



## SECOND PARTY OPINION

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# SUMITOMO MITSUI BANKING CORPORATION TRANSITION FINANCE PLAYBOOK

Prepared by: DNV Business Assurance Japan K.K.

Location: Kobe, Japan

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### Revision History

Revision Number	Date of Issue	Remarks
0	15 May 2023	First Edition

### Disclaimer

Our assessment relies on the premise that the data and information provided by the Enabler to us as part of our review procedures have been provided in good faith. Because of the selected nature (sampling) and other inherent limitation of both procedures and systems of internal control, there remains the unavoidable risk that errors or irregularities, possibly significant, may not have been detected. Limited depth of evidence gathering including inquiry and analytical procedures and limited sampling at lower levels in the organization were applied as per scope of work. DNV expressly disclaims any liability or co-responsibility for any decision a person or an entity may make based on this Statement.

### Statement of Competence and Independence

DNV applies its own management standards and compliance policies for quality control, in accordance with ISO/IEC 17021:2011 - Conformity Assessment Requirements for bodies providing audit and certification of management systems, and accordingly maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We have complied with the DNV Code of Conduct<sup>1</sup> during the assessment and maintain independence where required by relevant ethical requirements. This engagement work was carried out by an independent team of sustainability assurance professionals. DNV was not involved in the preparation of statements or data included in the Framework except for this Statement. DNV maintains complete impartiality toward stakeholders interviewed during the assessment process.

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<sup>1</sup> DNV Code of Conduct is available from DNV website ([www.DNV.com](http://www.DNV.com))



## Executive Summary

Sumitomo Mitsui Banking Corporation (hereinafter referred to as “SMBC” or “**Enabler**<sup>1</sup>”) is a commercial bank under Sumitomo Mitsui Financial Group Inc (“SMBC Group”), which provides financial services in Japan and abroad.

SMBC Group is committed to achieving net zero GHG emissions across its entire investment and loan portfolio by 2050, in addition to achieving net zero greenhouse gas (GHG) emissions from its operations by 2030. Specifically, SMBC Group announced the “Roadmap Addressing Climate Change” and the “Action Plan” in 2021 as action plans to address climate change to achieve carbon neutrality in 2050, and is taking progressive actions towards building a decarbonised society.

In this context, SMBC believes that, in addition to the financing of green activities such as renewable energy that it has provided to date, it is necessary to support customers' business transitions and GHG reductions from a financing perspective in order to make the transition to decarbonisation (“transition”). In order to promote transition finance as a financial institution that provides funds for the transition of others that are contributing to the environment through their business (“Enabler”), SMBC has formulated the “Transition Finance Playbook” (hereinafter referred to as “Playbook”) as a document equivalent to a framework based on international frameworks.

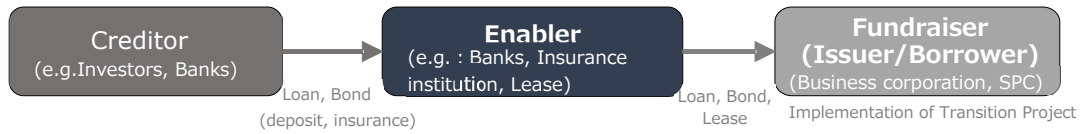
The Playbook is structured as a comprehensive playbook that includes the elements required for the execution of the following three types of finance by SMBC as the Enabler.

- Project Finance (hereinafter referred to as “PF”)
- Finance in the format of General Corporate Purpose instruments (hereinafter referred to as “GCP”) \*Finance with no specified use of proceeds
- Finance in the format of Use of Proceeds instruments (hereinafter referred to as “UoP”)

DNV Business Assurance Japan K.K. (hereinafter referred to as “DNV”), as an external reviewer, assessed the eligibility of the Playbook. Specifically, DNV applied and referred to frameworks (principles, guidelines, etc.) including the following and assessed the eligibility of SMBC's plans and structures to appropriately evaluate and determine as the Enabler if the borrower's projects and business activities eligible for the Climate Transition Finance (hereinafter referred to as “CTF”) would contribute to the realization of its transition strategies.

- Climate Transition Finance Handbook (CTFH), International Capital Markets Association (ICMA), 2020.
- Basic Guidelines on Climate Transition Finance (CTFBG), Financial Services Agency, Ministry of Economy, Trade and Industry, Ministry of the Environment, 2021.
- NZBA Transition Finance Guide (NZBA-TFG), United Nations Environment Programme - Finance Initiative, 2022
- Financing Credible Transitions (White Paper) (CTFWP), Climate Bonds Initiative, 2020
- Green Loan Principles (GLP), Loan Market Association (LMA) et al, 2021
- Green Loan Guidelines (GLGLs), Ministry of the Environment, 2022
- Asia Transition Finance Guidelines (ATFG), ATF Study Group, 2022

The following is a summary of the assessment results for each common element set out in the above frameworks.



\*Edited extract from a METI material

\*1 Enabler: In this report, the Enabler is defined as the transition finance body (the entity that procures the funds, including investments and loans) underlined below, as described in the relevant questions in the “Climate Transition Finance Handbook” (ICMA)<sup>\*1</sup> and the “Basic Guidelines on Climate Transition Finance” (Financial Services Agency, Ministry of Economy, Trade and Industry, Ministry of the Environment)<sup>\*2</sup>.

**“Financial institutions that finance (transition) projects”**<sup>\*1</sup>

**“Entities that plan to take initiatives that enable others to implement transition strategies through their own products and services. In such cases of financial institutions,** a financier should articulate how the underlying projects or activities themselves fit into the fundraiser’s strategy<sup>”\*</sup><sup>2</sup>

This report is to evaluate the eligibility of financial institutions’ plans and structures as Enablers to evaluate that targeted transition projects and activities contribute to the realization of appropriate transition strategies of the fundraiser.



## < Assessment Results of the Enabler's CTF Eligibility Assessment Process for Borrowers



Based on the related documents and information provided by SMBC, DNV has confirmed that SMBC, as the Enabler, has established the CTF Eligibility Assessment Process (the "Eligibility Assessment Process") as the Playbook for borrowers and that the Playbook is eligible.

The Eligibility Assessment Process based on the Playbook determines the eligibility of the initiatives of transition finance borrowers according to the level of disclosure and efforts set by SMBC for each element of the various CTF guidelines, etc. and has been prepared as SMBC's internal standard document and as "Checklists". It has been developed as an internal process for SMBC to ultimately determine the eligibility of target project of transition finance. DNV assessed that the Playbook, which refers to the NZBA-TFG and other globally benchmarked guidelines, is effective from the perspective of SMBC's providing transition finance based on a consistent process as a global financial institution. The Playbook also stipulates that it should be updated at least once a year, so it is expected to function as a valid and up-to-date version at all times.

Furthermore, it is a feature of the Playbook that SMBC has developed detailed assessment procedures and definitions in its "Internal Taxonomy" along with hundreds of categories of target assets, such as technology level classification, minimum standards, national and regional standards, etc. This Internal Taxonomy has been explained in detail to DNV. DNV confirmed that the Internal Taxonomy reflects the latest technologies and trends and that the assessment procedures and definitions are appropriate for assessing transition projects.

In addition, the Playbook considers the following four key principles in executing transition finance:

- Do No Significant Harm
- Avoid Carbon Lock-in
- Best Available Technology
- Just Transition

The Enabler CTF-1 to CTF-4 below outline the Eligibility Assessment Process for the four common elements of the CTFH and CTFBG. Through its assessments for SMBC, DNV confirmed that the Eligibility Assessment Process (Playbook) is not only aligned with the CTFH and CTFBG but also refers to the NZBA-TFG, CTFWP and ATFG, and that the assessment procedures cover a wide range of guidelines, etc. related to transition finance.

### Enabler CTF-1. Borrower's Climate Transition Strategy and Governance:

**Climate transition strategy:** Through the Playbook, SMBC confirms that the borrower's transition strategy is aligned with the goals of the Paris Agreement, taking into account country/regional/industry specific roadmaps and that the borrower has specific plans which are transparent with highly reliable and feasible targets. SMBC also considers the non-climate environmental and social impacts of the borrower's implementation of the transition strategy, as well as its contribution to the SDGs.

In the Playbook, SMBC assesses the eligibility of assets for various types of transition finance by labelling them as "**Green**", "**Yellow**", "**Red**", etc., based on the Internal

Taxonomy. As a result of the evaluation, assets are labelled as transition finance if they are classified as **“Yellow”**. For more details, please refer to the main text of this report.

Table-1: Definition of labels based on Internal Taxonomy

No.	Label	Description
1	Green	Assets with zero or near zero GHG emissions → Green finance
2	Yellow	Assets aligned with 1.5°C target based on the consideration of industry and timeline → Transition finance
3	Red	Assets that are not classified as either of the above Green or Yellow (assets that are not aligned with the goals of the Paris Agreement).

**Governance structure for achieving carbon neutrality:** SMBC confirms how the borrower’s transition strategy is managed and implemented. If the borrower’s originally planned transition strategy is updated, whether due to external or internal factors, SMBC and the borrower explain the changes and the reasons for them to stakeholders.

#### Enabler CTF-2. Business Model Environmental Materiality:

**Environmental materiality:** SMBC confirms that the borrower's climate change initiatives contribute to the transformation of core business activities that are environmentally material in terms of business characteristics, now and in the future of the borrower.

**Climate change-related scenarios:** SMBC confirms which climate change scenario the borrower's transition strategy is based on and, in the case of PF and UoP, confirms that they are closely linked to the nominated projects and operations.

#### Enabler CTF-3. Climate Transition Strategy to be “Science-based” including Targets and Pathways:

**Scientific rationale:** SMBC confirms that the targets and pathways quantified as absolute or relative values set by the borrower are set by reference to the scientifically based trajectories required to achieve the goals of the Paris Agreement. Individual assessments may be carried out taking into consideration the strategy of the country or region in which the project is implemented.

**Consideration of key emissions scopes:** SMBC confirms that the borrower's GHG emissions reduction targets cover the GHG Protocol and are set by other appropriate indicators, targets, etc., depending on country and region, business characteristics, and timelines for technology development and reduction progress.

