

Sustainable Finance Market Update

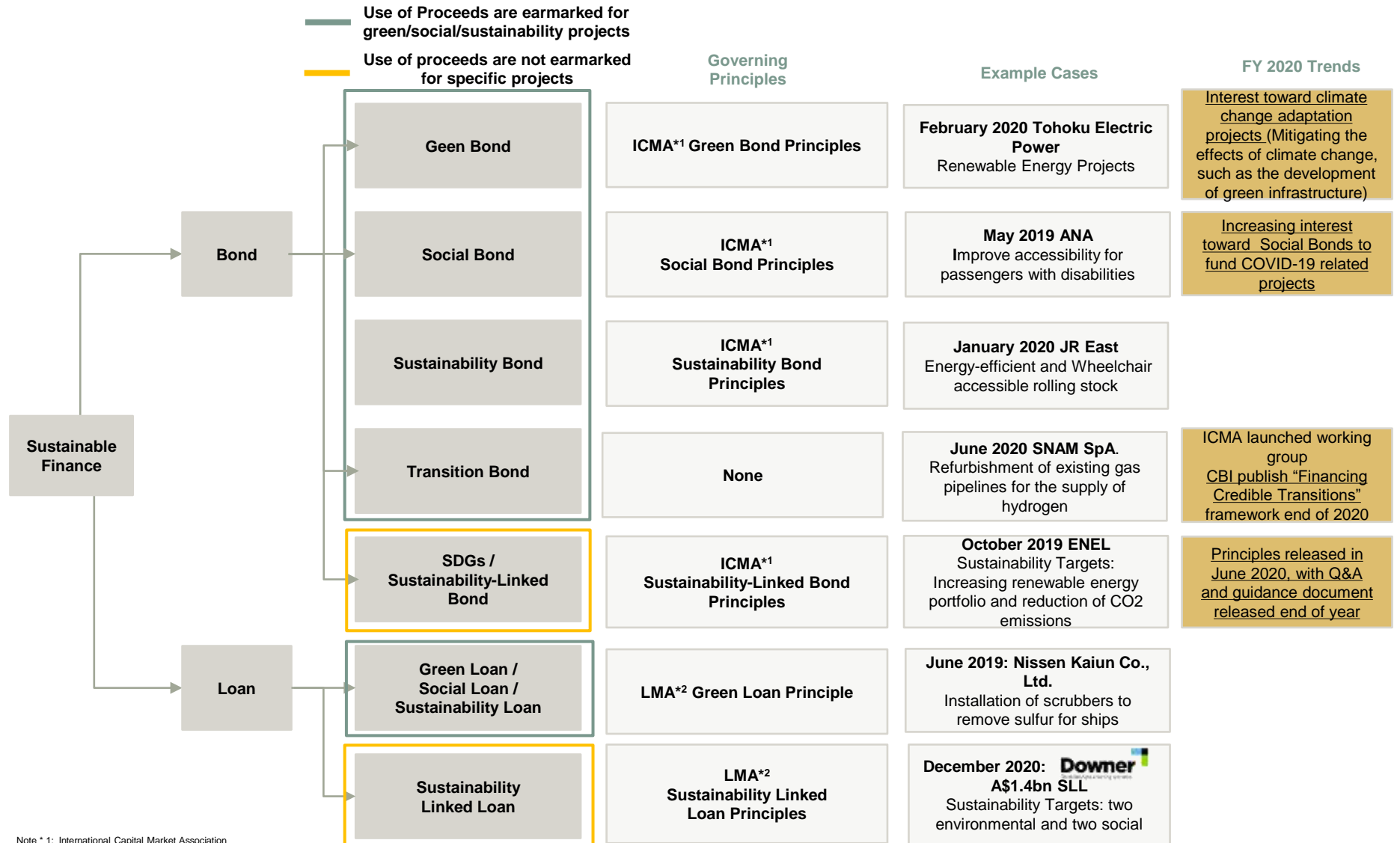
SMBC Nikko Securities Inc.
SDGs Finance

June, 2021

Marketing Material
For Professional Clients / Eligible Counterparties only



Sustainable Finance Flow Chart



Note * 1: International Capital Market Association
*2: Loan Market Association

Global Green, Social, Sustainability & Sustainability-Linked (GSS) Bond Market



GSS Bond Market: Key Points

State of the Market

- The Green, Social, Sustainability and Sustainability-Linked Bond (GSS) market saw **ca. USD460bn of issuance in 2020** with cumulative issuance that exceeded the USD 1trn mark – **2021 issuance to date amounts at ca. USD450bn.**
- The GSS market is currently extremely dynamic with **issuance up 300% YoY in Q1 2021 at USD253bn** though the similar period last year was also impacted by the pandemic.
- On a **cumulative basis** issuance globally stands at **over ca. USD1.6tn.**

Social / Sustainability

- In 2020 the **Social and Sustainability Bond** market was particularly strong with a renewed market focus on Social issues against the backdrop of Covid-19.
- In 2020 Social and Sustainability bond issuance exceeded the **USD200bn mark for 2020 at ca. +290% YoY.**

GSS Diversity

- The rollout of the new ICMA General Corporate Purposes **Sustainability-Linked Bond (SLB)** Principles in June 2020 has brought new diversity to the market and has led to more granular discussions around **issuers' materiality and sustainability ambitions.**
- The SLB market is steadily developing with **issuance to date at ca. USD46bn including over USD30bn printed solely in 2021YTD.**
- The market comprises an **increasing number of issuers to date in both the IG and HY space** including, among others, Enel, Suzano, Novartis, Chanel, H&M, LafargeHolcim, Hulic, Tesco, Ahold, Verbund, Verallia, Eni, etc. – the most recent breakthroughs are coming from the **Oil & Gas** space where issuers such as **Eni, Total, Repsol** are now able to finance their energy transition via SLBs.

Annual Global GSS Bond Issuance (in \$bn)



