Second-Party Opinion

Sumitomo Mitsui Finance and Leasing Green Bond Framework

Evaluation Summary

Sustainalytics is of the opinion that the Sumitomo Mitsui Finance and Leasing's (SMFL or the Company) Green Bond Framework (the Framework) is credible and impactful and aligns with the four core components of the Green Bond Principles 2018 (GBP). This assessment is based on the following:

USE OF PROCEEDS The eligible categories for the use of proceeds, Renewable Energy and Green Buildings, are aligned with those recognized by the GBP. Sustainalytics considers that investments into renewable energy and green buildings in Japan will lead to positive environmental impacts and advance the UN Sustainable Development Goals 7, and 9.

PROJECT EVALUATION / SELECTION Eligible projects are evaluated and selected by the Treasury Dept. and the departments related to environmental and energy business and real estate business, and the final approval will be made by the Officer in charge of the Treasury Dept. Sustainalytics considers that SMFL's evaluation and selection process is aligned with market practice.

MANAGEMENT OF PROCEEDS The proceeds are allocated and managed by the Treasury Dept. The allocation of the proceeds is tracked and managed quarterly using an internal file. If the balance of eligible assets falls below the outstanding amount of green bonds, other eligible assets will be selected for re-allocation. Pending full allocation, the unallocated proceeds will be held in cash or cash equivalents. This is in line with market practice.

REPORTING SMFL will report on allocation and positive environmental impacts of the proceeds annually on the company's website. SMFL will disclose a description of funded projects, amount of allocated and unallocated proceeds, and relevant qualitative and quantitative impact metrics. SMFL will receive a compliance review from a third-party provider until full allocation. Sustainalytics views SMFL's allocation and impact reporting along with its commitment to receiving a compliance review to be aligned with market best practice.

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Issuer Location	Tokyo Japan

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Alignment with Japan's Green Bond Guidelines 2017

Sustainalytics is of the opinion that Framework (the "Framework") is in line with Japan's Green Bond Guidelines 2017. The guidelines communicate what an issuer should do to issue a credible green bond, and also highlight what an issuer is recommended to do. Sustainalytics assessed the alignment between the Framework and the 'requirements of' items outlined in the Japan's Green Bond Guidelines 2017.

Introduction

As a joint venture owned 50/50 by the Sumitomo Mitsui Financial Group and Sumitomo Corporation, Sumitomo Mitsui Finance and Leasing Company, Limited ("SMFL" or the "Issuer") is mainly engaged in lease and installment sales, providing finance, rental, management support, among other solutions. In addition to Japan, it has 15 offices in 10 countries in Asia, North America, and Europe. Founded in 1963, SMFL has its headquarters in Chiyoda-ku, Tokyo.

SMFL has developed the Sumitomo Mitsui Finance and Leasing Green Bond Framework (the "Framework") under which it intends to issue multiple green bonds and use the proceeds to finance or refinance projects that contribute to climate change mitigation. The Framework defines eligibility criteria in the following area:

1. Renewable Energy
2. Green Buildings

SMFL engaged Sustainalytics on January 2020 to review the Framework, and provide a second-party opinion on the Framework's environmental credentials and its alignment with the GBP.[1] A summary overview of this Framework has been provided in Appendix 1.

As part of this engagement, Sustainalytics held conversations with various members of SMFL's Treasury Depart. to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of SMFL's green bond framework. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

[1] The Green Bond Principles are administered by the International Capital Market Association and are available at: https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Sumitomo Mitsui Finance and Leasing Green Bond Framework

Summary

Sustainalytics is of the opinion that the Sumitomo Mitsui Finance and Leasing Green Bond Framework is credible and impactful, and aligns with the four core components of the GBP. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
  - The eligible categories for the use of proceeds, Renewable Energy and Green Buildings, are recognized by the GBP as project categories with positive environmental impacts. For additional information, please see Section 3 for Sustainalytics' assessment on the use of proceeds.
  - SMFL's framework restricts to the sustainable feedstock and waste biomass resources for the biomass power sources. Sustainalytics considers that such restrictions on resources will mitigate the risks of deforestation as well as competition with food resources.
  - SMFL intends to use the proceeds for hydropower generation projects. While there is a concern that the installation of large-scale hydropower may pose environmental risks such as deterioration of biodiversity, Sustainalytics positively views SMFL's commitment on financing the projects limiting to a capacity of 25 MW or less, considering that this will reduce the environmental risks.
  - SMFL intends to allocate the proceeds to geothermal projects. While approximately two-thirds of geothermal projects globally have a carbon intensity of below 100gCO_2e/kWh, some geothermal facilities are considerably higher, ranging up to 1,300gCO_2e/kWh. [2] Sustainalytics notes that emissions from geothermal power generation varies considerably across regions and encourages SMFL to invest in relatively low GHG emissions intensity in the context of project selection and to report on the GHG emissions intensity of the projects after allocation.
  - SMFL will allocate the proceeds into acquisition of power facilities, development, construction, and operation for renewable energy business. Sustainalytics acknowledges that CAPEX is generally preferred by investors for financing projects. However, considering the nature of eligible projects, it also views that OPEX is important to maintain the projects and sustain their positive environmental impacts.
  - SMFL intends to finance expenditures related to land acquisition, development, construction or refurbishment of green buildings, or invest into buildings that have received or will receive top two levels of recognized third-party certification certifications such as LEED Platinum or Gold, CASBEE S or A, DBJ Green building certification 5 or 4 stars, BELS 5 or 4 stars and BREEAM Outstanding or Excellent. Sustainalytics views these eligibility criteria to be aligned with best market practices. Please see Appendix 2 for an overview and comparison of green-building certification schemes.
  - SMFL will use green bond proceeds to finance future and past green projects and refinance renewable energy projects that have taken place within 24 months preceding the green bond issuance and green building projects where the construction of the buildings has been completed or the buildings have been certified or re-certified within 24 months preceding the green bond issuance.

