Sumitomo Mitsui Banking Corporation

Positive Impact Finance

Assessment report

Sept. 2020

DNV GL Business Assurance Japan K.K.

Table of Contents

Executive Summary

Sumitomo Mitsui Bank Corporation (hereinafter, “SMBC”) plans to launch two renewal financial instruments that are for loans and private placement bonds, aiming to deliver positive impacts on three pillars of sustainable development (economic, environmental and social). For that purpose, SMBC established those financial instruments in accordance with the recommendations of the Principles for Positive Impact Finance (hereinafter, “PIF Principles”) and the Model Framework: Financial Products for Corporate with Unspecified Use of Funds (hereinafter, “Model Framework”), which are formulated by the United Nations Environment Programme - Finance Initiative.

DNV GL Business Assurance Japan K.K. (hereinafter “DNV GL”) conducted independent review of those financial instruments in alignment with the PIF Principles and the Model Framework. The following is an overview of DNV GL’s review results:

Principle 1. Definition:

SMBC has renewed its existing “ESG/SDGs Assessment Loan” and “SDGs Promotion Loan” as financial instruments that reflect the concept of funding based on the PIF principle of UNEP FI. As a new product design, SMBC has newly defined the financial instruments that give its borrowers a holistic and quantitative impact analysis and evaluation of both positive and negative impacts of borrowers’ business activities, from the perspective of three pillars of sustainable development. As a result, it is confirmed that the defined financial instruments can support to contribute a positive impact and mitigate a negative impact, and therefore the financial instruments are aligned with the Principle 1.

Principle 2. Frameworks:

SMBC has defined holistic frameworks that have a document structure of criteria, tools, and determination procedures for identifying, analyzing, and evaluating positive impacts on the business activities of borrowers. In addition, staff allocation and a process of progress management are in place to monitor the impacts achieved during the loan implementation period. In addition, personnel with relevant skill sets are assigned, and internal controls are in place to appropriately evaluate or diagnose individual projects. Therefore, it is confirmed that the holistic frameworks are aligned with the Principle 2.

Principle 3. Transparency:

SMBC's PIF has a function in which loans are executed on the basis that intended positive impact, material items, and its key performance indicators are disclosed. The actual impacts achieved are disclosed through borrower's sustainability reports, integrated reports, websites, etc., and is monitored by SMBC periodically. SMBC has appropriately incorporated a system to promote and support disclosure of positive impacts by borrowers themselves, and therefore, it is confirmed that the financial instruments are aligned with the Principle 3.

Principle 4. Assessment:

It is also specified by the financial instruments that borrowers set impact indicators in the beginning of loan execution and they take into account variety, magnitude, efficiency, leverage of public and private funds, and the additionality of positive impacts stated in Principle 4 of the PIF. Therefore, it is confirmed that the financial instruments are aligned with the Principle 4.

I Introduction

i. About the Principles for Positive Impact Finance

The Positive Impact Financial Principles (hereinafter, “PIF Principles”) were formulated by the United Nations Environment Programme - Financial Initiative (hereinafter, “UNEP FI”) in January 2017 with 19 of the world's leading financial institutions as a principle for financial institutions to actively conduct investments and loans to achieve the Sustainable Development Goals. The PIF Principles set out how to provide funds to all financial institutions and investors to mitigate negative impacts and contribute positive impact in a realistic and reliable way. The PIF Principle consists of four principles: Definition, Frameworks, Transparency, and Assessment.

ii. About the financial institution

Sumitomo Mitsui Bank Corporation (hereinafter, “SMBC”) is a major commercial bank and financial services company under the Sumitomo Mitsui Financial Group with its head office located in Marunouchi, Chiyoda-ku, Tokyo, Japan. SMBC is one of Japan's three largest megabanks and a global financial institution in terms of asset size and market capitalization (as of August 2020). SMBC Group is also known as a signature organization of UNEP FI.

iii. Sustainability at SMBC Group

SMBC Group has announced the "SMBC Group Statement on Sustainability" in April 2020, and it has established “SMBC Group GREEN×GLOBE 2030”, a ten-year plan that extends to 2030 and is based upon the Sustainability Statement. In order to clarify its contribution to the sound development of society and to further enhance its various initiatives, SMBC Group has added the sentence “We contribute to a sustainable society by addressing environmental and social issues” to its Group Mission. The financial instruments, which are provided by SMBC in accordance with the PIF principle, are to assist its clients through financing that is a part of its sustainability efforts within SMBC Group.

