligible Project Categories

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

- a) Renewable Energy
- b) Energy Efficiency
- c) Clean Transportation
- d) Pollution Prevention and Control
- e) Green Buildings

Sustainalytics is of the opinion that all the use of proceeds outlined by Sumitomo Mitsui Trust Bank are recognized as eligible by the Green Bond Principles 2018, and will have clear environmental benefits, specifically within the context of Japan.

### 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 GBPs | <input type="checkbox"/> Other <i>(please specify)</i> :   |

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

<sup>30</sup> According to the Equator Principles, Category A projects are defined as projects with potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible or unprecedented. Category B projects have potential limited adverse environmental and social risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures. Category C projects have minimal or no adverse environmental and social risks and/or impacts. Net proceeds of green bond can be allocated to existing and new Category B or C projects which will fall into one or more of the categories (a) to (c) above.

## Sumitomo Mitsui Trusts Bank Green Bond

### 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

SuMi TRUST's Wholesale Business Planning Department and Structured Finance Department will select a project pool that meets all the criteria for Eligible Green Projects, and after verification by the Sustainability Management Office, the Wholesale Business Planning Department would make the final decision on which of the nominated eligible projects will be selected. Considering the above processes, Sustainalytics is of the opinion that SuMi TRUST's project evaluation and selection process is in line with market norms.

#### Evaluation and selection

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability objectives            | <input 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 |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available                  | <input type="checkbox"/> Other ( <i>please specify</i> ):   |

#### Information on Responsibilities and Accountability

- |   |  |
|---|--|
| <input type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other ( <i>please specify</i> ):   |  |

### 3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

SuMi TRUST has established and implemented systems designed to monitor and ensure that the net proceeds from its Green Bonds be allocated to Eligible Green Projects. Records show that an amount equal to the net proceeds of the bonds are allocated to the financing of existing and future Eligible Green Projects, and SuMi TRUST will monitor and account for an amount equal to the net proceeds from the sale of the bonds to ensure the allocation of such amount to Eligible Green Projects. Pending the allocation of the net proceeds of a green bond to finance Eligible Green Projects, the net proceeds will be invested in overnight or otherwise short-term financial instruments. Sustainalytics is of the opinion that SuMi TRUST's proceeds management is in line with market norms.

#### 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*):

# Sumitomo Mitsui Trusts Bank Green Bond

**Additional disclosure:**

- |  |  |
|--|--|
| <input type="checkbox"/> Allocations to future investments only                  | <input type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements                  | <input type="checkbox"/> Allocation to a portfolio of disbursements          |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other <i>(please specify)</i> :                     |

**4. REPORTING**

Overall comment on section (if applicable):

**Allocation Reporting**  
 During the life of any relevant Green Bond, SuMi TRUST will provide and keep information on the allocation of the net proceeds of the Green Bonds readily available on a dedicated website and update it at least annually until full allocation and as necessary thereafter in the event of new developments.

**Impact Reporting**  
 In addition, SuMi TRUST will annually publish information and assessments relating to the environmental impacts of financed Eligible Green Projects on a dedicated website. In the case of Renewable Energy projects, SuMi TRUST intends to report on tonnes of CO2 emission equivalent avoided.

For other project categories, SuMi TRUST plans to apply appropriate impact metrics in the report, which include:

- The amount of energy saved (MW) for Energy Efficiency
- Emissions of CO2 per passenger kilometer travelled for Clean Transportation
- Tonnes of waste reduced/recycled for Pollution and Prevention Control, and
- The number and certification level of buildings (e.g. LEED Platinum or CASBEE S) for Green Building

Sustainalytics is of the opinion that SuMi TRUST's reporting is in line with market norms.

**Use of proceeds reporting:**

- |  |  |
|--|--|
| <input type="checkbox"/> Project-by-project            | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other <i>(please specify)</i> :         |

***Information reported:***

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Allocated amounts    | <input type="checkbox"/> Green Bond financed share of total investment |
| <input type="checkbox"/> Other <i>(please specify)</i> : |  |

***Frequency:***

- |  |                                      |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual       | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): |                                      |

**Impact reporting:**

# Sumitomo Mitsui Trusts Bank Green Bond

- |  |  |
|--|--|
| <input type="checkbox"/> Project-by-project            | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify):                 |

**Frequency:**

- |  |                                      |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual       | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): |                                      |

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

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input checked="" type="checkbox"/> Energy Savings              |
| <input checked="" type="checkbox"/> Decrease in water use   | <input type="checkbox"/> Other ESG indicators (please specify): |

-Emissions of CO2 per passenger kilometer travelled for Clean Transportation

- Tonnes of waste reduced/recycled for Pollution and Prevention Control,

- The number and certification level of buildings

**Means of Disclosure**

- |   |  |
|---|--|
| <input type="checkbox"/> Information published in financial report  | <input type="checkbox"/> Information published in sustainability report        |
| <input type="checkbox"/> Information published in ad hoc documents  | <input checked="" type="checkbox"/> Other (please specify): SuMi TRUST website |
| <input type="checkbox"/> 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 (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 Party 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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