- Project Evaluation and Selection:
  - Eligible projects are evaluated and selected by the Treasury Dept. and the departments related to environmental and energy business and real estate business based on the eligibility criteria. The final approval is made by the Officer in charge of the Treasury Dept. Sustainalytics considers that SMFL's evaluation and selection process is aligned with market practice.

- Management of Proceeds:
  - The proceeds are allocated and managed by the Treasury Dept. The allocation of the proceeds is tracked and managed quarterly using an internal file. If the balance of eligible

[2] Climate Bonds Initiative, "Geothermal Energy and the Climate Bond Standard", at: https://www.climatebonds.net/files/files/Geothermal%20Energy%20Criteria.pdf

assets falls below the outstanding amount of green bonds, other assets will be selected for reallocation. Pending full allocation to eligible green projects, the unallocated proceeds are held in cash or cash equivalents. This is in line with market practice.

- Reporting:
  - SMFL is committed to reporting on allocation and environmental impact of the proceeds annually, on its website until the maturity of the green bond. Allocation reporting including a description of funded projects and amount of allocated and unallocated proceeds will be provided once a year, and will be updated after full allocation in the event of change of allocation status. Impact reporting will include quantitative and qualitive environmental performance indicators such as the amount of power generated (kWh) and CO_2 emissions ($t\text{-}CO_2$) reduced through the funded projects as well as the type and level of green building certification.
  - SMFL intends to receive a compliance review from a third-party provider after the issue of green bonds to confirm the allocation of proceeds to eligible products to be aligned with the green bond framework, until full allocation. Sustainalytics views SMFL's allocation and impact reporting along with its commitment to receiving a compliance review to be aligned with market best practice.

Alignment with Green Bond Principles 2018

Sustainalytics has determined that the SMFL's green bond framework aligns to the four core components of the Green Bond Principles 2018. For detailed information please refer to Appendix 3: Green Bond/Green Bond Programme External Review Form.

Alignment with Japan's Green Bond Guidelines 2017

Japan's Green Bond Guidelines 2017 communicate what an issuer should do to issue a credible green bond, and also highlight what an issuer is recommended to do. Sustainalytics assessed the alignment between SMFL's green bond framework and the 'requirements of' items outlined in the Japan's Green Bond Guidelines 2017.

GBP and Japan's Green Bond Guidelines, 2017[3]	Alignment with GBP and with Japan's Green Bond Guidelines 2017	Sustainalytics' comments on alignment with Japan's Green Bond Guidelines 2017.[4]
1. Use of Proceeds	Yes	SMFL intends to use the proceeds to finance expenditures relating to renewable energy power generation projects and green buildings, which are recognized as green projects with clear environmental benefits under Japan's Green Bond Guidelines 2017. Furthermore, SMFL's environmental goals and processes to mitigate potential negative environmental and social impacts associated with its green projects are all described in the framework and have been made accessible to investors.
2. Process for Project Evaluation and Selection	Yes	In the framework, SMFL explains that the company promotes its environmental business based on environmental policies and goals, and that the green bond issuance contributes to the development of the business. It also states in the framework that projects are evaluated and selected, in accordance with the

[3] Green Bond Guidelines, 2017, Summary, Ministry of the Environment, Japan: https://www.env.go.jp/en/policy/economy/gb/summary2017.pdf
[4] For detailed comments on alignment with ICMA GBP, please see Appendix 3.

		eligibility criteria, by the Treasury Dept. and the departments related to environmental and energy business and real estate business, and finally approved by the Officer in charge of the Treasury Dept.
3. Management of Proceeds	Yes	In the framework, SMFL describes that the use of proceeds will be checked by the Treasury Dept. on a quarterly basis. SMFL has shared to Sustainalytics that an internal file will be used to track and manage the proceeds. Furthermore, SMFL has stated that unallocated proceeds will be held in cash or cash equivalents.
4. Reporting	Yes	SMFL has also stated in the framework that it is committed to reporting on the allocation and environmental impacts of the proceeds annually on its website. The allocation reporting will be published until full allocation and includes a description of funded projects, amount of allocated and unallocated proceeds. After full allocation, SMFL will disclose updates as necessary in the event of changes regarding the allocation of proceeds. Impact reporting includes the amount of power generated (kWh) and CO_2 emissions (t-CO_2) reduced through the projects funded by the proceeds as well as the type and level of green building certifications.