Source: Bloomberg, SMBC Nikko as of 15 June 2021

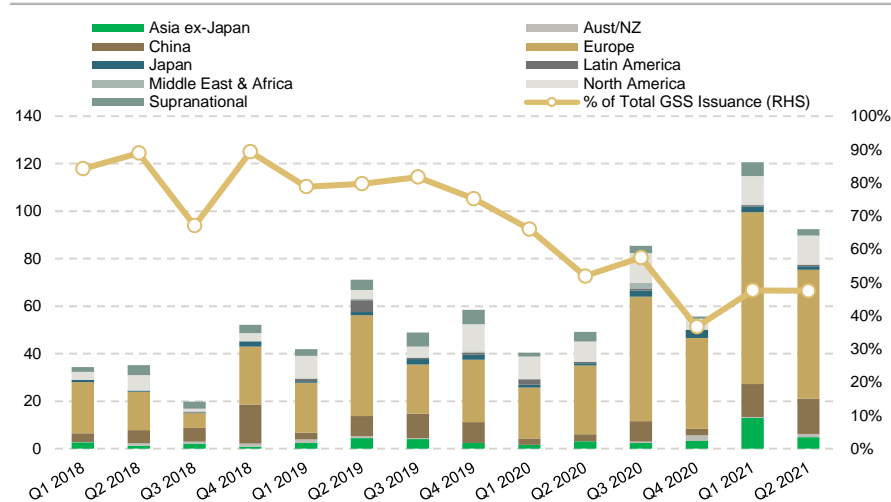
Green Bond Issuance Overview



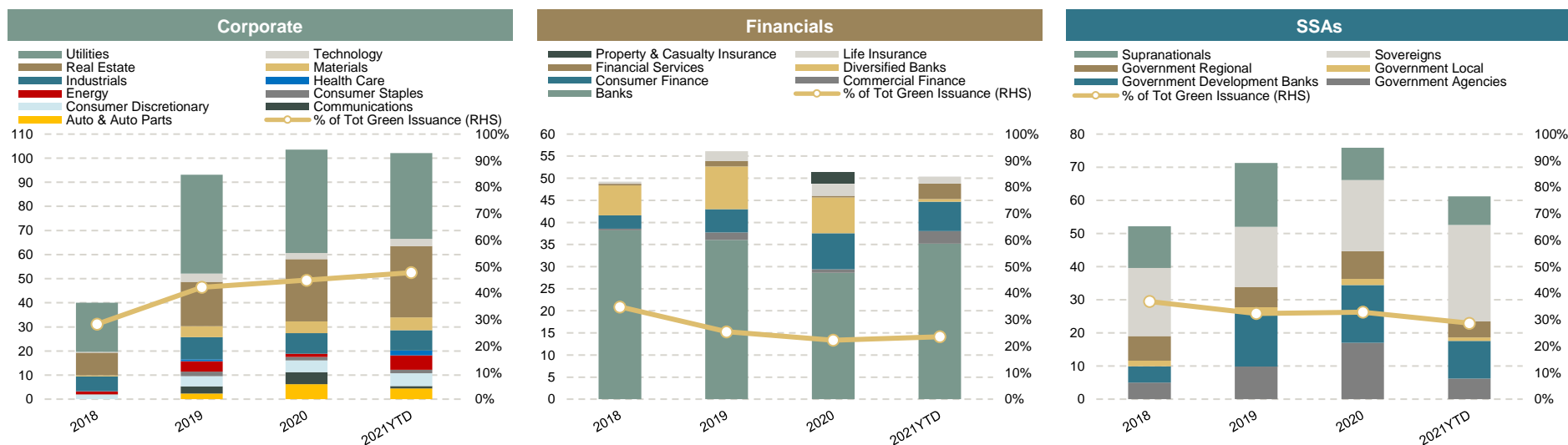
Green Bond Issuance: Key Points

- Green Bonds achieved a **new quarterly record in Q1 2021** (more than 2x the volume of 1Q 2020 when the Covid-19 pandemic started) though its share vs the total GSS Bond market has been decreasing as Social/Sustainability Bond and, more recently, Sustainability-Linked Bond primary activity increased.
- Though the market is mainly **dominated by Europe**, Asia ex-Japan issuers are balancing a **decreasing Chinese supply while North American primary activity is catching up**.
