

Sumitomo Mitsui Banking Corporation (Green Deposit)

Type of Engagement: Annual Portfolio Review

Date: 3 June 2024

Engagement Team:

Akshay Chandrakapure, akshay.chandrakapure@morningstar.com

Sidharth P R, sidharth.pr@morningstar.com

Introduction

In 2019, Sumitomo Mitsui Banking Corporation (“SMBC” or the “Bank”) launched green deposit products (the “Green Deposits”) to facilitate lending towards environmental projects. The Green Deposits required the Bank to hold an equivalent amount of proceeds raised to effectively finance eligible loans that are expected to create positive environmental impact (the “Eligible Loans”). As of December 2023, SMBC had raised USD 662 million under the Green Deposits. In 2024, SMBC engaged Sustainalytics to review a portfolio of the Eligible Loans funded through the proceeds raised from the Green Deposits (the “Eligible Portfolio”) and assess whether the Eligible Portfolio met the eligibility criteria outlined in the Sumitomo Mitsui Banking Corporation Green Deposit Framework 2023 (the “Framework”). The Framework, as a standalone document, was reviewed by Sustainalytics in May 2023 to verify the alignment with market practice.¹ This is Sustainalytics’ third annual review of allocation of the instruments issued under the Framework, following previous reviews in May 2022,² and May 2023.³

Evaluation Criteria

Sustainalytics evaluated the Eligible Portfolio based on whether they:

1. Meet the use of proceeds and eligibility criteria outlined in the Framework.

Table 1: Use of Proceeds Categories and Eligibility Criteria

Use of Proceeds Category	Eligibility Criteria	Exclusion Criteria
Renewable Energy	<p>Acquisition, development, construction, operation, or maintenance of projects/assets generating electricity from:</p> <ul style="list-style-type: none"> i) Solar ii) Solar thermal energy, with less than 15% fossil fuel back-up iii) Wind (on and offshore) iv) Geothermal, with the direct emissions intensity of less than 100 gCO₂/kwh v) Hydropower, which meets one of the following criteria: <ul style="list-style-type: none"> i. Run-of-river without artificial reservoir or with low storage capacity, ii. Facilities that became operational before 2019 with life cycle GHG emissions intensity of 100 	<ul style="list-style-type: none"> i. Hydropower: Projects which have not undertaken an environmental and social impact assessment that ensures no significant controversy surrounding the project. ii. Waste biomass energy: Plastics, rubber, tire-derived fuel (TDF) to energy, or fuel conversion from waste materials. iii. Non-waste biomass energy: <ul style="list-style-type: none"> a) Feedstock that is produced on land with high

¹ SMBC, “Green Deposit Framework, SMBC”, (2023), at: https://www.smbc.co.jp/global/greendeposit/resources/pdf/index_pdf_01.pdf

² Sustainalytics, “Annual Review, SMBC”, (2022), at: [https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/sumitomo-mitsui-banking-corporation-green-deposit-annual-review-\(2022\).pdf](https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/sumitomo-mitsui-banking-corporation-green-deposit-annual-review-(2022).pdf)

³ Sustainalytics, “Annual Review, SMBC”, (2023), at: [https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/sumitomo-mitsui-banking-corporation-green-deposit-annual-review-\(2023\).pdf](https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/sumitomo-mitsui-banking-corporation-green-deposit-annual-review-(2023).pdf) URL%20active%20hyperlink

	<p>gCO₂e/kwh, or power density of greater than 5 W/m², or</p> <p>iii. Facilities that became operational after 2020 with life cycle GHG emissions intensity of 50 gCO₂e/kwh, or power density of greater than 10 W/m²</p> <p>For refurbishment, the project that meets the above hydropower criteria. If the project increases the size of the dam or reservoir, a new environmental and social impact assessment needs to be undertaken.</p> <p>vi) Waste biomass energy, with feedstock limited to a) residues from forestry and agriculture, b) residues from fisheries certified with MSC,⁴ ASC,⁵ or MEL,⁶ c) waste from palm oil operations certified with RSPO,⁷ or RSB,⁸ or d) wastewater and sewage sludge.</p> <p>vii) Non-waste biomass energy with life cycle GHG emissions intensity of less than 100 gCO₂e/kWh, using feedstock restricted to a) wood and wood pellets certified with FSC,⁹ or PEFC,¹⁰ or b) non-wood crops.</p>	<p>biodiversity within the last 10-15 years</p> <p>b) Feedstock that is produced on land with a high amount of carbon has been converted for feedstock production, or</p> <p>c) Feedstock that competes with food production</p> <p>d) Feedstock from palm oil, wood pulp or waste from peat</p> <p>e) 10% or more of feedstock is non-certified oil, energy crops, including corn, soy, sugarcane, and wood pellets without sustainable sourcing and GHG emissions reduction commitments.</p>
--	---	--

⁴ Marine Stewardship Council (MSC), at: <https://www.msc.org/>

⁵ Aquaculture Stewardship Council (ASC), at: <https://www.asc-aqua.org/>

⁶ Marine Eco-Label Japan (MEL), at: https://melj.jp/eng/about_us

⁷ The Roundtable on Sustainable Palm Oil (RSPO), at: <https://rspo.org/>

⁸ The Roundtable on Sustainable Biomaterials (RSB), at: <https://rsb.org/>

⁹ Forest Stewardship Council (FSC), at: <https://fsc.org/en>

¹⁰ Programme for the Endorsement of Forest Certification (PEFC), at: <https://www.pefc.org/>

Issuer's Responsibility

SMBC is responsible for providing accurate information and documentation relating to the details of the funded projects, including descriptions of projects and amounts allocated.