Section 2: Sustainability Strategy of the Issuer

Contribution of framework to SMFL's sustainability strategy

SMFL is committed to sustainability-related initiatives for its business activities through CSR and environmental policies given the following reasons:

- While SMFL addresses environmental issues as a material business challenge, the company promotes initiatives to reduce environmental impacts through its businesses including the projects to be financed through the green bonds. The environmental policy which will be implemented into its businesses addresses 6 areas of initiatives: (1) conducting initiatives through business activities aimed at protecting the environment, preventing pollution, and establishing harmony with corporate activities; (2) supporting customers' efforts to address environmental problems through business; (3) reducing environmental impact; (4) complying with environment-related laws and regulations; (5) setting environmental goals and targets and continuously improving its environmental management system; and (6) raising awareness of all employees regarding the environmental policy and disclosing it outside the company.[5]
- As its environmental activities through business, SMFL provides financing and leasing services targeting: 1) renewable energy projects including solar power, wind power, biomass, small and medium-sized hydropower, and geothermal power: and 2) facilities and equipment designed to save energy. As of November 2019, the total capacity of solar power generation facilities that SMFL provided finance and lease services exceeded 1 GW.[6]

[5] Sumitomo Mitsui Finance and Leasing, "Environmental Policy(Japanese)", at: https://www.smfl.co.jp/corporate/csr/environment_strategy/policy.html.
[6] Sumitomo Mitsui Finance and Leasing, "Corporate Profile 2019(Japanese)", at: https://www.smfl.co.jp/corporate/about/pdf/book.pdf.

Considering the above, Sustainalytics views that SMFL's green bond framework is consistent with the company's sustainability policies and goals and is well positioned to issue green bonds.

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

Sustainalytics recognizes that the development, construction, and operation of power generation facilities for renewable energy projects and green building projects create positive environmental impacts. Sustainalytics also acknowledges that these activities also pose potential environmental and social risks such as water pollution, noise, adverse effects on ecosystems, negative impacts on workers' health/safety and local residents. SMFL has the following processes designed to control and reduce the above risks:

- The departments related to environmental and energy business and real estate business are involved in the project selection process to confirm compliance with environment-related laws, regulations, ordinances, and guidelines at the project selection stage. The company also has in place a process to confirm that explanations have been provided to local residents and consent has been obtained for all construction and development projects. Through these processes, SMFL ensures that it will perform environmental impact assessments required by laws and regulations and obtain an understanding from local residents. The company has also committed to the compliance with laws, rules, and regulations in its environmental policy.
- To prevent contamination of the environment caused by illegal disposals of industrial waste materials at the time of expiration of leases, SMFL conducts on-site investigations and interviews when selecting waste transportation and disposal contractors, as well as annual assessments of the contractors with a focus on compliance.[7]
- SMFL sets environmental goals under the three pillars of: 1) management of environmental risks; 2) reduction of impacts on environment; and 3) promotion of environmental businesses. By following the procedures of Plan, Do, Check, and Act (PDCA), the company is continuously improving its environmental management activities. [8]

Considering the above, Sustainalytics is of the opinion that SMFL possess adequate processes to manage and mitigate environmental and social risks associated with the development of facilities for its renewable energy and green buildings businesses.

Section 3: Impact of Use of Proceeds

Importance of expanding renewable energy introduction for Japan

In response to the accident at the Fukushima Daiichi Nuclear Power Plant following the Great East Japan Earthquake in 2011, the Japanese government developed the "Fourth Strategic Energy Plan"[9] for 2030, publicly announcing its commitment to reduced reliance on the nuclear power generation and accelerated introduction of renewable energies (wind, solar, geothermal, biomass, and hydro). [10] In 2015, the government issued the "*Long-term Energy Supply and Demand Outlook*,"[11] in which it set out a target of increasing the ratio of renewable energies to the total power generation in Japan from the pre-Great East Japan Earthquake level of 10% to 22-24% by 2030. In addition, in its "Fifth Strategic Energy Plan"[12] developed in 2018, the government outlined the policy to make renewable energies a major source of power supply by 2050.