Ⅱ Scope and Objectives

DNV GL’s purpose of this assessment is to conduct an independent review that the following two financial instruments, established by SMBC, are aligned with the recommendations of PIF Principles and the relevant Model Frameworks:

- ESG/SDGs Assessment Loan (PIF Principle-applied) and;
- SDGs Promotion Loan (PIF Principle-applied)

(1) Scope of external review

☒ Definition ☒ Frameworks

☒ Transparency ☒ Assessment

(2) Review type

☒ Second opinion ☐ Certification

☐ Verification ☐ Rating

☐ Others:

(3) Standards/Guidelines applied

No.	Standards/Guidelines	Published by	Level
1.	THE PRINCIPLES FOR POSITIVE IMPACT FINANCE	United Nations Environment Programme - Finance Initiative	Applied
2.	MODEL FRAMEWORK: FINANCIAL PRODUCTS FOR CORPORATE WITH UNSPECIFIED USE OF FUNDS	United Nations Environment Programme - Finance Initiative	Referred

DNV GL holds no other engagements with SMBC, including its direct shareholders, for which we foresee conflict of interest to carry out the Scope of Work as defined in the agreement agreed with SMBC. In this report, no assurance is provided regarding the financial performance of the financial instruments, the value of any investments in the financial instruments, or the long-term environmental benefits of the transaction.

Ⅲ Responsibilities of SMBC and DNV GL

SMBC has provided the information and data used by DNV GL during the delivery of this review. DNV GL's statement represents an independent opinion and is intended to inform SMBC and other interested stakeholders in the financial instruments as to whether the established criteria have been met, based on the information provided to us. In our work we have relied on the information and the facts presented to us by SMBC.

DNV GL is not responsible for any aspect of the candidate projects and assets referred to in this opinion and cannot be held liable if estimates, findings, opinions, or conclusions are incorrect. Thus, DNV GL shall not be held liable if any of the information or data provided by SMBC and used as a basis for this assessment were not correct or complete.

Ⅳ Basis of DNV GL's opinion

DNV GL has applied the recommendations of PIF principles and Model Framework to create a PIF-principle-based Assessment Protocol (hereinafter, "Protocol") that is specific and more flexible for assessment. The Protocol includes a set of criteria that contribute to the basis for DNV GL's statement of opinion. The overarching principle and guidelines behind the criteria is that "to bridge the gap between sustainable development and the achievement of the SDGs, a new impact-based approach is needed based on comprehensive consideration of the three aspects of sustainable development."

Ⅴ Work Undertaken

DNV GL's assessment work consists of a comprehensive review of the available information, based on the understanding that this information was provided to us by SMBC in good faith. DNV GL has not performed an audit or other tests to check the veracity of the information provided to us. The work undertaken to form our opinion included:

- Creation of the financial institution specific DNV GL's Protocol;
- Assessment of evidential documents provided by SMBC, and supplemental assessment with desk review;
- Interview with key personnel of SMBC, and;
- Reporting of findings against each element of the criteria

Ⅵ Review results

DNV GL conducted a review by obtaining evidence and other information and explanations that DNVGL considers necessary in accordance with DNV GL's Protocol, in order to provide a statement of opinion that the financial instruments meet the recommendations of the PIF Principles and Model Framework. DNV GL's assessment approach draws on an understanding of the risks associated with conforming to the PIF Principles and the controls in place to mitigate these. DNV GL's findings through review are as follows:

#	Assessment item	Findings
Principle 1: Definition		
1	Positive Impact Finance is that	"ESG/SDGs Assessment Loan (PIF Principle-

	which serves to finance Positive Impact Business.	applied)" and "SDGs Promotion Loan (PIF Principle-applied)" are renewed financial instruments that meet the PIF principles and are based on SMBC's conventional ESG/SDGs Assessment Loan and SDGs Promotion Loan. The financial instruments are newly incorporated by SMBC to provide advice and IR support to borrowers for contributing positive impact based on the PIF Principles.
2	It is that which serves to deliver a positive contribution to one or more of the three pillars of sustainable development (economic, environmental and social), once any potential negative impacts to any of the pillars have been duly identified and mitigated.	"ESG/SDGs Assessment Loan (PIF Principle-applied)" has defined survey form with assessment items, referring to the United Nations Global Compact 10 Principles, ISO26000, etc. In the survey form, this assessment item is classified in three pillars: (1) environmental, (2) social, and (3) governance, and assessment criteria are set for each pillar. According to this criterion (weighting assessment), each item and each classification is scored, and the positive and negative effects of the three classifications can be quantitatively and relatively comprehensively evaluated. In addition, a method of logic model analysis is used for assessing positive and negative impacts of borrowers in "SDGs Promotion Loan (PIF Principle-applied)". This is based on the idea that business activities have both a positive and negative impacts, and that the logic model can detect and treat the possibility of a negative impact proactively.
3	By virtue of this holistic appraisal of sustainability issues, Positive Impact Finance constitutes a direct response to the challenge of financing the Sustainable Development Goals (SDGs).	The financial instruments are designed to assess/diagnose borrower's activities for ESG, appropriateness of disclosure, and contributions to achievement of SDGs, and then promote their further activities for ESG and disclosure after financing.
4	Scope The Principles are intended to be applicable across all categories of financial instruments and the business activities that underpin	The financial instruments are for loans (relative and syndication methods) and private placement bonds. It is intended to apply to all business activities, regardless of the specific business of borrowers.

