

Daiwa Securities Group Inc. (Green Bond 2018)

Type of Engagement: Annual Review

Date: November 14, 2022

Engagement Team:

Shigeru Ogawa, shgeru.ogawa@sustainalytics.com, (+81)3 4520 2193

Kosuke Kanematsu, kosuke.kanematsu@sustainalytics.com, (+81) 3 4571 2277

Introduction

In November 2018, Daiwa Securities Group Inc. (“Daiwa Securities Group” or the “Company”) issued a green bond aimed at financing projects related to Renewable Energy and Green Buildings. (JPY 10 billion 5-Year Green Bond, hereinafter the “2018 Green Bond”). As of June 30, 2022, the proceeds were allocated to four renewable energy projects and one green building project. In November 2022, Daiwa Securities Group engaged Sustainalytics to review the projects funded through the 2018 Green Bond and assess whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the Daiwa Securities Group Green Bond Framework (the “Framework”).¹ This is Sustainalytics’ fourth annual review of Daiwa Securities Group’ 2018 Green Bond following the previous review in November 2021.²

Evaluation Criteria

Sustainalytics evaluated the projects funded with proceeds as of June 30, 2022 based on whether the projects:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the Framework; and
2. Reported on the impact indicators for each Use of Proceeds criteria outlined in the Framework.

Table 1 lists the Use of Proceeds, Eligibility Criteria, and associated impact indicators for the Use of Proceeds category to which the proceeds were allocated.

Table 1: Use of Proceeds, Eligibility Criteria, and associated impact indicators

Use of Proceeds	Eligibility Criteria	Impact indicators
Renewable Energy	<p>Investment and lending through Daiwa Energy & Infrastructure Co. Ltd. (DEI) for renewable energy generation projects that meet the following criteria:</p> <ul style="list-style-type: none"> • Expenditures are associated with the development, construction and operation of renewable energy generation projects (including those carried out by its affiliates). The eligible projects include solar photovoltaic power, wind-power, geothermal power, hydroelectric power (excluding large hydro with more than 20 MW capacity), biomass power (limited to projects with waste sources). • For refinanced projects, the projects must be funded within the 24 months prior to the date of green bond issuance. 	<ul style="list-style-type: none"> • CO2 emissions reduced by the eligible green projects (theoretical value) • Amount of power generated by the eligible green projects (theoretical value based on output standard)

¹ The overview of the Daiwa Securities Group Green Bond Framework is available within Sustainalytics’ Second Party Opinion: https://www.sustainalytics.com/wp-content/uploads/2018/11/Daiwa-Securities-Group-Green-Bond-Framework-Overview-SPO_Final.pdf

² Previous annual reviews of the Daiwa Securities Group’s Green Bond by Sustainalytics are available at:

Annual Review (November 2019) https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/daiwa-securities-group-green-bond-annual-review-22112019-englishe.pdf?sfvrsn=a5d7a764_3

Annual Review (November 2020) https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/daiwa-securities-group-green-bond-annual-review.pdf?sfvrsn=f4489ebe_3

Annual Review (November 2021) [https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/daiwa-securities-group-green-bond-2018-annual-review-\(2021\).pdf?sfvrsn=f69aef12_1](https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/daiwa-securities-group-green-bond-2018-annual-review-(2021).pdf?sfvrsn=f69aef12_1)

	Context: Special purpose vehicles (SPV) will be established for each renewable energy generation project and DEI will invest or lend to each SPV, restricting the use of proceeds only for renewable energy related expenditure outlined above.	
Green Buildings	Expenditures related to the construction of green buildings as well as refurbishment to convert existing buildings into green buildings by Daiwa Securities Group and/or Daiwa Property Co.,Ltd. ³ . The green buildings should meet the following criteria: <ul style="list-style-type: none"> • Buildings that have received top three evaluations by credible third-party certifications within the 24 months preceding the date of a green bond issuance and/or buildings that are expected to receive the certification post issuance: <ul style="list-style-type: none"> - 3,4 or 5 Stars under the DBJ Green Building Certification - B+, A or S Rank under CASBEE 	<ul style="list-style-type: none"> • During construction, application progress on Real Estate Certification • After construction, the following environmental impact metrics: <ul style="list-style-type: none"> - Energy consumption (J/kl) - Energy consumption by use (%) - CO2 emission (t) - Water consumption (m³) - Waste generated (kg) - Recycle rate (%) - Level of certifications

Issuing Entity's Responsibility

Daiwa Securities Group is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, amounts allocated, and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of Daiwa Securities Group's 2018 Green Bond Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from Daiwa Securities Group employees and review of documentation to confirm the conformance with the Framework.