Furthermore, in light of the Paris Agreement under the United Nations Framework Convention on Climate Change, the Japanese government made a commitment in 2015 to reducing greenhouse gas (GHG) emissions by 26% by FY2030 compared to the FY2013 level.[13] In "Japan's Long-term Strategy under the

[7] Sumitomo Mitsui Finance and Leasing Co., Ltd., "Environmental Activities (Japanese)", at: https://www.smfl.co.jp/corporate/csr/environment_strategy/active.html.
[8] Sumitomo Mitsui Finance and Leasing Co., Ltd., "Environmental Objectives and Goals (Japanese)", at: https://www.smfl.co.jp/corporate/csr/environment_strategy/purpose.html.
[9] Ministry of Economy, Trade and Industry, "Strategic Energy Plan" (2014), at: https://www.enecho.meti.go.jp/en/category/others/basic_plan/pdf/4th_strategic_energy_plan.pdf.
[10] Ministry of Economy, Trade and Industry, "Strategic Energy Plan" (2014), at: https://www.enecho.meti.go.jp/en/category/others/basic_plan/pdf/4th_strategic_energy_plan.pdf.
[11] Ministry of Economy, Trade and Industry, "Long-term Energy Supply and Demand Outlook"(2015), at: http://www.meti.go.jp/english/press/2015/pdf/0716_01a.pdf.
[12] Ministry of Economy, Trade and Industry, "Strategic Energy Plan" (2018), at: https://www.meti.go.jp/english/press/2018/pdf/0703_002c.pdf.
[13] UNFCCC, "Submission of Japan's Intended Nationally Determined Contribution" (INDC) (Japan's Intended Nationally Determined Contribution), at: https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Japan%20First/20150717_Japan's%20INDC.pdf.

Paris Agreement,"[14] which was approved by the Cabinet in June 2019, the government set an ambitious goal of reducing GHG emissions by 80% by 2050 and achieving virtually zero GHG emissions at the earliest possible time in the second half of the 21st century. Given that approx. 90% of the country's GHG emissions are accounted for by energy-derived CO_2 emissions,[15] promoting the use of renewable energies will contribute to the reduction of CO_2 emissions and the achievement of these GHG reduction targets.

As a result of the rapidly increasing use of renewable energy sources largely attributed to new installations of solar power since 2012, the ratio of renewable energy-derived electricity reached 16% in FY2017.[16] On the other hand, due to challenging geographical conditions required, new installation of wind, hydro-, and geothermal power generation capacity lags behind, with progress ratio against the governments installation goals remaining about 30% to 40%, requiring the country to accelerate its efforts to promote the use of these renewable energies.[17]

Based on the above, Sustainalytics considers that the use of proceeds for projects relating to SMFL's renewable energy power generation business will contribute to the expansion of Japan's renewable energy-based power generation capacity as well as to the achievement of Japan's GHG reduction and climate change mitigation goals.

Importance of Green Buildings for reducing environmental footprint in Japan

Japan's total GHG emissions were 1,244 million tonnes of carbon dioxide equivalents (Mt CO_2 eq.) in FY2017.[18]. Regarding the energy-related CO_2 emissions from each sector, buildings (Commercial and other, and Residential) accounted for 35.6% in FY2017.[19] With this background, the Japanese government has been working on the strengthening of energy-saving measures for buildings, and adopted the *Act for the improvement of the Energy Consumption Performance of Buildings*[20] in 2015. This Act introduced mandatory compliance with energy efficiency standards for large-scale non-residential buildings, and the coverage is planned to be expanded to include middle-scale and residential buildings.

Additionally, in line with Japan's reduction GHG emissions commitments stated in the Intended Nationally Determined Contributions (INDC)[21], the Japanese government sets out a target to reduce CO2 emissions by 40% in both the Commercial and other sector and Residential sector. It aims to achieve this target through the implementation of measures such as improving newly-constructed buildings' energy-saving performance, renovating existing buildings, ensuring thorough energy management, and introducing highly-efficient lighting equipment.

By financing buildings meeting the top two levels of nationally- and globally-recognized green building certifications (LEED, CASBEE, DBJ Green building certification, BELS and BREEAM), SMFL's investments can help to mitigate building-associated negative environmental impacts by improving energy efficiency, air quality, and water management. Overall, considering the large share of environmental footprint generated by commercial and residential buildings, Sustainalytics views that SMFL's investment in Green Buildings will contribute to reducing Japan's CO_2 emissions from buildings and support the government's goal to reduce GHG emissions.