	them, including but not limited to: ・ Loans (corporate, retail, municipal, sovereign, inter-bank, project-related) ・ Bonds ・ Equity ・ Mezzanine ・ Notes and credit-linked-notes / obligations	
5	Scope The Principles for Positive Impact Finance are not sector based.	In principle, the assessment method is not sector based. In “ESG/SDGs Assessment Loan (PIF Principle-applied)”, a method of weighting assessment in accordance with varieties of materiality. In addition, from the viewpoint of appropriate product operation and reputation risk, an exclusionary screening has been established for certain industries in order to avoid so called “SDGs washes”.
6	The Principles acknowledge the interconnectedness of sustainability issues and therefore base themselves on a global assessment of positive and negative impacts rather than on the singling-out of sectors.	The financial instruments have covered almost all industries based on the “Japan Standards Industry Classification. They are also intended to recognize and assess interrelationship between a borrower and its supply chains (procurement, production, and sales) from a global perspective.
Principle 2: Frameworks		
7	To promote the delivery of Positive Impact Finance, entities (financial or non financial) need adequate processes, methodologies, and tools, to identify and monitor the positive impact of the activities, projects, programmes, and/or entities to be financed or invested in.	SMBC has created and revised the administrative procedures for "ESG/SDGs Assessment Loan" and "SDGs Promotion Loan" as top-level manual documents on the mechanism of positive impact finance. In addition, documents and tools, such as entry sheet, self-assessment questionnaire, sustainability priority initiative plan, monitoring sheet, and procedures for the internal application process have been prepared.
8	Implement specific processes, criteria and methodologies to identify Positive Impact. The analysis should cover activities, projects and programmes but also underlying companies;	A structure for implementing processes, standards, and methodologies to identify positive impacts has been built-in the financial instruments. The analysis includes borrower’s business activities, projects, and programmes that may be financed, and its consolidated subsidiaries are also covered.

9	Apply regular ESG risk management before determining Positive Impact eligibility;	It is designed to apply ESG risk management (risk identification, analysis, assessment, and treatment) in accordance with SMBC's internal regular procedures before assessing eligibility for positive impact.
10	Implement specific processes, criteria and methodologies to monitor the achievement of intended impacts throughout the lifetime of the financial instrument.	Regardless of the results of PIF's assessment, the period of the loan that PIF Principles are applied is determined in accordance with the same procedures as SMBC's regular loans, so there are standards and organizational structures for determining the validity period appropriately. In addition, during the loan implementation period, there is a process in which SMBC's head office and sales offices work together to manage progress in order to monitor the achievement of the intended impacts.
11	Entities should also: ・ Allocate and equip staff with relevant mandates and skill sets to enforce the above processes; ・ Seek second opinions and/or third-party assurances on the implementation of the above processes as appropriate; ・ Review and update processes as appropriate on an on-going basis.	In order to execute the above-mentioned process, SMBC has an internal management system and staffs with necessary skillset. Those activities are led by Sustainable Business Promotion Office (*). In assessing impacts of each loan project, the Japan Research Institute (SMBC Group's think tank) has established ESG/SDGs assessment methodologies and is expected to conduct assessment/diagnose individual loan project. SMBC also prepares a disclosure option that a borrower can request DNV GL to provide Letter of Conformance that expresses DNV GL's second opinion against individual loan in accordance with the PIF Principles. The process of the financial instruments will be reviewed by SMBC periodically and updated as appropriate. * In April 2020, the SMBC Group established the Sustainable Business Promotion Office within the Sumitomo Mitsui Banking Corporation's Wholesale Banking Unit, aiming to solve customer social issues through its business and contribute to realization of a sustainable society.
12	Positive Impact analysis: ・ Can be undertaken alongside existing procedures, for instance, at on-boarding and during periodical reviews of products,	"ESG/SDGs Assessment Loan (PIF Principle-applied)" and "SDGs Promotion Loan (PIF Principle-applied)" are renewed financial instruments that meet the PIF principles and are based on SMBC's conventional ESG/SDGs Assessment Loan and SDGs Promotion Loan.