Sustainalytics has relied on the information and the facts presented by Daiwa Securities Group with respect to the projects in the eligible categories. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by Daiwa Securities Group.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

Conclusion

Based on the limited assurance procedures conducted,⁴ nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of Daiwa Securities Group Inc.'s 2018 Green Bond, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the the Daiwa Securities Group Green Bond Framework. While Daiwa Securities Group disclosed to Sustainalytics its full allocation in November 2021, Sustainalytics conducted another round of review in November 2022 as there have been developments in the allocation of proceeds. Daiwa Securities Group has confirmed to Sustainalytics that the proceeds of the 2018 Green Bond were reallocated to four renewable energy projects and one green building project in line with eligibility criteria under the Framework and the reallocation was fully completed as at June 30, 2022.

³ Daiwa Property Co.,Ltd was dissolved through an absorption-type merger as of October 1 2020.

⁴ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Detailed Findings

Table 2: Detailed Findings

Evaluation Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded by the 2018 Green Bond as of June 30, 2022 to determine if projects were aligned with the Use of Proceeds Criteria outlined in the Framework and above in Table 1.	All projects reviewed complied with the Use of Proceeds criteria.	None
Reporting Criteria	Verification of the projects funded by the 2018 Green Bond as of June 30, 2022 to determine if the impact of projects was reported in line with the impact indicators outlined in the Framework and above in Table 1.	All projects reviewed reported on impact indicators per Use of Proceeds criteria.	None For properties under Green Buildings category, six quantitative environmental impact indicators (e.g. Energy consumption) are supposed to be reported on. However, the reviewed green building project (completed on June 30, 2021) reported no actual quantitative information, since such data will be compiled for a fiscal year with the cycle of April to March, and the building has not covered a full fiscal year yet.

Appendix

Appendix 1: Impact Reporting⁵ and Allocation of Green Bond Proceeds

1. Impact Reporting (in each Use of Proceeds)

Renewable energy

Project Category	Sub-category	Number of Projects	Impact Indicators		Loan Balance (JPY billion)
			Energy output/ assumed energy output (MWh)	Estimated CO ₂ emissions reduction effect (t-CO ₂)	
Renewable Energy	Solar	4	110,940	49,590	8.0
Total		4	110,940	49,590	8.0

Green Buildings

Project Category	Number of Properties	Impact Indicators	Loan Balance (JPY billion)
Green Buildings	1	Achieved the highest (5-stars) rating in DBJ Green Building Certification.	2.0

2. Allocation of Green Bond Proceeds

Item	Amount (JPY billion)
Total Net Bond Proceeds from Green Bond issuance:	10.0
Total Net Bond Proceeds Allocated (Renewable Energy + Green Buildings):	10.0
Total Net Bond Proceeds Unallocated:	0.0

⁵ Impact Reporting by Daiwa Securities Group is available at: https://www.daiwa-grp.jp/english/sdgs/business/green_bond.html

Disclaimer

Copyright ©2022 Sustainalytics. All rights reserved.

The information, methodologies and opinions contained or reflected herein are proprietary of Sustainalytics and/or its third party suppliers (Third Party Data), and may be made available to third parties only in the form and format disclosed by Sustainalytics, or provided that appropriate citation and acknowledgement is ensured. They are provided for informational purposes only and (1) do not constitute an endorsement of any product or project; (2) do not constitute investment advice, financial advice or a prospectus; (3) cannot be interpreted as an offer or indication to buy or sell securities, to select a project or make any kind of business transactions; (4) do not represent an assessment of the issuer's economic performance, financial obligations nor of its creditworthiness; and/or (5) have not and cannot be incorporated into any offering disclosure.

These are based on information made available by the issuer and therefore are not warranted as to their merchantability, completeness, accuracy, up-to-dateness or fitness for a particular purpose. The information and data are provided "as is" and reflect Sustainalytics' opinion at the date of their elaboration and publication. Sustainalytics accepts no liability for damage arising from the use of the information, data or opinions contained herein, in any manner whatsoever, except where explicitly required by law. Any reference to third party names or Third Party Data is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our third-party data providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.

The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 17 offices globally, Sustainalytics has more than 1500 staff members, including more than 500 analysts with varied multidisciplinary expertise across more than 40 industry groups.

For more information, visit www.sustainalytics.com

Or contact us contact@sustainalytics.com