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

[14] Ministry of the Environment, "Japan's Long-term Strategy under the Paris Agreement(Japanese)" (2019), at: https://www.env.go.jp/press/111781.pdf.
[15] Ministry of the Environment, "Japan's National Greenhouse Gas Emissions in Fiscal Year 2017 (Final Figures) (Japanese)", at: https://www.env.go.jp/earth/ondanka/ghg-mrv/emissions/results/JNGI2019_1.pdf.
[16] Ministry of Economy, Trade and Industry, "Energy White Paper 2019 (Japanese)", at: https://www.enecho.meti.go.jp/about/whitepaper/2019pdf/whitepaper2019pdf_1_2.pdf.
[17] Ministry of Economy, Trade and Industry, "Measures to Achieve Energy Mix 2030 - Energy Saving, Renewable Energy, etc. (Japanese)", at: https://www.enecho.meti.go.jp/committee/council/basic_policy_subcommittee/022/pdf/022_006.pdf.
[18] Ministry of the Environment, "Japan's National Greenhouse Gas Emissions in Fiscal Year 2018, (2019), at: https://www.env.go.jp/press/814.pdf
[19] Ministry of the Environment, "Japan's National Greenhouse Gas Emissions in Fiscal Year 2018, (2019), at: https://www.env.go.jp/press/814.pdf
[20] Ministry of Land, Infrastructure, Transport and Tourism, "Overview of the Building Energy Efficiency Act (Detailed Explanatory Session) (Japanese only)", at: https://www.mlit.go.jp/common/001178846.pdf
[21] Ministry of Foreign Affairs of Japan, "Intended Nationally Determined Contributions: GHG Emissions Reduction Target in FY2030", at: https://www.mofa.go.jp/ic/ch/page1we_000104.html

Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Green Buildings	9. Industry, Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities

Conclusion

SMFL has developed a green bond framework under which it is planning to issue green bonds. The proceeds will be allocated to expenditures and finance related to renewable energy power generation businesses and green buildings. The renewable energy and green building projects described by SMFL as Use of Proceeds within the Framework are recognized as having clear environmental benefits under the GBP and Japan's Green Bond Guidelines 2017. Sustainalytics views that these use of proceeds categories are aligned with SMFL's environmental strategy and contribute to the promotion of the UN Sustainable Development Goals 7 and 9, as well as the achievement of GHG emission reduction goals set by the Japanese government.

SMFL's framework displays market practice considering that i) the projects evaluation and selection process will be conducted by the Treasury Dept. and the departments related to environmental and energy business and real estate business, ii) the proceeds will be allocated and tracked by the Treasury Dept., and iii) it is committed to annual reporting on the use of proceeds and environmental impacts. In addition, SMFL intends to receive a compliance review after the issuance of green bonds. Sustainalytics views this increased transparency positively.

Based on the above, Sustainalytics is of the opinion that SMFL's Framework is robust, credible, and in line with the GBP and Japan's Green Bond Guidelines 2017.

Appendices

Appendix 1: Framework Overview

For the purpose of issuing green bonds, SMFL has developed the following framework which addresses the four key core components of the GBP: use of proceeds, project evaluation and selection process, management of proceeds, and reporting, in January 2020. The framework belongs to SMFL.

1. Use of proceeds

The proceeds from green bond issuance will be allocated to new or existing expenditures and finance that meet one of the following eligibility criteria. If the project is carried out by SMFL MIRAI Partners Co., Ltd., the subsidiary is eligible to receive loans financed by the proceeds.

Eligibility criteria

Criterion 1 — Renewable energy

Expenditures and finance related to purchasing, developing, constructing, or operating power generation facilities, as well as investment and lending relating to any of the following renewable energy power generation projects from (a) to (e):
However, eligible projects must (i) be launched within 24 months prior to the date of green bond issuance, or (2) expected to be launched after the date of green bond issuance.

(a) Solar power generation
(b) Wind power generation
(c) Biomass power generation
Limited to projects that use sustainable feedstock or waste biomass resources-.
(d) Geothermal power generation
(e) Small hydropower generation
Limited to projects with a capacity of 25 MW or less

Criterion 2 — Green Buildings

Expenditures and finance related to land acquisition costs, planning and development costs, construction costs, renovation costs, and others for assets that have acquired or are expected to acquire at least one of the following green building certifications (a) to (e):
However, eligible projects must (i) have acquired environmental certification within 24 months prior to the date of green bond issuance, or (ii) expected to acquire environmental certification after the date of green bond issuance.

(a) LEED Platinum or Gold
(b) CASBEE (CASBEE for Buildings / CASBEE for Real Estate) S or A
(c) DBJ Green building certification 5 or 4 stars
(d) BELS 5 or 4 stars
(e) BREEAM Outstanding or Excellent

2. Process for project evaluation and selection

2.1 Application of Eligibility and Exclusionary Criteria in Project Selection.

Eligible projects will be assessed and selected according to the eligibility criteria by the Treasury Dept. and the departments related to environmental and energy business and real estate business. Final approval of the green bond issuance will be executed by the Officer in charge of the Treasury Dept.