	project or clients; ・ Can make use of existing and recognized tools, standards and initiatives where applicable (for instance, in the case of project finance, the Equator Principles provide a recognised risk management standard).	Therefore, it is possible to perform loans at the same time as the regular process in SMBC. In addition, it is also possible to utilize existing tools and standards for financing as needed.
Principle 3: Transparency		
13	Entities (financial or non financial) providing Positive Impact Finance should provide transparency and disclosure on: ・ The activities, projects, programs, and/or entities financed considered Positive Impact, the intended positive impacts thereof (as per Principle 1);	Generally, an individual loan project of SMBC have been made publicly available on its website when it performs loans. In the case of PIF projects, since an unspecified use of funds is targeted, it is expected that at least the following information is added in the disclosure items and disclosed. ・ This is a PIF-Principle-applied loan. ・ Intended positive impact ・ Material items and its key performance indicators
14	・ The processes they have in place to determine eligibility, and to monitor and to verify impacts (as per Principle 2);	In the financial instruments, SMBC determines eligibility of loans, based on a borrower's self-questionnaire and other survey sheet when loans are executed. In addition, material items and its key performance indicators are set up by the borrower and described in its sustainability priority initiative plan (if those items have already been disclosed in its own sustainability reports, integrated reports, and/or websites, they will be consistent). From the following fiscal year onward of the loan execution, the intended positive impacts are monitored by an assigned staff of SMBC, according to the monitoring procedures. In addition, Sustainable Business Promotion Office is required to manage the progress of periodic monitoring.
15	・ The impacts achieved by the activities, projects, programs, and/or entities financed (as per Principle 4).	In the financial instruments, borrower's requirements have been defined, and one of them is to disclose the impact achieved through their sustainability reports, integrated reports, and/or websites. In addition, periodic monitoring activities have been established by SMBC for the disclosure information, and for cross-check,

		SMBC may conduct interview with the borrower directly as needed.
Principle 4: Assessment		
16	The assessment of Positive Impact Finance delivered by entities (financial or non financial), should be based on the actual impacts achieved.	For ESG/SDGs Assessment Loan (PIF Principle-applied), in the first year of loan execution, the borrower is required to set impact indicators that take into account the five elements (variety of positive impacts, magnitude of positive impacts, efficiency, leverage of public and private funds, and the additionality of positive impacts), in conjunction with the implementation of the existing ESG/SDGs assessment. For SDGs Promotion Loan (PIF Principle-applied), it is also requested that a borrower sets impact indicators taking into account the five elements, when performing logic model analysis.

Reference list

No.	Document title
1	ESG/SDGs Assessment Loan (loan/private placement bonds), Administration Manual, Revised in Sept 2020
2	ESG/SDGs Assessment Loan (Syndication), Administration Manual, Revised in Sept 2020
3	ESG/SDGs Assessment Loan, Self-Assessment Questionnaire (SAQ)
4	ESG/SDGs Assessment Loan, Points to fill out the SAQ
5	ESG/SDGs Assessment Loan, Assessment items (Environmental, Social, and Governance Editions)
6	ESG/SDGs Assessment Loan, Application flow and criteria
7	SDGs Promotion Loan, Administration Manual, Revised in Sept 2020
8	SDGs Promotion Loan (Syndication), Administration Manual, Revised in Sept 2020
9	SDGs Promotion Loan, Self-Assessment Questionnaire (SAQ)
10	SDGs Promotion Loan, Logic Model Analysis
11	SDGs Promotion Loan, Points of Logic Model Analysis
12	SDGs Promotion Loan, Application flow and criteria
13	Common entry sheet (including judgment flow diagram)
14	Sustainability Priority Initiatives Plan (format)
15	Sustainability Priority Initiatives Plan (Monitoring sheet/format)

Ⅶ DNV GL's opinion

DNV GL expresses its opinion that, based on the information provided by SMBC and the assessment conducted by DNV GL, the conformity of the financial instruments intended by SMBC to the PIF Principles and Model Framework has been confirmed.

DNV GL Business Assurance Japan K.K.

7th September 2020

Mark Robinson
Manager, Sustainability Services
DNV GL – Business Assurance, Australia

Naoki Maeda
Managing Director
DNV GL – Business Assurance Japan K.K.

Koichiro Tanabe
Project Leader
DNV GL – Business Assurance Japan K.K.

About DNV GL

Driven by our purpose of safeguarding life, property and the environment, DNV GL enables organisations to advance the safety and sustainability of their business. Combining leading technical and operational expertise, risk methodology and in-depth industry knowledge, we empower our customers' decisions and actions with trust and confidence. We continuously invest in research and collaborative innovation to provide customers and society with operational and technological foresight.

With our origins stretching back to 1864, our reach today is global. Operating in more than 100 countries, our 16,000 professionals are dedicated to helping customers make the world safer, smarter and greener.