#### Enabler CTF-4. Implementation Transparency:

**Investment plan:** SMBC confirms the overall investment plan for the realisation of the borrower's transition strategy. If the timeline for realising the strategy is long or if the overall investment plan is difficult to set due to external factors such as common technology



development, SMBC confirms the short-term investment plan, including the said project, to the extent practicable.

**Outcomes and impact:** SMBC confirms that the climate-related and other outcomes and impacts envisaged by the nominated projects for allocation or through the borrower's entire business activities are clearly demonstrated by the borrower (whether direct or indirect, quantitative or qualitative).

**Finance execution and management:** When providing PF and UoP financing, SMBC assesses in advance that the borrower has an appropriate process for managing and reporting its plans for allocating proceeds for transition projects and monitoring the post-financing implementation status (e.g. allocation status and GHG reduction benefits) from the time of financing to the completion of allocation. It is also stipulated that SMBC confirms the status of transition initiatives at least once a year during the loan period. In addition, in the case of GCP, SMBC monitors the achievement status of the borrower's transition strategy.



## <Eligibility Assessment Results of Transition Finance in the Format of Use of Proceeds Instruments>

Based on the related documents and information provided by SMBC, DNV has identified the following: TF-1 to TF-4 below are the findings and opinions of DNV against the four elements (see GLP/GLGLs) required for the management of PF and UoP.

### TF-1. Use of Proceeds:

**Project finance (PF):** SMBC has established a PF decision-making process (evaluation flow) which evaluates the nominated assets for PF and the status of transition initiatives of the main sponsor<sup>\*1</sup> based on the Playbook and Internal Taxonomy.

**Finance in the format of General Corporate Purpose instruments (GCP):** SMBC has established a GCP decision-making process (evaluation flow) which, based on the Playbook, evaluates the status of the borrower's transition initiatives and then sets one or more KPIs to measure progress towards zero GHG emissions. The GCP does not require management of the five elements required for transition-linked finance categorised as the CTF, and no setting of finance characteristics or verification will be conducted using the trigger event(s) determination based on the setting or achievement of SPTs. The implementation of the transition strategy based on the borrower's business activities is considered as a "project" and the achievement status of targets based on the implementation of the transition strategy is monitored.

Therefore, while the process for GCP is not the same process for Use of Proceeds instruments used in standard transition finance, DNV's overall assessment is that there is a certain degree of effectiveness in the way that the GCP supports the progress of the borrower's transition through financing and that it promotes the transition of the borrower and the society as a whole by targeting a wide range of borrowers and projects.

**Finance in the format of Use of Proceeds instruments (UoP):** SMBC has established a UoP decision-making process (evaluation flow), which evaluates the status of the borrower's transition initiatives based on the Playbook and Internal Taxonomy.

**Common:** SMBC confirms that the decision-making process of each financing ultimately complies with the "SMBC Group Environmental and Social Framework"<sup>\*2</sup>.

\*1 Main Sponsor: It is stipulated in the Playbook that the "main sponsor" refers to the sponsor or group of sponsors, either individually or collectively, with decision-making authority over the transition strategy, or is defined on a consultation basis.

\*2 SMBC Group Environmental and Social Framework

[https://www.smfg.co.jp/english/sustainability/group\\_sustainability/esframework/](https://www.smfg.co.jp/english/sustainability/group_sustainability/esframework/)



## TF-2. Process for Project Evaluation and Selection:

- SMBC has classified the transition finance to which it provides funds as the Enabler into 3 categories: (i) PF, (ii) GCP and (iii) UoP.
- SMBC has established a decision-making process (evaluation flow) to ensure that the target to be financed meets CTF-1 to 4 and TF-1 to 4, respectively. This decision-making process consists of four main common processes, and detailed processes are set individually for each target. An overview of the four common processes is described below.
- Each of the four main common processes stipulates the involvement of SMBC's Sustainability Division and relevant departments to ensure that appropriate decisions and assessment are made.
- In addition, if an eligibility assessment has already been conducted by a third-party organisation, SMBC may, after careful assessment of the third-party assessment, use the results of such assessment as valid, as long as it does not violate Process 3.

### **Process 1: Asset criteria** \*PF and UoP

Label asset eligibility based on Internal Taxonomy.

**"Green", "Yellow", "Red", etc.**

### **Process 2: Transition strategy criteria** \* All types of finance including the above and GCPs

Assess the borrower's transition finance eligibility based on Enabler CTF-1 to CTF-4. (in addition, **"other criteria"** are set for each of the three target categories, which take exceptions into consideration and conduct more detailed process assessment).

### **Process 3:** Confirm the compliance with the "SMBC Group Environmental and Social Framework". \*All types of finance



### **Complete transition finance eligibility assessment** \* All finance

(As necessary, the labelling of Process 1 may be changed or "Other" may be used if it is not included in any of these).



### **Process 4:** Implement the credit assessment and reviews regarding reputational risk, financed emissions, etc. \* All types of finance

## TF-3. Management of Proceeds:

SMBC confirms through reports from the borrower (either through written submissions or interviews) prior to the loan that there are procedures in place to ensure that the proceeds raised by the borrower through transition finance from SMBC are managed in accordance with the borrower's internal processes.

For example, systems and forms are used to ensure the total amount of nominated transition projects is managed to be not less than the proceeds from transition finance ("allocated amount + cash and cash equivalents" ≥ "loan amount (drawn amount in the case of a line of credit agreement)"). SMBC ensures that the amount equal to the



unallocated proceeds is maintained in cash or cash equivalents until the proceeds have been allocated. Both are monitored by SMBC at least once a year until all loan amounts have been allocated.

#### **TF-4. Reporting:**

**Allocation status:** SMBC requires borrowers to report to SMBC on the allocation status of the proceeds until the full amount of the transition finance proceeds has been allocated to the Transition Project. This includes the allocated amount, the balance of the unallocated amount and, if refinanced, the amount allocated for refinancing.

**Environmental benefits:** SMBC requires borrowers to report quantitatively or qualitatively to SMBC on the transition project to which allocation has been started, based on appropriate indicators, on the project's overview, progress and environmental benefits (e.g. GHG emissions reduction benefits). The specific contents of the reporting will be determined in consultation with the borrower for each individual financing.

**Monitoring:** During the financing period, SMBC monitors changes in, and implementation of, the transition strategy of the main sponsor and the borrower, and may cancel the status of transition finance (e.g. by removing the display) if necessary. Such monitoring are conducted once a year during the loan period and corrective actions may be considered even after the end of the loan period.

**Reporting:** SMBC will report annually on the status of sustainable finance including transition finance and other initiatives in the TCFD report.

Through the assessment based on the Playbook and other related documents and information provided by SMBC, DNV confirmed that the assessment procedures refer to the NZBA-TFG, CTFWP and ATFG in addition to the standards required by the relevant frameworks such as CTFH, CTFBG and GLP and GLGLGLs, and cover a wide range of guidelines related to transition finance, and that the Playbook for SMBC to execute transition finance as the Enabler is eligible.

## I. Introduction

### i. About SMBC

SMBC is a commercial bank under Sumitomo Mitsui Financial Group, Inc (hereinafter referred to as “SMBC Group”), which provides financial services in Japan and abroad.

SMBC conducts its business activities under the corporate philosophy that consists of Mission, Vision and Five Values.

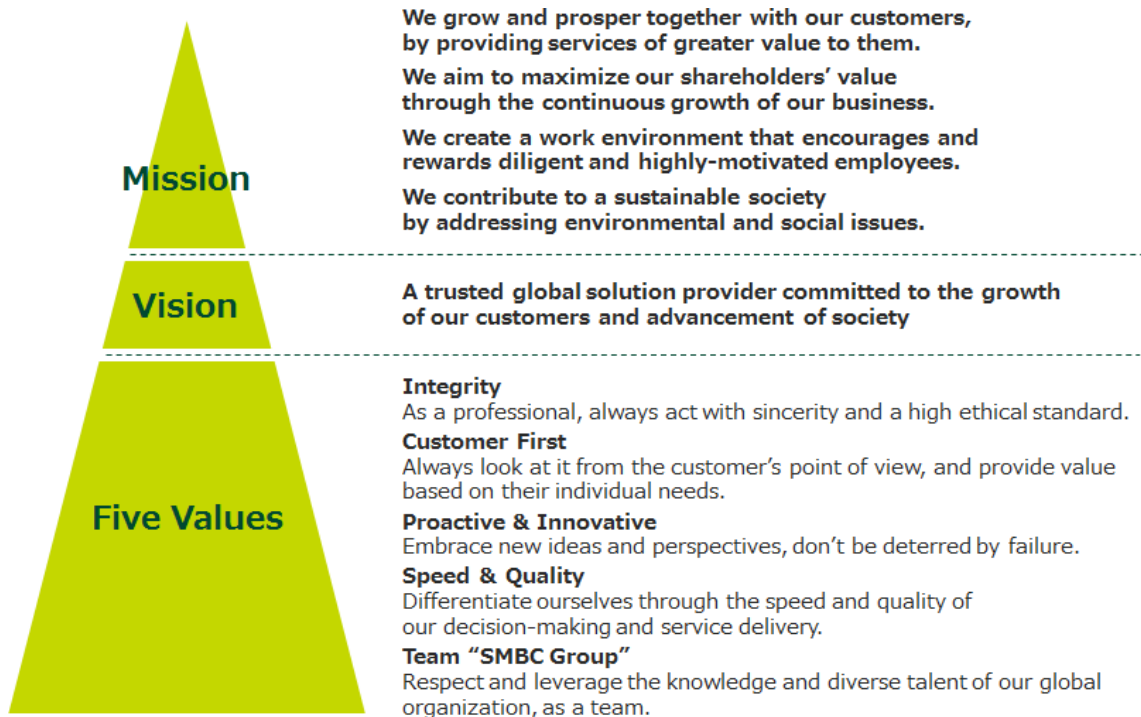


Figure 1: SMBC's Corporate Philosophy (Mission, Vision and Five Values)

### ii. SMBC's Sustainability Initiatives

With the aim of achieving SMBC Group's vision of "Creating a society in which today's generation can enjoy economic prosperity and well-being", SMBC is working to realise sustainability by focusing on "Environment", "Community" and "Next Generation" as priority issues.