2.2 Environmental Objectives

SMFL promotes initiatives to reduce environmental impacts through its businesses by setting out environmental goals based on its environmental policy. For example, we contribute to the realization of a circular society by promoting the reuse and recycling of machineries and equipment through the lease of facilities for solar and other renewable energy power generation as well as through the used equipment business. The green bond issuance will help achieve our environmental goal of promoting environmental businesses through our own business activities.

2.3 Process to Mitigate Environmental and Social Risks

Regarding negative impacts of renewable energy projects on surrounding areas, SMFL will confirm within the project selection process, that environmental laws and regulations, ordinances, guidelines, etc. are complied with and that explanations are provided to local residents, and construction or development will be carried out with the consent of them prior to the construction or development.

3. Management of Proceeds

3.1 Proceeds allocation plan
To be decided based on the status and nature of the project each time green bonds are issued in accordance with the framework.

3.2 Tracking and management until the maturity, management of total amount, and frequency
The Treasury Dept. will be responsible for allocating and managing the green bond proceeds so that all of them are allocated to projects that meet the eligibility criteria. The Treasury Dept. will check the use of proceeds on a quarterly basis, using an internal file. If the balance of eligible projects falls below the outstanding amount of green bonds, SMFL will select other projects that are compliant with the eligibility criteria for re-allocation.

3.3 Management of unallocated proceeds
Green bond proceeds will be held in cash or cash equivalents until they are allocated to projects that meet the eligibility criteria.

3.4 Retention of relevant documents
Documents relevant to the green bond issuance will be retained for an appropriate period of time in accordance with internal document retention rules.

4. Reporting

4.1 Allocation Reporting
Until full allocation, SMFL will provide and keep readily available, information on the allocation of proceeds on its website. This information will be updated at least annually until full allocation, and as necessary thereafter in the event of a change regarding the allocation of proceeds. This information includes description of funded projects, amount of allocated and unallocated proceeds, while taking confidentiality obligations into account.

4.2 Impact Reporting
Until full allocation, SMFL will annually report on the following information for funded projects on its website.

Renewable Energy
- Amount of power generated (kWh: theoretical value based on output standard), and CO_2 emissions (t-CO2: theoretical value based on output standard) reduced

Green Building
- The type and level of green building certification

5. Compliance Review

SMFL will engage Sustainalytics to review the issuance of green bond under the framework in order to assess the compliance with the framework. Sustainalytics will provide a report of the review annually until full allocation, which SMFL will publish on its website. In an unlikely event that the annual review identifies allocations made to activities that do not comply with the green bond eligibility criteria, SMFL will reallocate the corresponding amounts to different projects that are compliant with the framework's eligibility criteria.

Appendix 2: Comparison of Referenced Green Building Certification Schemes

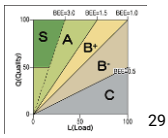
	LEED[22]	BREEAM[23]	CASBEE Certification[24]	DBJ Green Building Certification[25]	BELS[26]
Background	Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by the non-profit U.S. Green Building Council (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.	The Comprehensive Assessment System for Built Environment Efficiency (CASBEE) Certification is a green building certification scheme in Japan, which a third party certifies the environmental performance of buildings. The certification scheme includes, based on types of buildings: CASBEE for Buildings, CASBEE for Real Estate, and CASBEE for Housing.	DBJ Green Building Certification Programme was launched by Development Bank of Japan in 2011 and is operated together with Japan Real Estate Institute (JREI).The programme is recognized as one of regional standards.The certification is available for office buildings, logistics, residential & retail facilities.	The Building-Housing Energy-efficiency Labelling System (BELS) is an energy performance label, issued under guidelines established by Japan's Ministry of Land, Infrastructure, Transport, and Tourism. The BELS certification scheme evaluates primary energy consumption in order to measure performance of energy conservation.
Certification levels	Certified Silver Gold Platinum	Pass Good Very Good Excellent Outstanding	C (Poor) B- (Slightly Poor) B+ (Good) A (Very Good) S (Excellent) * 4-grade evaluation for CASBEE for Real Estate excluding C rank	1 Star (Properties with satisfactory environmental & social awareness) 2 Stars (Properties with high environmental & social awareness) 3 Stars (Properties with excellent environmental and social awareness) 4 Stars (Properties with exceptionally high environmental & social awareness) 5 Stars (Properties with the best class environmental & social awareness)	1 Star 2 Stars 3 Stars 4 Stars 5 Stars
Areas of Assessment: Environmental Project Management	Integrative process, which requires, from the beginning of the design process,	Management (Man) addresses various aspects: project management,	CASBEE assesses two main factors: inside and outside the building site, which translate	Evaluation of DBJ Green Building Certification includes construction	None