Independence and Quality Control

Sustainalytics, a leading provider of ESG research and ratings, conducted the verification of the use of proceeds from SMBC's Green Deposits. The work undertaken as part of this engagement included collection of documentation from SMBC and review of said documentation to assess conformance with the Framework.

Sustainalytics relied on the information and the facts presented by SMBC. Sustainalytics is not responsible nor shall it be held liable for any inaccuracies in the opinions, findings or conclusions herein due to incorrect or incomplete data provided by SMBC.

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 of the review.

Conclusion

Based on the limited assurance procedures conducted,¹¹ nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed Eligible Portfolio is not in conformance with the eligibility criteria outlined in the Framework. SMBC has disclosed to Sustainalytics that the proceeds of the Green Deposits were fully allocated as of 31 December 2023.

Detailed Findings

Table 2: Detailed Findings

Framework Requirements	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the Eligible Portfolio to determine if the Eligible Loans aligned with the eligibility criteria outlined in the Framework and above in Table 1.	All Eligible Loans reviewed complied with the eligibility criteria defined in the Framework.	None

¹¹ Sustainalytics' limited assurance process includes reviewing documentation relating to details of projects, as provided by the issuing entity, which is responsible for providing accurate information. These may include descriptions of projects, estimated and realized costs, and reported impact. Sustainalytics has not conducted on-site visits to projects.

Appendix

Appendix 1: Allocation of Green Deposit Proceeds¹²

SMBC raised USD 662 million from the Green Deposits to effectively finance Eligible Loans that finance new or existing renewable energy projects, and the proceeds were fully allocated as of 31 December 2023. The loan balance as of 31 December 2023, was USD 697.4 million.

Table 3: Loan balance (USD million) by category

Use of Proceeds Category	Sub-category	Loan balance (USD million)	Loan balance
Renewable Energy	Wind energy	531.4	76.2%
	Solar energy	166.0	23.8%
Total		697.4	100%

Table 4: Loan balance (USD million) by country

Country	Loan balance (USD million)	Loan balance (%)
Japan	148.2	21.2
Malaysia	23.3	3.3
The Netherlands	59.9	8.6
Taiwan	69.2	9.9
United Kingdom	263.2	37.7
United States of America	38.2	5.5
Canada	95.4	13.7
Total	697.4	100%

¹² SMBC provided a confidential summary of deposits and allocations to Sustainalytics, and confirmed to Sustainalytics that all deposits were allocated to the Eligible Loans.

Disclaimer

Copyright ©2024 Sustainalytics, a Morningstar company. All rights reserved.

The information, methodologies, data and opinions contained or reflected herein are proprietary of Sustainalytics and/or content providers, and may be made available to third parties only in the form and format disclosed by Sustainalytics. They are not directed to, or intended for distribution to or use by India-based clients or users and their distribution to Indian resident individuals or entities is not permitted.

They are provided for informational purposes only and (1) shall not be considered as being a statement, representation, warranty or argument either in favor or against the truthfulness, reliability or completeness of any facts or statements that the issuer has made available to Sustainalytics for the purpose of this deliverable, in light of the circumstances under which such facts or statements have been presented; (2) do not constitute an endorsement of any product, project, investment strategy or consideration of any particular environmental, social or governance related issues as part of any investment strategy; (3) do not constitute investment advice, financial advice, or a prospectus, nor represent an “expert opinion” or “negative assurance letter” as these terms are commonly understood or defined by any applicable legislation; (4) are not part of any offering and do not constitute an offer or indication to buy or sell securities, to select a project or make any kind of business transactions; (5) do not represent an assessment of the issuer’s economic performance, financial obligations nor of its creditworthiness; (6) are not a substitute for professional advice; (7) past performance is no guarantee of future results; (8) have not been submitted to, nor received approval from, any relevant regulatory body; (9) have not and cannot be incorporated into any offering disclosure, unless otherwise agreed in writing.

These are based on information made available by the issuer and therefore are not warranted as to their merchantability, completeness, accuracy, up-to-datedness or fitness for a particular purpose. Sustainalytics has not independently verified any such information or data. The deliverables are provided “as is” and reflect Sustainalytics’ opinion at the date of their elaboration and publication. Sustainalytics does not undertake any obligation to update or revise any of the statements in the deliverable to reflect events, circumstances, changes in expectations which may occur after the date of the opinion or any statements included in the opinion. Neither Sustainalytics/Morningstar nor their content providers accept any liability from the use of the information, data or opinions contained herein or for actions of third parties in respect to this information, in any manner whatsoever, except where explicitly required by law. Sustainalytics does not assume any responsibility shall the bond default. Any reference to content providers’ names is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our content providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.

Sustainalytics may receive compensation for its ratings, opinions and other deliverables, from, among others, issuers, insurers, guarantors and/or underwriters of debt securities, or investors, via different business units. Sustainalytics believes it has put in place appropriate measures designed to safeguard the objectivity and independence of its opinions. For more information, visit [Governance Documents](#) or contact compliance@sustainalytics.com.

This deliverable, in particular the images, text and graphics contained therein, and the layout and company logo of Sustainalytics are protected under copyright and trademark law. Any use thereof shall require express prior written consent. Use shall be deemed to refer in particular to the copying or duplication of the opinion wholly or in part, the distribution of the opinion, either free of charge or against payment, or the exploitation of this opinion in any other conceivable manner.

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

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