In addition to SMBC Group's efforts to realise sustainability, SMBC is also working on the "Equator Principles", "Human Resources Strategy", "Respect for Human Rights" and, as part of its efforts to promote financial and economic education and environmental businesses, "Response to the Bank of Japan's 'Funds-Supplying Operations to Support Financing for Climate Change Responses'".

### Priority Issues (Materiality)



Figure-2: Priority issues for SMBC Group

SMBC Group established the Sustainability Committee in July 2021 to strengthen the Board of Directors’ oversight of sustainability initiatives, including responses to climate change.

The Playbook newly formulated by SMBC as the Enabler to be used for transition finance has been reviewed by the Sustainability Committee, an internal committee of the Board of Directors, and approved by the Group Chief Sustainability Officer (CSuO) who is responsible for planning and managing sustainability-related measures.



Figure-3.1: SMBC Group's Sustainability Management Structure

Furthermore, in April 2022, to enhance its initiatives for sustainability, SMBC took the following measures: 1. Organisational change to newly establish the “Sustainability Division” and the “Environmental and Social Risk Management Department”; 2. Revisions of rules and policies, 3. Launch of the “Sustainability Investment Fund”; and 4. Setting of Scope 1 and 2 reduction targets.

For more information, please see SMBC’s website and news releases.



Figure - 3.2: SMBC Group Enhancement of Initiatives for Sustainability  
 (Example: 1. Organisational Change)

The Playbook is governed by governance processes including those shown above to ensure consistency with industry practice and the latest science and technology. In addition, the Playbook supplements existing lending policies and process. For example, activities related to the construction of new coal-fired power plants, which SMBC prohibited itself from financing, are not eligible for financing in all cases, not just transition finance.

### iii. SMBC's Climate Change Initiatives

SMBC has been endorsing the TCFD since 2017. In the latest SMBC Group 2022 TCFD report published in August 2022, SMBC clearly explains SMBC Group's climate change initiatives such as climate change policy (including SMBC Group environmental policy), governance, strategy, risk management, indicators and targets, etc., and clearly expressed its intention to support customers' efforts towards transition and technological innovation in order to make the greatest possible contribution to the realisation of decarbonisation.



For more information, please see SMBC's website and news releases.

Response to climate change (Working on TCFD Recommendations)

<https://www.smfg.co.jp/english/sustainability/materiality/environment/climate/>

2022 TCFD Report

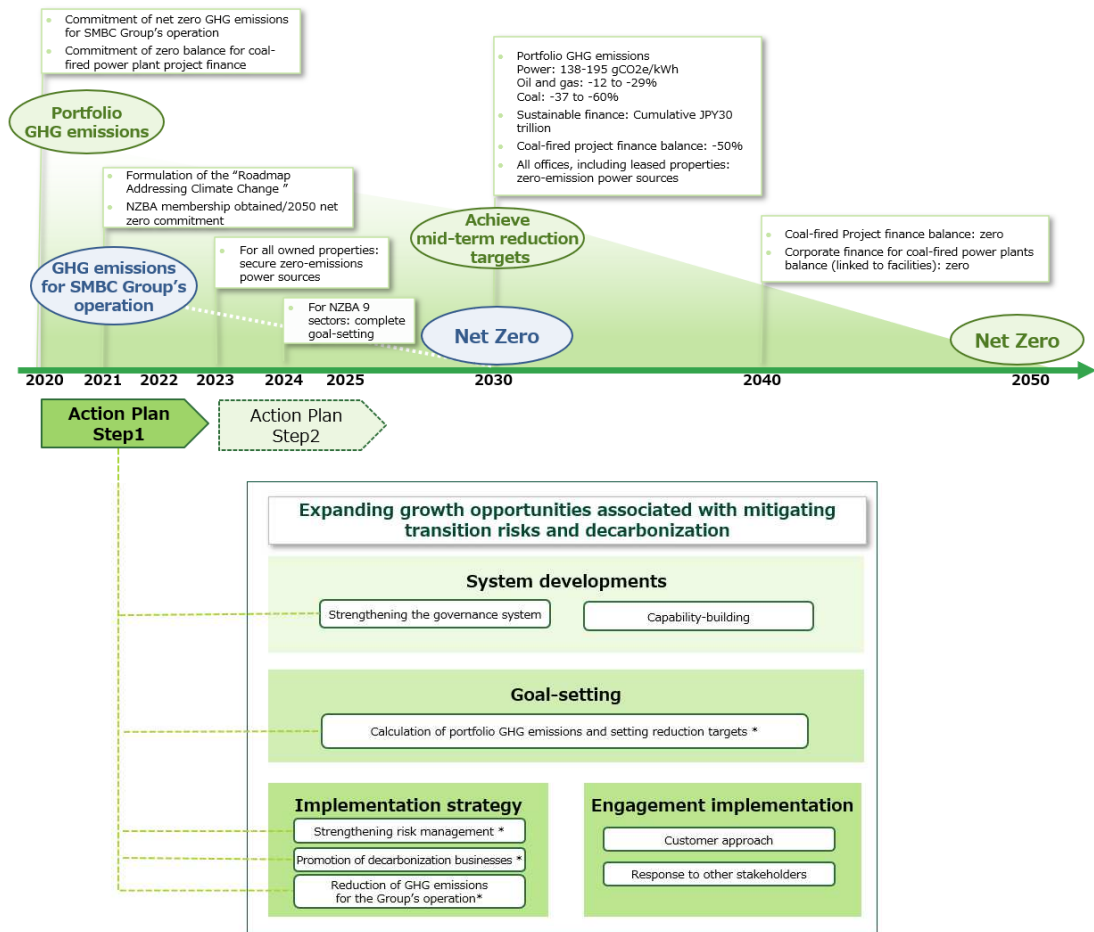
[https://www.smfg.co.jp/english/sustainability/materiality/environment/climate/pdf/tcf\\_d\\_report\\_e\\_2022.pdf](https://www.smfg.co.jp/english/sustainability/materiality/environment/climate/pdf/tcf_d_report_e_2022.pdf)

### iv. SMBC's Transition Plan

SMBC Group has developed the transition plan towards achieving net zero emissions. SMBC Group formulated the "Roadmap Addressing Climate Change" and the "Action Plan" in 2021 and has been accelerating efforts to secure resilience to climate change and capture growth opportunities. Furthermore, in August 2022, SMBC Group updated the "Roadmap Addressing Climate Change" as the "Transition Plan" and systematised a series of goals and actions for SMBC Group to achieve net zero emissions.

In addition to achieving net zero greenhouse gas (GHG) emissions from SMBC Group's operations by 2030, SMBC Group is committed to achieving net zero GHG emissions for its entire investment and loan portfolio by 2050.

As the Enabler, SMBC will support the business transformation and GHG emission reductions of its borrowers through initiatives using transition finance, aiming for net-zero emissions and encouraging their intentions.



\* Main measures in Action Plan Step 1

Figure-4: SMBC Group Transition Plan.

**v. SMBC's Initiatives for SDGs**

SMBC Group has selected SDGs items to focus on in response to the three priority issues, that is, the "Environment", "Community" and "Next Generation" as described in section ii, "SMBC's Sustainability Initiatives".

With the strong commitment of top management, SMBC Group aims to solve social issues and realize the SDGs through its business operations in order to fulfil its mission as a global financial group in addressing various social issues around the world.



Figure-5: Relationship between priority issues (materiality) to be addressed by SMBC Group and SDGs items

\* The relevance to the SDGs is complementary to the execution of transition finance with reference to “Green, Social and Sustainability Bonds: A High-Level Mapping to the Sustainable Development Goals”, published by ICMA which sets out the Green Bond Principles, and is not directly related to funding objectives.

SMBC Group is actively involved in solving environmental and social issues through its core business.

Examples of SMBC's main ESG/SDG-related products and services are listed below.

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>- Green Loans</li> <li>- Sustainability Loans</li> <li>- Housing Loan for Environmentally Friendly House (ZEH)</li> <li>- ESG/SDGs Assessment Loans/Private Placements</li> <li>- SMBC Environmentally Conscious Assessment Financing/Private Placements</li> <li>- SMBC Food and Agriculture Assessment Financing/Private Placements</li> <li>- SMBC-ECO Loans</li> <li>- SDG Promotion Loans/Private Placements</li> </ul> | <ul style="list-style-type: none"> <li>- Social Loans</li> <li>- Sustainability-Linked Loans</li> <li>- Positive Impact Financing</li> <li>- SMBC Work Style Reform Loans/Private Placements</li> <li>- SMBC Nadeshiko Loans/Private Placements</li> <li>- SMBC Business Continuity Assessment Loan/Private Placements</li> </ul> |
|---|---|
- \*Examples of products and services are examples at the time of the assessment.





## vi. About the Transition Finance Playbook

SMBC has established the “Transition Finance Playbook” (hereinafter referred to as “Playbook”) as a document equivalent to a framework based on an international frameworks to promote transition finance which enables borrowers to contribute to the environment through their business activities.

With the introduction of the Playbook, SMBC intends to contribute to the achievement of the following three things.

1. Improve the management of SMBC Financed Emissions\*
2. Increase investment in and financing of transition activities
3. Support customer transitions and decarbonisation strategies through interaction (engagement) with customers and advisory services

The Playbook is structured as a comprehensive document containing the elements necessary for SMBC as the Enabler to execute transition finance and accompanied by the Internal Taxonomy and Checklists as relevant materials.

The frameworks specifically referred to or applied by this Playbook is described in the “Standards/Guidelines to be Applied or Referenced” shown in Section II below.

\*Financed Emissions (FE): Transition finance and FE are closely linked and by proceeding with transition finance, SMBC considers the FE reduction pathway in which FE decreases in the medium to long term after a period of short-term increase in FE. In addition, SMBC has introduced an evaluation process based on the Internal Taxonomy, including the Playbook, as guidance for the optimal management of FE and portfolios.