[22] U.S. Green Building Council, "Green building leadership is LEED", at: https://new.usgbc.org/leed.
[23] Building Research Establishment, "BREEM", at: https://www.breeam.com/
[24] Institute for Building Environment and Energy Conservation, "CASBEE certification scheme (Japanese only)", at: http://www.ibec.or.jp/CASBEE/certification/certification.html.
[25] Development Bank of Japan, Japan Real Estate Institute (JREI), "DBJ Green Building", at: http://igb.jp/en/index.html.
[26] Association for Housing Performance Evaluation & Labeling, "Building-Housing Energy-efficiency Labelling System Building Energy-efficiency Performance Labeling System (Japanese only)", at: https://www.hyoukakyoukai.or.jp/bels/bels.html.

	the identification and creation of synergies between the various project stakeholders regarding the construction choices and the technical systems.	deployment, minimal environmental disturbance worksite and stakeholder engagement.	into Q (Built Environment Quality) and, L (Built Environment Load), respectively. * The above are not applied to CASBEE for Real Estate	specifications, environmental features as well as the following factors: - Disaster-prevention and anticrime measures; - Tenants' comfort and convenience; - Harmony with the surrounding environment; - Collaboration with stakeholders (including tenants and investors); and - Environmental Investor Relations activities.	
Areas of Assessment: Environmental Performance of the Building	• Energy and atmosphere • Sustainable Sites • Location and Transportation • Materials and resources • Water efficiency • Indoor environmental quality • Innovation in Design • Regional Priority	• Energy • Land Use and Ecology • Pollution • Transport • Materials • Water • Waste • Health and Wellbeing • Innovation	• Energy Efficiency • Resource efficiency • Local environment • Indoor environment * Areas for assessment of CASBEE for Real Estate are energy/GHG, water, resource, biodiversity, indoor environment	Assessment include three areas with some examples of following subcategories: Ecology • Energy conservation • Water resources conservation • 3R (Reduce, Reuse and Recycle) • Use of renewable energy Risk management & amenities/diversity • Security & Safety of tenant users • Convenience of tenant users Community & partnership • Landscape • Biodiversity • Relation with the local community • Owner & stakeholder relationship	• Energy efficiency
Requirements	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	Score-based performance level. CASBEE uses the BEE (Built Environment Efficiency) as its assessment indicator, which is calculated from Q	Score-based performance level Assessment structure composed of the following three pillars: 1. Areas of assessment	Score-based performance level. The BELS score is based on the Building Energy Index, obtained by comparing the energy consumption of a

	the LEED level of certification 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).	weighted by item[27] and 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. BREAAM has two stages/ audit reports: a 'BREEAM Design Stage' and a 'Post Construction Stage', with different assessment criteria.	(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. Buildings may receive ranks ranging from C (poor) to S (excellent), in order of increasing BEE value. For authorization, a building must receive a report from the CASBEE Certification system, which is afterwards assessed by the local government. * CASBEE for Real Estate does not use BEE, additional point system. Certification will not be given, if required item are not met.	The features and characteristics of the green building will be classified into three main categories: ecology, risk management & amenities/diversity, and community & partnership. Each main area consists of five subcategories and has a full score of 100 points. The entire assessment consists of 58 questions. 2. Comprehensive assessment Among the conventional assessment points, some particular importance is attached to the owner operation of the property, such as, in the risk management part, disaster prevention & anticrime measures, and in the community & partnership part, local environment-awareness initiatives. 3. Innovation point system An additional point system is adopted to reflect exceptionally innovative initiatives in each subcategory. Such initiatives need not fit in the scope of the respective questions. JREI will conduct on the ground review of building performance on the indicators above, and a committee set in	building to the standard primary energy consumption of the building type in official guidelines. A two-star rating is equivalent to meeting existing energy conservation standards, with higher star ratings implying greater savings. The score is calculated by an accredited third party.

[27] 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

				JREI will decide the result of certification rank.	
Performance display	Platinum 80+ points earned [28]	Pass ★★★☆☆ Outstanding	 [29]	 [30]	 [31]
Qualitative considerations	Widely recognised internationally, and strong assurance of overall quality.	Worldwide recognition and application.	CASBEE is continuously developed based on industry-government-academia collaboration under the support of Ministry of Land, Infrastructure, Transport and Tourism. In Japan, many local governments have made CASBEE assessment results mandatory for building permits. Compared to similar tools available internationally, CASBEE displays a unique and simple structure.	In addition to LEED and CASBEE, DBJ Green Buildings Certification Programme is considered as one of the green building standards in Japan. According to its website, as of March 2019, 695 properties in Japan are certified by the programme.[32]	BELS is aligned with official government standards. The scheme assesses only energy performance, without any broader consideration of holistic environmental factors.

[28] U.S. Green Building Council, "Green building leadership is LEED", at: https://new.usgbc.org/leed
[29] Institute for Building Environment and Energy Conservation, "Method of Evaluation and Built Environment Efficiency (BEE)", at: http://www.ibec.or.jp/CASBEE/CASBEE_outline/method.html.
[30] Development Bank of Japan, "DBJ Green Building", at: http://www.dbj.jp/en/pdf/service/finance/g_building/gb_presentation.pdf.
[31] Institute for Building Environment and Energy Conservation, "Display example of BELS (Japanese only)", at: https://www.hyoukakyoukai.or.jp/bels/pdf/170401bels_07.pdf.
[32] Development Bank of Japan, Japan Real Estate Institute (JREI), "DBJ Green Building", at: http://igb.jp/en/index.html.

Appendix 3: Green Bond / Green Bond Programme - External Review Form
Section 1. Basic Information

Issuer name:	Sumitomo Mitsui Finance and Leasing Company, Limited
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable: [specify as appropriate]	Sumitomo Mitsui Finance and Leasing Company, Limited Green Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	February 12, 2020
Publication date of review publication: [where appropriate, specify if it is an update and add reference to earlier relevant review]	

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:

☒	Use of Proceeds	☒	Process for Project Evaluation and Selection
☒	Management of Proceeds	☒	Reporting

ROLE(S) OF REVIEW PROVIDER

☒	Consultancy (incl. 2nd opinion)	☐	Certification
☐	Verification	☐	Rating

☐ Other (please specify):

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 Evaluation Summary above.

Section 3. Detailed review

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):

The eligible categories for the use of proceeds, Renewable Energy and Green Buildings, are aligned with those recognized by the Green Bond Principles. Sustainalytics considers that SMFL's eligible projects will lead to positive environmental impacts and advance the UN Sustainable Development Goals 7 and 9.

Use of proceeds categories as per GBP:

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

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Eligible projects are evaluated and selected by the Treasury Dept. and the departments related to environmental and energy business and real estate business, and finally approved by the Officer in charge of the Treasury Dept. Sustainalytics considers that SMFL's evaluation and selection process is aligned with market practice.

Evaluation and selection

☒ Credentials on the issuer's environmental sustainability objectives	☐ Documented process to determine that projects fit within defined categories
☒ Defined and transparent criteria for projects eligible for Green Bond proceeds	☐ Documented process to identify and manage potential ESG risks associated with the project
☐ Summary criteria for project evaluation and selection publicly available	☐ Other (please specify):

Information on Responsibilities and Accountability

☒ Evaluation / Selection criteria subject to external advice or verification	☒ In-house assessment

☐ Other (please specify):

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

The proceeds are allocated and managed by the Treasury Dept. The allocation of the proceeds are tracked and managed quarterly using an internal file. If the balance of eligible assets falls below the outstanding amount of green bonds, other assets will be selected for re-allocation. Pending full allocation to eligible green projects, the unallocated proceeds will be held in cash or cash equivalents. This is in line with market practice.

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):

Additional disclosure:

☐ Allocations to future investments only

☒ Allocations to both existing and future investments

☐ Allocation to individual disbursements

☐ Allocation to a portfolio of disbursements

☐ Disclosure of portfolio balance of unallocated proceeds

☐ Other (please specify):

4. REPORTING

Overall comment on section (if applicable):

SMFL plans to report on allocation and positive environmental impacts of the proceeds annually on the company's website. The disclosure includes description of funded projects, amount of allocated and unallocated proceeds, and relevant qualitative and quantitative impact metrics. SMFL also plans to undertake a compliance review after the green bond issuance until full allocation. Sustainalytics views SMFL's allocation and impact reporting along with its commitment to receiving a compliance review to be aligned with market best practice.

Use of proceeds reporting:

☐ Project-by-project

☐ On a project portfolio basis

☒ Linkage to individual bond(s)

☐ Other (please specify):

Information reported:

☒ Allocated amounts ☐ Green Bond financed share of total investment

☐ Other (please specify):

Frequency:

☒ Annual ☐ Semi-annual

☒ Other (please specify): in the event of changes in the allocation status after full allocation

Impact reporting:

☐ Project-by-project ☒ On a project portfolio basis

☐ Linkage to individual bond(s) ☐ Other (please specify):

Frequency:

☒ Annual ☐ Semi-annual

☐ Other (please specify):

Information reported (expected or ex-post):

☒ GHG Emissions / Savings ☐ Energy Savings

☐ Decrease in water use ☒ Other ESG indicators (please specify): Amount of power generated (kwh), types and levels of green building certifications

Means of Disclosure

☐ Information published in financial report ☐ Information published in sustainability report

☐ Information published in ad hoc documents ☒ Other (please specify): SMFL website

☐ Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to SMFL's documentation, etc.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

☐ Consultancy (incl. 2nd opinion) ☐ Certification

☐ Verification / Audit ☐ Rating

☐ Other (please specify):

Review provider(s): **Date of publication:**

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

i. Second Party Opinion: An institution with environmental expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.

ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.

iii. Certification: An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.

iv. Green Bond Scoring/Rating: An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

Disclaimer

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

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