**Name of Enabler:** Sumitomo Mitsui Banking Corporation

**Name of Framework:** SMBC Transition Finance Playbook

**Name of External Reviewer:** DNV Business Assurance Japan K.K.

**Date of Report:** 15 May 2023



## II. Scope and Objectives

DNV has been commissioned by SMBC to provide an eligibility assessment on the Playbook. Our objective has been to implement an assessment on the adequacy of the eligibility assessment process (decision-making process) with reference to CTFH/CTFBG, CTFWP and ATFG for borrowers by SMBC as the Enabler and whether it is aligned with the GLP/GLGLs and other relevant criteria or guidelines (see the table below) necessary for the execution and management of individual finance, and to provide a second party opinion on the eligibility of the Playbook.

DNV, as an independent external reviewer, has identified no real or perceived conflict of interest associated with the delivery of this second party opinion for SMBC.

In this report, no assurance is provided regarding the financial performance of individual transition finance, the value of any investments and loans, or the long-term environmental benefits of the transaction.

### (1) Scope of Review

The review assessed the following elements and confirmed their alignment with the gist of the four core elements of GLP/GLGLs

- |  |  |
|--|--|
| <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                                    |

\* The scope of review is to be applied as a part of the evaluation of the transition finance with use of proceeds.

\* The adequacy of the Enabler's eligibility assessment process to assess the borrower's alignment with CTFH and CTFBG is included in the scope of review.

### (2) Role(s) of Review Provider

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Second Party Opinion  | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification                     | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ): |  |

### (3) Standards/Guidelines to be Applied or Referenced

No.	Standards/guidelines	Scheme owner	Application level <sup>*4*5</sup>
1.	Climate Transition Finance Handbook (CTFH) <sup>*1</sup>	International Capital Markets Association (ICMA), 2020.	Refer
2.	Basic Guidelines on Climate Transition Finance (CTFBG) <sup>*1</sup>	Financial Services Agency, Ministry of Economy, Trade and Industry, Ministry of the Environment, 2021	Refer
3.	NZBA Transition Finance Guide (NZBA-TFG)	United Nations Environment Programme-Finance Initiative (UNEP-FI), 2022.	Refer
4.	Financing Credible Transitions (White Paper) (CTFWP) <sup>*2</sup>	Climate Bonds Initiative, 2020.	Refer
5.	Green Loan Principles (GLP) <sup>*3</sup>	Loan Market Association (LMA) et al., 2021	Apply
6.	Green Loan Guidelines (GLGLs) <sup>*3</sup>	Ministry of the Environment, 2022	Apply
7.	Asia Transition Finance Guidelines (ATFG)	ATF Study Group, 2022	Refer

\*1 Climate transition: The concept of climate transition focuses principally on the credibility of an issuer(borrower)'s climate change-related commitments and practices. (Quoted from CTFH and CTFBG)

\*2 An internationally and widely recognised white paper that comprehensively describes several industry-specific examples and the concept of transition finance at the organisational and project level.

\*3 It confirms compliance with the four core elements (use of proceeds, process for project evaluation and selection, management of proceeds, and reporting) that must be met when implementing as a bond/loan that meets the four elements of transition and has a specific use of proceeds (Edited quote from CTFBG).

\*4 Refer: Assessment of whether SMBC, as the Enabler, has an appropriate eligibility assessment process for some of the applicable requirements of each principle and guideline element necessary when assessing a borrower's initiatives for transition finance.

\*5 Apply: Assessment of whether SMBC, as the Enabler, has eligibility or an eligibility assessment process for all elements of each principle and guideline necessary when implementing transition finance.



### III. Responsibilities of SMBC and DNV

SMBC has provided the information and data used by DNV during the delivery of this review; DNV's second party opinion represents an independent opinion and is intended to inform SMBC and other interested stakeholders in the finance 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 is not responsible for any aspect of the nominated assets referred to in this opinion and cannot be held liable if estimates, findings, opinions, or conclusions are incorrect. Thus, DNV shall not be held liable if any of the information or data provided by SMBC's management and used as a basis for this assessment were not correct or complete.

### IV. Basis of the DNV opinion

To provide a protocol as flexible as possible for SMBC, the Enabler, DNV has developed the SMBC Transition Finance Eligibility Assessment Protocol (hereinafter referred to as "Protocol") which incorporates the requirements of the CTFH/CTFBG and GLP/GLGLs as well as the concepts presented in CTFWP and ATFG. Please refer to Schedule-2. The Protocol is applicable to transition finance executed by SMBC as the Enabler based on CTFH/CTFBG and GLP/GLGLs and with reference to CTFWP and ATFG.

DNV, as an independent external reviewer, provides second party opinion according to the Protocol.

Our Protocol includes a set of suitable criteria that can be used to underpin DNV's opinion. The overarching principle of climate transition finance behind the criteria is as follows:

"Provide investment opportunities necessary for climate transition finance to be executed with transparency and credibility"

As per our Protocol, the criteria against which the Transition Finance has been reviewed are grouped into common elements below, represented by CTFH/CTFBG and GLP/GLGLs.

#### **(1) Borrower's Transition Finance Eligibility Assessment as the Enabler (Four common elements of CTFH and CTFBG)**

DNV reviews whether SMBC, as the Enabler, has an appropriate eligibility assessment process for the following elements when assessing the borrower's transition finance initiatives.

##### **Principle One: Borrower's Climate Transition Strategy and Governance**

The financing purpose should be for enabling a borrower's climate change strategy.

##### **Principle Two: Business Model Environmental Materiality**

The planned climate transition trajectory should be relevant to the environmentally-material parts of the borrower's business model.



### **Principle Three: Climate Transition Strategy to be 'Science-based' including Targets and Pathways**

Borrower's climate strategy should reference science-based targets and transition pathways.

### **Principle Four: Implementation Transparency**

Market communication in connection with the offer of a financing instrument which has the aim of funding the borrower's climate transition strategy should also provide transparency of the underlying investment program.

## **(2) Eligibility Assessment for Transition Finance in the format of Use of Proceeds Instrument (Four common elements of GLP and GLGLs)**

### **Principle One: Use of Proceeds**

The Use of Proceeds criteria are guided by the requirement that the enabler and/or a borrower should use the proceeds from transition finance in the format of Use of Proceeds instruments to finance eligible projects. The eligible projects are those that provide clear environmental benefits.

### **Principle Two: Process for Project Evaluation and Selection**

The Project Evaluation and Selection criteria are guided by the requirements that the enabler and/or a borrower of transition finance should outline the process it follows when determining eligibility of an investment for which proceeds from transition finance will be used and outline how it takes into consideration the impact the project will make on its objectives.

### **Principle Three: Management of Proceeds**

The Management of Proceeds criteria are guided by the requirements that a transition finance should be tracked within the Enabler and/or the borrower, that separate portfolios should be created when necessary and that a declaration of how unallocated funds will be handled should be made.

### **Principle Four: Reporting**

The Reporting criteria are guided by the recommendation that the borrower should report to the Enabler at least on how the proceeds have been allocated and provide a sustainability report using quantitative or qualitative and appropriate performance indicators, where feasible.



## V. Work Undertaken

Our work constituted a comprehensive review of the available information, based on the understanding that this information was provided to us by SMBC in good faith. We have 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:

### i. Transition Finance Pre-funding Assessment

- Creation of the Enabler-specific Protocol, adapted to the purpose of the SMBC Transition Finance, as described above and in Schedule-2 to this assessment;
- Assessment of documentary evidence provided by SMBC on the transition finance and supplemental assessment by a comprehensive desktop research. These checks refer to current assessment best practice and standard methodologies;
- Discussions with SMBC and review of relevant documentation;
- Documentation of findings against each element of the criteria;
- Where necessary, documentation of an eligibility assessment against the assessment results of the borrower's transition finance executed by SMBC.

### ii. Transition Finance Post-funding Assessment (*\*not included in this report*)

- Interviews with SMBC and review of the relevant documentation;
- On-site visits and inspections (if necessary);
- Documentation of post-funding assessment results.



## VI. Findings and DNV's opinion

DNV's findings and opinions are as described below.

DNV reviewed whether SMBC, as the Enabler, has an appropriate eligibility assessment process for the following elements when assessing the borrower's transition finance initiatives.

The eligibility assessment process is established in the Playbook and is used to determine the eligibility of the initiatives of the transition finance borrower according to the level required for disclosures and initiatives, set by SMBC for each element of various CTF guidelines and other frameworks. This process translates into SMBC's internal standard documents, the "Checklists", which are the basis to ultimately determine eligibility for transition finance.

DNV assessed that the Playbook, which refers to the NZBA-TFG and other globally benchmarked guidelines, is effective from the perspective of SMBC's making a transition based on a consistent process as a global financial institution. The Playbook also stipulates that it should be updated at least once a year, so it is expected to function as a valid and up-to-date version at all times.

Furthermore, it is a feature of the Playbook that SMBC has developed detailed assessment procedures and definitions in its "Internal Taxonomy" along with hundreds of categories of target assets, such as technology level classification, minimum standards, national and regional standards, etc.

In addition, the Playbook considers the following four key principles in executing transition finance:

- Do No Significant Harm
- Avoid Carbon Lock-in
- Best Available Technology
- Just Transition

The Enabler CTF-1 to CTF-4 below outline the Eligibility Assessment Process for the four common elements of the CTFH and CTFBG. The Eligibility Assessment Process incorporates the procedures presented in the NZBA-TFG, CTFWP and ATFG.

Through its assessments for SMBC, DNV confirmed that the Eligibility Assessment Process (Playbook) is not only aligned with the CTFH and CTFBG but also refers to the NZBA-TFG, CTFWP and ATFG, and that the assessment procedures cover a wide range of guidelines, etc. related to transition finance.

An overview of the Eligibility Assessment Process for CTF and the transition finance in the format of Use of Proceeds instruments is provided in TF-2 in VI (2).

**(1) Adequacy of Assessment Process as the Enabler and DNV’s Opinion against Four Common Elements of CTFH and CTFBG**

**Enabler CTF-1. Borrower’s Climate Transition Strategy and Governance:**

- **Climate transition strategy:**  
Through the Playbook, SMBC confirms that the borrower’s transition strategy is aligned with the goals of the Paris Agreement, taking into account country/regional/industry specific roadmaps and that the borrower has specific plans which are transparent with highly reliable and feasible targets. SMBC also considers the non-climate environmental and social impacts of the borrower's implementation of the transition strategy, as well as its contribution to the SDGs.
- In the Playbook, SMBC assesses the eligibility of assets for various types of transition finance by labelling them as **“Green”, “Yellow”, “Red”, etc.**, based on the Internal Taxonomy. As a result of the evaluation, assets are labelled as transition finance if they are classified as **“Yellow”**. For more details, please refer to the main text of this report.
- **Governance structure for achieving carbon neutrality:** SMBC confirms how the borrower's transition strategy is managed and implemented. If the borrower's originally planned transition strategy is updated, whether due to external or internal factors, SMBC and the borrower will explain the changes and the reasons for them to stakeholders.

Table-1 (Reproduced): Definition of labels based on Internal Taxonomy

No.	Label	Description
1	Green	Assets with zero or near zero GHG emissions → Green finance
2	Yellow	Assets aligned with 1.5°C target based on the consideration of industry and timeline → Transition finance
3	Red	Assets that are not classified as either of the above Green or Yellow (assets that are not aligned with the goals of the Paris Agreement).

**Enabler CTF-2. Business Model Environmental Materiality:**

- **Environmental materiality:** SMBC confirms that the borrower's climate change initiatives contribute to the transformation of core business activities that are environmentally material in terms of business characteristics, now and in the future of the borrower.
- **Climate change-related scenarios:** SMBC confirms which climate change scenario the borrower's transition strategy is based on and, in the case of PF and UoP, confirms that they are closely linked to the nominated projects and operations.

**Enabler CTF-3. Climate Transition Strategy to be ‘Science-based’ including Targets and Pathways:**



- **Scientific rationale:** SMBC confirms that the targets and pathways quantified as absolute or relative values set by the borrower are set by reference to the scientifically based trajectories required to achieve the goals of the Paris Agreement. Individual assessments may be carried out taking into consideration the strategy of the country or region in which the project is implemented.
- **Consideration of key emissions scopes:** SMBC confirms that the borrower's GHG emissions reduction targets cover the GHG Protocol and are set by other appropriate indicators, targets, etc., depending on country and region, business characteristics, and timelines for technology development and reduction progress.

#### **Enabler CTF-4. Implementation Transparency:**

- **Investment plan:** SMBC confirms the overall investment plan for the realisation of the borrower's transition strategy. If the timeline for realising the strategy is long or if the overall investment plan is difficult to set due to external factors such as technology progress, SMBC confirms the short-term investment plan, including the said project, to the extent practicable.
- **Outcomes and impact:** SMBC confirms that the climate-related and other outcomes and impacts envisaged by the nominated projects for allocation or through the borrower's entire business activities are clearly demonstrated by the borrower (whether direct or indirect, quantitative or qualitative).
- **Finance execution and management:** When providing PF and UoP financing, SMBC assesses in advance that the borrower has an appropriate process for managing and reporting its plans for allocating proceeds for transition projects and monitoring the post-financing implementation status (e.g. allocation status and GHG reduction benefits). It is also stipulated that SMBC confirms the execution and management status of the loan at least once a year during the loan period after the funding. In addition, in the case of GCP, SMBC monitors the achievement status of the borrower's transition strategy.

## (2) Findings and DNV's Opinion against Four Elements Required for the Management of Transition Finance (TF) in the Format of Use of Proceeds Instruments (see GLP/GLGLs)

### TF-1. Use of Proceeds:

- **Project finance (PF):** SMBC has established a PF decision-making process (evaluation flow) which evaluates the nominated assets for PF and the status of transition initiatives of the main sponsor<sup>\*1</sup> based on the Playbook.
- **Finance in the format of General Corporate Purpose instruments (GCP):** SMBC has established a GCP decision-making process (evaluation flow) which, based on the Playbook, evaluates the status of the borrower's transition initiatives and then sets one or more KPIs to measure progress towards net zero GHG emissions. The GCP does not require management of the five elements required for transition-linked finance categorised as the CTF, and no setting of finance characteristics or verification will be conducted using the trigger event(s) determination based on the setting or achievement of SPTs. The implementation of the transition strategy based on the borrower's business activities is considered as a "project" and the achievement status of targets based on the implementation of the transition strategy is monitored.

Therefore, while the process for GCP is not the same process for Use of Proceeds instruments used in standard transition finance, DNV's overall assessment is that there is a certain degree of effectiveness in the way that the GCP supports the progress of the borrower's transition through financing and that it promotes the transition of the borrower and the society as a whole by targeting a wide range of borrowers and projects.

- **Finance in the format of Use of Proceeds instruments (UoP):** SMBC has established a UoP decision-making process (evaluation flow), which assesses the status of the borrower's transition initiatives based on the Playbook and Internal Taxonomy.
- **Common:** SMBC confirms that the decision-making process of each financing ultimately complies with the "SMBC Group Environmental and Social Framework"<sup>\*2</sup>.

\*1 The "main sponsor" refers to the sponsor or group of sponsors, either individually or collectively, with decision-making authority over the transition strategy, or is defined on a consultation basis. Details are described in the Playbook.

\*2 SMBC Group Environmental and Social Framework  
[https://www.smfg.co.jp/english/sustainability/group\\_sustainability/esframework/](https://www.smfg.co.jp/english/sustainability/group_sustainability/esframework/)

Table-2: SMBC Transition Finance Overall Requirements

\*See Figures 6.1 to 6.3 for details of each type of finance (Product Type in Table-2)).

Color	Label	Actions	Product type		
			Project Finance	General Corporate Purpose	Corporate finance with specific use of proceeds
Green	Green Finance		No GHG emissions or close to no GHG emissions (=Green asset in IT)	No GHG emissions or close to no GHG emissions	No GHG emissions or close to no GHG emissions (=Green asset in IT)
Yellow	Transition Finance	Continue to usual application process	Asset aligned with 1.5°C from a timeline and sectoral perspective (=yellow asset in IT) +	Borrower's transition plan aligned with Paris Agreement 1.5°C pathway	Asset aligned with 1.5°C from a timeline and sectoral perspective (=yellow asset in IT) +
			NZ targets set for 2050		NZ targets set for 2050
Others	No label		Red assets in IT and large emitters complying with SMBC Group Environmental and Social Framework, SMEs, etc.		
Red	N/A	No new investments	Red assets in IT and large emitters not complying with SMBC Group Environmental and Social Framework		

**Key**

<span style="background-color: #cfe2f3; border: 1px solid black; display: inline-block; width: 15px; height: 10px; vertical-align: middle;"></span> Transition strategy	IT: Internal Taxonomy
<span style="background-color: #fff9c4; border: 1px solid black; display: inline-block; width: 15px; height: 10px; vertical-align: middle;"></span> Asset	NZ: Net-zero

**TF-2. Process for Project Evaluation and Selection:**

- SMBC has classified the transition finance for which it provides funds as the Enabler into 3 categories: (i) PF, (ii) GCP and (iii) UoP.
- SMBC has established a decision-making process (evaluation flow) to ensure that the target to be financed meets CTF-1 to 4 and TF-1 to 4, respectively. This decision-making process consists of four main common processes, and detailed processes are set individually for each target. An overview of the four common processes is described below.
- The four common processes stipulates the involvement of SMBC's Sustainability Division and relevant departments for each step to ensure that appropriate decisions and assessment are made.
- In addition, if an eligibility assessment has already been conducted by a third-party organisation, SMBC may, after careful assessment of the third party assessment, use the results of such assessment as valid, as long as it does not violate Process 3.
- This process will be reviewed as appropriate to ensure the alignment with market needs and the latest standards.

**Process 1: Asset criteria** \*PF and UoP

Label asset eligibility based on Internal Taxonomy.  
**"Green", "Yellow", "Red", etc.**

**Process 2: Transition strategy criteria** \* All types of financing including the above and GCPs

Assess the borrower's transition finance eligibility based on Enabler CTF-1 to CTF-4. (in addition, **"other criteria"** are set for each of the three target categories, which take exceptions into consideration and conduct more detailed process assessment).

**Process 3:** Confirm the compliance with the "SMBC Group Environmental and Social Framework". \*All types of finance



**Complete transition finance eligibility assessment** \* All finance  
 (As necessary, the labelling of Process 1 may be changed or "Other" may be used if it is not included in any of these).



**Process 4:** Implement the credit assessment and reviews regarding reputational risk, financed emissions, etc. \* All types of finance



**Evaluation and Selection** \*"Green" may be read as "Transition" and "borrower" may be read as "Enabler", as appropriate.

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Conforms to the borrower's achievement of environmental contribution goals  | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories               |
| <input checked="" type="checkbox"/> The project is eligible for use of proceeds by green bond and transparency is ensured                                     | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> The project is evaluated and selected based on the published standard summary (green project with referenceable criteria) | <input type="checkbox"/> Other ( <i>please specify</i> ):   |

**Information on Responsibilities and Accountability**

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

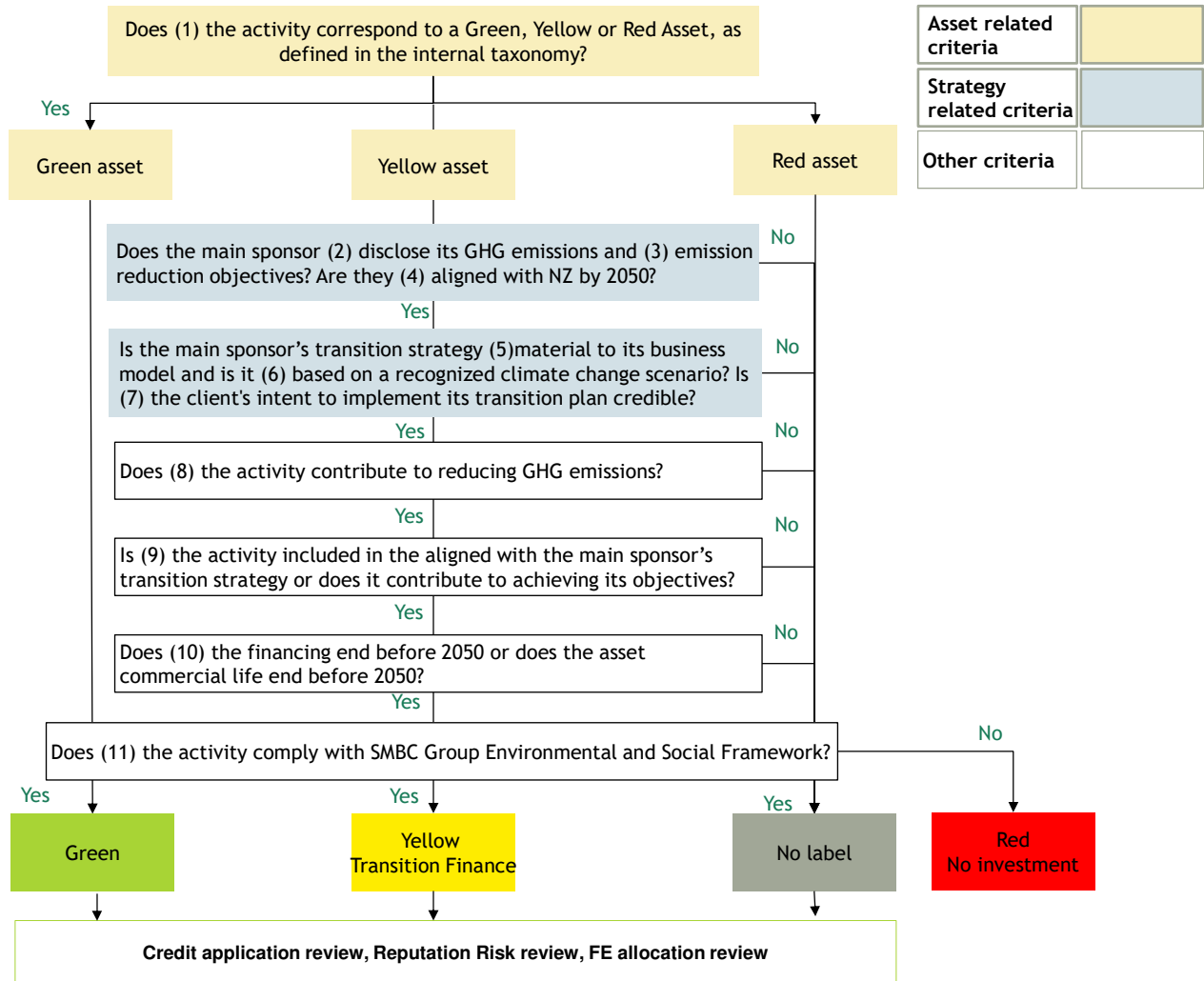


Figure-6.1: SMBC Project Finance (PF) Decision-Making Process Overview  
(Flowchart produced based on the Playbook)

\*The details of (1) through (11) in the diagram are separately defined in SMBC's internal procedures.

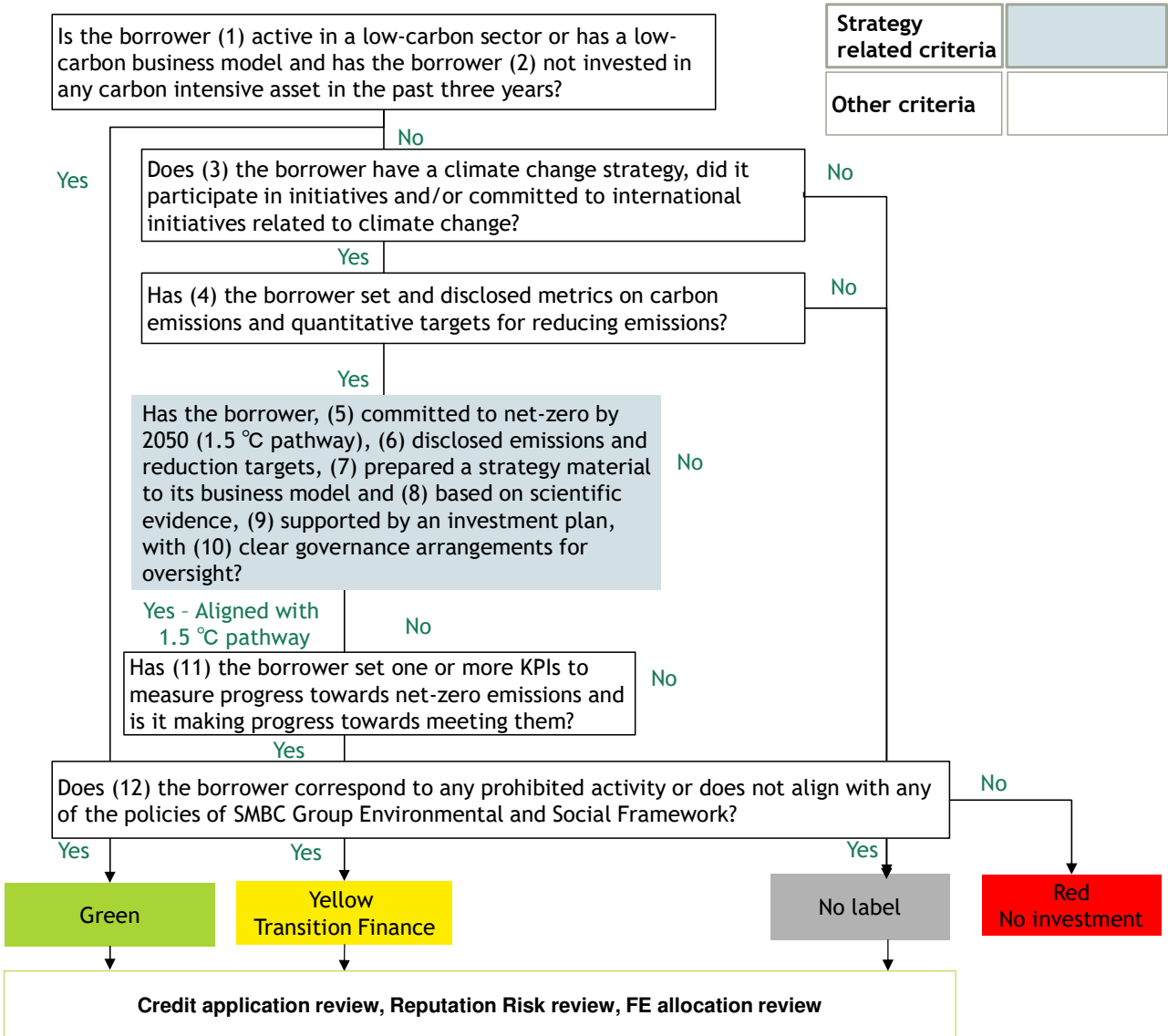


Figure-6.2: SMBC General Corporate Finance (GCP) decision-making process (Flowchart produced based on the Playbook)

\*The details of (1) through (12) in the diagram are separately defined in SMBC’s internal procedures.

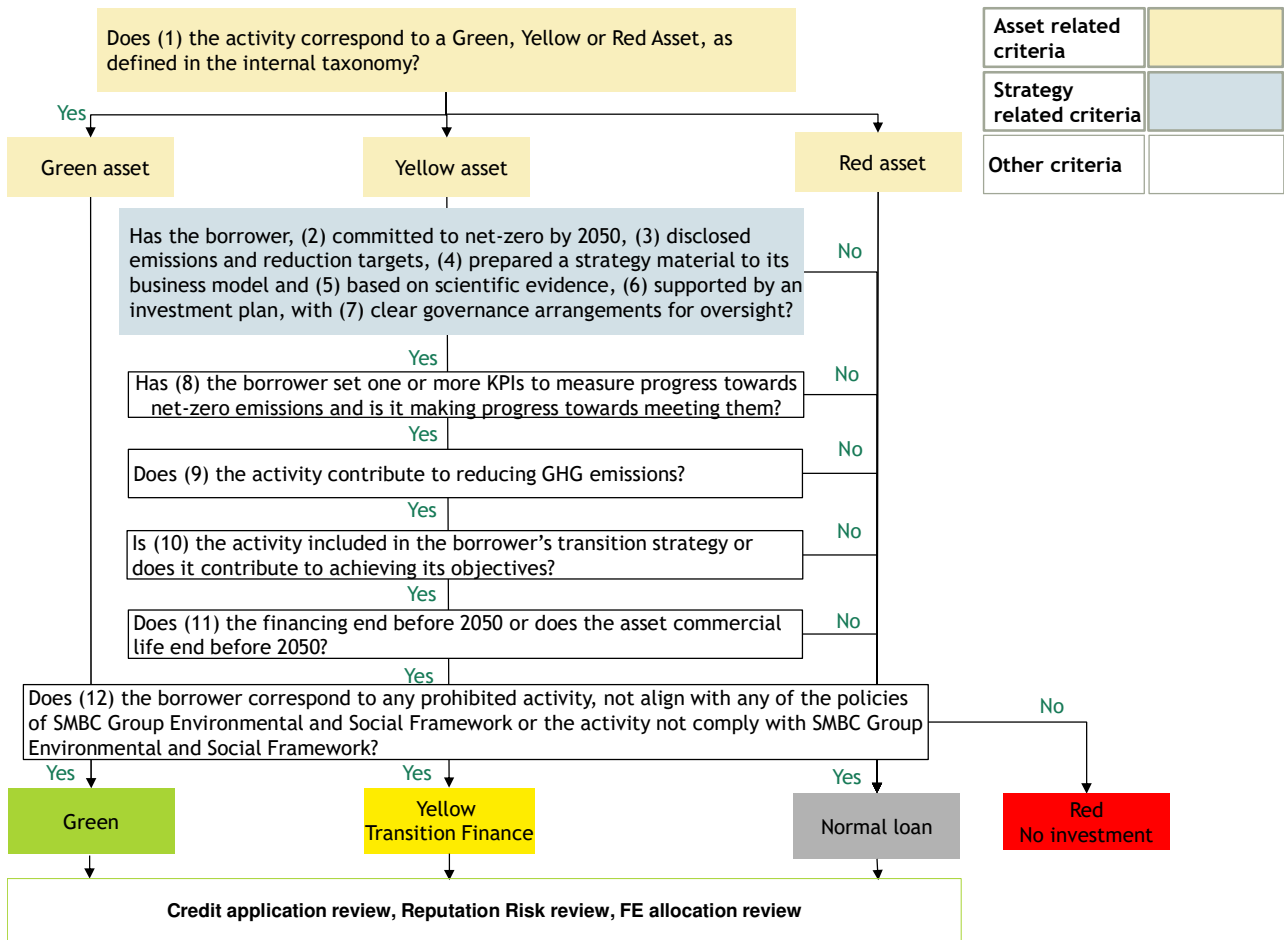


Figure-6.3: SMBC Use-of-Proceeds (UoP) decision-making process (Flowchart produced based on the Playbook).

\*The details of (1) through (12) in the diagram are separately defined in internal SMBC procedures.





### **TF-3. Management of Proceeds:**

- SMBC confirms through reports from the borrower (either through written submissions or interviews) prior to the loan that there are procedures in place to ensure that the proceeds raised by the borrower through transition finance from SMBC are managed in accordance with the borrower's internal processes.
- For example, systems and forms are used to ensure the total amount of nominated transition projects is managed to be not less than the proceeds from transition finance (“allocated amount + cash and cash equivalents” ≥ “loan amount (drawn amount in the case of a line of credit agreement)”). SMBC ensures that the amount equal to the unallocated proceeds is maintained in cash or cash equivalents until the proceeds have been allocated.
- Both are monitored by SMBC at least once a year until all loan amounts have been allocated.

### **Tracking of Proceeds:**

\*“Green” may be read as “Transition” and “borrower” may be read as “Enabler”, as appropriate.

- Some or all of the proceeds by green finance that are planned to be allocated are systematically distinguished or tracked by the borrower.
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (*please specify*): Unallocated proceeds are managed in cash or cash equivalents. The proceeds are managed in the same way by the Enabler or the borrower.

### **Additional Disclosure:**

- |  |   |
|--|---|
| <input type="checkbox"/> Allocations to future investments only                  | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input checked="" 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> ):                               |

#### **TF-4. Reporting:**

- **Allocation status:** SMBC requires borrowers to report to SMBC on the allocation status of the proceeds until the full amount of the transition finance proceeds has been allocated to the Transition Project. This includes the allocated amount, the balance of the unallocated amount and, if refinanced, the amount allocated for refinancing.
- **Environmental benefits:** SMBC requires borrowers to report quantitatively or qualitatively to SMBC on the transition project to which allocation has been started, based on appropriate indicators, on the project's overview, progress and environmental benefits (e.g. GHG emissions reduction benefits). The specific contents of the reporting will be determined in consultation with the borrower for each individual financing.
- **Monitoring:** During the financing period, SMBC monitors changes in, and implementation of, the transition strategy of the main sponsor and the borrower, and may cancel the status of transition finance (e.g. by removing the display) if necessary. Such monitoring are conducted once a year during the loan period and corrective actions may be considered even after the end of the loan period.
- **Reporting:** SMBC will report annually on the status of sustainable finance including transition finance and other initiatives in the TCFD report.

#### **<Allocation Status>**

- The allocated amount
- The balance of unallocated proceeds
- Of the allocated amount, the amount or the share allocated for refinancing

#### **<Examples of Environmental Benefits>**

- Project overview, progress, etc.
- Annual GHG emission reductions (e.g. t-CO<sub>2</sub> e/year)



## Reporting on Allocation Status:

\*"Green" may be read as "Transition" and "borrower" may be read as "Enabler", as appropriate.

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

### Information reported:

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Allocated amounts     | <input type="checkbox"/> Share of total investment amount allocated by proceeds from Green Finance |
| <input type="checkbox"/> Other ( <i>please specify</i> ): |  |

### Frequency:

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

## Impact Reporting (Environmental Benefit):

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

### Frequency:

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

### Information reported (expected/Post-funding Impact):

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> GHG Emissions/Savings                           | <input type="checkbox"/> Energy savings                                      |
| <input checked="" type="checkbox"/> Other ESG indicators ( <i>please specify</i> ): | To be determined according to the loan such as project overview and progress |

## Means of Disclosure

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Information published in financial report (Integrated Report)                                 | <input type="checkbox"/> Information published in sustainability report  |
| <input type="checkbox"/> Information published in ad hoc documents  | <input checked="" type="checkbox"/> Other ( <i>please specify</i> ): Reporting may only be reported by the borrower to SMBC or may be disclosed to the public through the borrower's website and/or Integrated Report. |
| <input type="checkbox"/> Reporting Reviewed (if yes, please specify which parts of the reporting are subject to external review): |  |



### **(3) External Review**

If SMBC considers it necessary to ensure the credibility and transparency that the individual transition finance executed on the basis of the results of the Playbook decision-making process (eligibility assessment results) as shown in TF-2 is appropriate transition finance, SMBC may, through an external review, confirm that SMBC's eligibility assessment has been appropriately completed (by obtaining a written statement of eligibility from the external assessment body).



## Assessment Conclusion

On the basis of the Playbook and other relevant documentation and information provided by SMBC, DNV has confirmed that the Playbook established by SMBC to execute Transition Finance as the Enabler is an assessment procedure that extensively covers the guidelines and other frameworks related to transition finance with reference to the criteria required by CTFH/CTFBG and GLP/GLGLs as well as NZBA-TFG, CTFWP and ATFG. DNV has also confirmed that SMBC has a process in place to ensure that it appropriately manages and reports on the borrower's management of proceeds and reporting. In particular, DNV the Playbook, which refers to the NZBA-TFG and other globally benchmarked guidelines, is effective from the perspective of SMBC's making a transition based on a consistent process as a global financial institution.

Based on the above, it is DNV's opinion that the transition finance carried out by SMBC as the Enabler is aligned with the definition and purpose of transition finance that is to "Provide investment opportunities necessary for climate transition finance to be executed with transparency and credibility".

DNV Business Assurance Japan K.K.

15 May 2023

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#### About DNV

Driven by our purpose of safeguarding life, property and the environment, DNV 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.

#### Disclaimer

Responsibilities of the Management of the Enabler and the Second-Party Opinion Providers, DNV : The management of the Enabler has provided the information and data used by DNV during the delivery of this review. Our statement represents an independent opinion and is intended to inform the Enabler management and other interested stakeholders in the Bond 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 the Enabler. DNV is not responsible for any aspect of the nominated assets referred to in this opinion and cannot be held liable if estimates, findings, opinions, or conclusions are incorrect. Thus, DNV shall not be held liable if any of the information or data provided by the Enabler's management and used as a basis for this assessment were not correct or complete.



## Schedule-1. Transition Finance Eligibility Assessment Process as the Enabler (Produced based on the Playbook)

The table below shows the overall requirements for assessing a borrower's eligibility for transition finance in the Playbook established by SMBC to execute transition finance as the Enabler. It includes the overall requirements for the three transition finance categories: (i) PF, (ii) GCP, and (iii) UoP. For (i) and (iii), apart from these overall requirements, a process has been developed to confirm that the financing proceeds meet the four elements required for management of transition finance with a specific use of the proceeds.

In addition, DNV has confirmed that the Transition Finance Eligibility Assessment Process meets the criteria required in the relevant frameworks such as CTFH/CTFBG and GLP/GLGLs, as well as the practical assessment steps for the Enabler as set out in the CTFWP and ATFG, and concluded that it is eligible.

Table: SMBC Transition finance Overall Requirements

\*See Figures 6.1 to 6.3 for details of each finance (Product Type in Table-2).

Color	Label	Actions	Product type		
			Project Finance	General Corporate Purpose	Corporate finance with specific use of proceeds
Green	Green Finance		No GHG emissions or close to no GHG emissions (=Green asset in IT)	No GHG emissions or close to no GHG emissions	No GHG emissions or close to no GHG emissions (=Green asset in IT)
Yellow	Transition Finance	Continue to usual application process	Asset aligned with 1.5°C from a timeline and sectoral perspective (=yellow asset in IT)  + NZ targets set for 2050	Borrower's transition plan aligned with Paris Agreement 1.5°C pathway	Asset aligned with 1.5°C from a timeline and sectoral perspective (=yellow asset in IT)  + NZ targets set for 2050
Others	No label		Red assets in IT and large emitters complying with SMBC Group Environmental and Social Framework, SMEs, etc.		
Red	N/A	No new investments	Red assets in IT and large emitters not complying with SMBC Group Environmental and Social Framework		
<b>Key</b> <span style="background-color: #cfe2f3; padding: 2px;">Transition strategy</span> IT: Internal Taxonomy <span style="background-color: #fff9c4; padding: 2px;">Asset</span> NZ: Net-zero					



## Schedule-2. Eligibility Assessment Protocol for Transition Finance in the Format of Use of Proceeds Instruments as the Enabler

- The following checklists (GLP-1 through GLP-4) are the DNV assessment protocol created for the eligibility assessment of the Playbook of SMBC as the Enabler based on the requirements of the GLP and GLGLs. The “Confirmed documents” in the “Work Undertaken” column include the Enabler’s internal documents and are provided by SMBC to DNV as evidence for determining the eligibility.
- Please note that, although the term GLP is used in Schedule-2 in accordance with the practice, this schedule includes the criteria and requirements to be referred to in the case of financing that specifies the use of proceeds, such as transition projects in the case of transition finance that specifies the use of proceeds (PF and UoP) based on CTFH and CTFBG. Therefore, the following checklists should be read in the context of transition finance as appropriate.
- Transition finance executed by SMBC as the Enabler also includes GCP. In the assessment of GCP, the implementation of the transition strategy based on the borrower's business activities is considered as a "project". Therefore, the term “project” in the checklists should be read as “business activity”. The GCP does not require management of the five elements required for transition-linked finance categorised as the CTF, and no setting of finance characteristics or verification will be conducted using the trigger event(s) determination based on the setting or achievement of SPTs.

### GLP-1 Use of Proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
1a	Types of funds	<p>The types of transition loan are classified into one of the following types defined by GLP.</p> <ul style="list-style-type: none"> <li>• (Standard) Transition Loan</li> <li>• Transition Revenue Loan</li> <li>• Transition Project Loan</li> <li>• Other</li> </ul>	<p>Confirmed documents:</p> <ul style="list-style-type: none"> <li>- Playbook</li> <li>- Checklists</li> </ul> <p>Interviews with stakeholders</p>	<p>Through the assessment, DNV confirmed that the types of transition loan are classified into the following categories.</p> <p>The Transition Finance implemented by SMBC as Enabler is classified into “(Standard) Transition loans” and “Transition project loans”.</p> <p>While the GCP is included as "other", The GCP does not require management of the five elements required for transition-linked finance categorised as the CTF, and no setting of finance characteristics or verification will be conducted using the trigger event(s) determination based on the setting or achievement of SPTs. The implementation of the transition strategy based on the borrower’s business activities is considered as a “project” and the achievement status of targets based on the implementation of the transition strategy is monitored.</p>



Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
1b	Green/transition Project Classification	The key to a transition loan is that the proceeds will be used for a transition project, which should be properly stated in the legal documents relating to the security/loan.	Confirmed documents: <ul style="list-style-type: none"> <li>- Playbook</li> <li>- Loan agreement</li> </ul> Interviews with stakeholders	<p>DNV confirmed that the transition finance is intended to be used to finance a wide range of transition projects or GCP that focus on the realisation of the environmental goals and transition strategies of the borrowers whose eligibility is assessed by SMBC as Enabler, as described in the Playbook.</p> <p>Specifically, DNV assessed the transition finance (PF, GCP and UoP) that meets SMBC's Transition Finance Eligibility Assessment Procedures as set out in Schedule-1 and in the main text of this report (Table-2 and Figures- 6.1 to 6.3) where the entire amount of proceeds obtained through transition finance are allocated to one or more transition projects. For GCP, see 1a.</p> <p>Through the assessment, DNV concludes that the projects that have been appropriately assessed as eligible in accordance with the SMBC's Playbook and internal process will truly deliver environmental benefits as transition-eligible projects. DNV also concludes that the borrower is expected to contribute to the decarbonization of society as a whole through their transition initiatives by using the GCP on an appropriate timeline.</p>
1c	Environmental benefits	All transition projects to which the funds are used should have clear environmental benefits, the effects of which should be assessed by the borrower and, where possible, quantitatively demonstrated.	Confirmed documents: <ul style="list-style-type: none"> <li>- Playbook</li> <li>- Internal Taxonomy</li> <li>- Checklists</li> </ul> Interviews with stakeholders	<p>Transition projects are those which contribute to decarbonization that have been evaluated by SMBC's eligibility assessment described in 1b as projects contributing to the goals based on the borrower's transition strategy. The borrower is expected to contribute to the decarbonization of society as a whole through their transition initiatives by using the GCP on an appropriate timeline. The environmental benefits of both the transition projects and GCP are GHG emissions reduction, which are assessed either quantitatively or qualitatively by SMBC or the borrower.</p> <p>DNV confirmed that, in cases where confidentiality of information or competitive considerations are required before the execution of transition finance or before the start of project operations, only the</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<p>evaluation method (calculation method) and items of the environmental benefits of the project will be disclosed, and that indicators and GHG emission reductions according to project characteristics will be evaluated and reported quantitatively or qualitatively in annual reporting. (If it is difficult to assess quantitative GHG emission reductions due to the project characteristics, the project overview will be reported to the extent practicable.) Reporting may be made to the public or to SMBC only, or both.</p>
1d	Refinancing rate	<p>If all or part of the proceeds are used or may be used for refinancing, the borrower will indicate the estimated ratio of the initial investment to the refinancing and, if necessary. Therefore, it is recommended to clarify which investment or project portfolio is subject to refinancing.</p>	<p>Confirmed documents:</p> <ul style="list-style-type: none"> <li>- Playbook</li> <li>- Loan agreement</li> </ul> <p>Interviews with stakeholders</p>	<p>SMBC confirms with the borrower whether the borrower plans to use all of the proceeds for either new investment or refinancing, or both, for one or more of the nominated projects that have been determined to be eligible in the Eligibility Assessment Process shown in Schedule-1.</p> <p>If it is clear before the execution of the transition finance whether the proceeds will be used for new investment or refinancing, such information will be explained in the loan agreement or other documents. If it is undecided, SMBC confirms with the borrower that the amount of the proceeds allocated for refinancing will be disclosed through annual reporting.</p>

## GLP-2 Process for Project Evaluation and Selection

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
2a	Project selection process	<p>Green/transition finance borrowers should provide an overview of the process of qualifying projects for which green/transition finance funding will be used. This includes (but is not limited to):</p> <ul style="list-style-type: none"> <li>• The process by which the borrower determines that the project in question is included in the business category of a qualified green/transition project.</li> <li>• Creation of criteria for eligibility of projects for which green/transition finance funding will be used</li> <li>• Environmental sustainability goals</li> </ul>	<p>Confirmed documents:</p> <ul style="list-style-type: none"> <li>- Playbook</li> <li>- Checklists</li> <li>- Internal Taxonomy</li> </ul> <p>Interviews with stakeholders</p>	<p>DNV confirmed that SMBC has a process document for determining the eligibility of projects for which the transition finance proceeds will be used, and that the outline is clearly stated in the Playbook and related documents.</p> <p>Furthermore, to consider any negative impacts associated with the implementation of the project, SMBC and/or the borrower will ensure compliance with national and local laws and regulations, conduct assessments based on the Equator Principles and the “SMBC Group Environmental and Social Framework”, and operate the Playbook and Internal Taxonomy.</p> <p>In addition, the Playbook states that the following four key principles should be considered in executing transition finance:</p> <ul style="list-style-type: none"> <li>- Do No Significant Harm</li> <li>- Avoid Carbon Lock-in</li> <li>- Best Available Technology</li> <li>- Just Transition</li> </ul> <p>In addition to the above, all transition finance is subject to the requirement to comply with the “SMBC Group Environmental and Social Framework”.</p>
2b	Borrowers' Environmental and Social Governance Framework	<p>In addition to criteria and certifications, the information published by borrowers regarding the green/transition finance process also considers the quality of performance of the borrower's framework and environmental sustainability.</p>	<p>Confirmed documents:</p> <ul style="list-style-type: none"> <li>- Playbook</li> <li>- Checklists</li> </ul> <p>Interviews with stakeholders</p>	<p>When determining eligibility for transition finance for projects, SMBC takes into consideration that, in addition to the borrowers' transition plans being aligned with the CTF, the borrowers are in compliance with environmental laws, regulations, ordinances and rules regarding the projects for which proceeds are actually used. SMBC also takes into consideration that environmental benefits such as GHG emission reductions are clear either throughout the projects' life cycle or in each process.</p> <p>Through its assessment of the Enabler, DNV confirmed that SMBC has a process to ensure that the transition projects implemented by the borrower are consistent with the borrowers' transition strategies, objectives and pathways.</p>



### GLP-3 Management of Proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
3a	Tracking procedure-1	The net proceeds from of green/transition finance should be managed in sub-accounts, included in sub-portfolio, or otherwise tracked. It should also be certified by the borrower in a formal internal process related to the borrower's investment and financing operations for the Transition Project.	Confirmed documents: <ul style="list-style-type: none"> <li>- Playbook</li> <li>- Operations manuals</li> </ul> Interviews with stakeholders	Through its assessment of SMBC, DNV confirmed that SMBC confirms that the proceeds from transition finance can be tracked by the borrower's internal system and forms, and verify the actual system and related documents in use. DNV confirmed that SMBC confirms that the management status of the proceeds can be proven on this basis.
3b	Tracking procedure-2	During the green/transition finance redemption period, the balance of funds raised that is being tracked should be adjusted at regular intervals to match the amount allocated to eligible projects undertaken during that period.	Confirmed documents: <ul style="list-style-type: none"> <li>- Playbook</li> <li>- Operations manuals</li> </ul> Interviews with stakeholders	DNV confirmed that SMBC and the borrower plan to review the balance of the proceeds at least once a year during the period from the execution of the transition finance to repayment, using internal system and forms described in 3a.
3c	Temporary holding	If no investment or payment has been made in a qualified green/transition project, the borrower should also inform the investor of the possible temporary investment method for the balance of unallocated proceeds.	Confirmed documents: <ul style="list-style-type: none"> <li>- Playbook</li> <li>- Operations manuals</li> </ul> Interviews with stakeholders	DNV confirmed that SMBC confirms that the borrower has a mechanism for the sequential recognition of the balance of unallocated proceeds based on the borrower's internal system, forms and related workflows. DNV also confirmed that SMBC confirms through the explanatory materials from the borrower that the balance of unallocated proceeds are managed in cash or cash equivalents. DNV also confirmed that SMBC confirms the balance of unallocated proceeds through the reporting from the borrower on the allocation status of the proceeds.

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
4a	Periodical Reporting	<p>In addition to reporting on the use of proceeds and the temporary investment of unallocated proceeds, the issuer will consider each project at least once a year for projects to which the Green/transition bond proceeds have been allocated, taking into account the following: A list of each project should be provided.</p> <ul style="list-style-type: none"> <li>- Confidentiality and competitive considerations</li> <li>- Outline of each project, expected sustainable environmental and social effects</li> </ul>	<p>Confirmed documents:</p> <ul style="list-style-type: none"> <li>- Playbook</li> <li>- Operations manuals</li> </ul> <p>Interviews with stakeholders</p>	<p>DNV confirmed that from the time of funding until the proceeds are fully allocated, the borrower will annually report on transition finance to SMBC or to the public and disclose the allocation status, the projects to which the proceeds have been allocated, or information on environmental benefits.</p> <p>For environmental benefits, DNV confirmed that any or all of the following will be disclosed, so far as is within the scope of its duty of confidentiality and so far as is reasonably practicable. The reporting to SMBC or to the public will be disclosed in the Integrated Report or on the website.</p> <p>&lt;Allocation Status&gt;</p> <ul style="list-style-type: none"> <li>• The allocated amount</li> <li>• The balance of unallocated proceeds</li> <li>• Of the allocated amount, the amount or the share allocated for refinancing</li> </ul> <p>&lt;Examples of Environmental Benefits&gt;</p> <ul style="list-style-type: none"> <li>• Project overview, progress, etc.</li> <li>• Annual GHG emission reductions (e.g. t-CO<sub>2</sub> e/year)</li> </ul>