- Corporate Green Bond issuance remains dominated by **Utilities and Real Estate** though **new sectors such as Energy, Industrials and Auto** are contributing to increased diversification.
- Financials and SSAs Green Bond supply remain sustained thanks to new issuers (e.g. Deutsche Bank, Italy, Hungary, etc.) though more concentrated towards Social/Sustainability offerings as more aligned.
- Given the economic recovery path and issuer appetite to finance climate mitigation and adaptation projects with Green Bonds, **the market expects 2021 Green volumes to easily exceed last years'**.

Quarterly Green Bond Issuance by Region (in \$bn)



Annual Global Green Bond Issuance by Issuer Type (in \$bn)



Source: Bloomberg, SMBC Nikko as of 15 June 2021

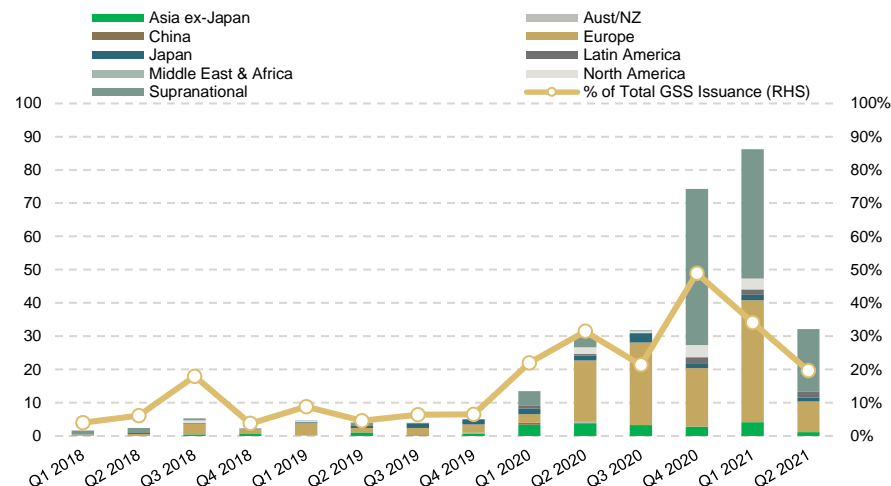
Social Bond Issuance Overview



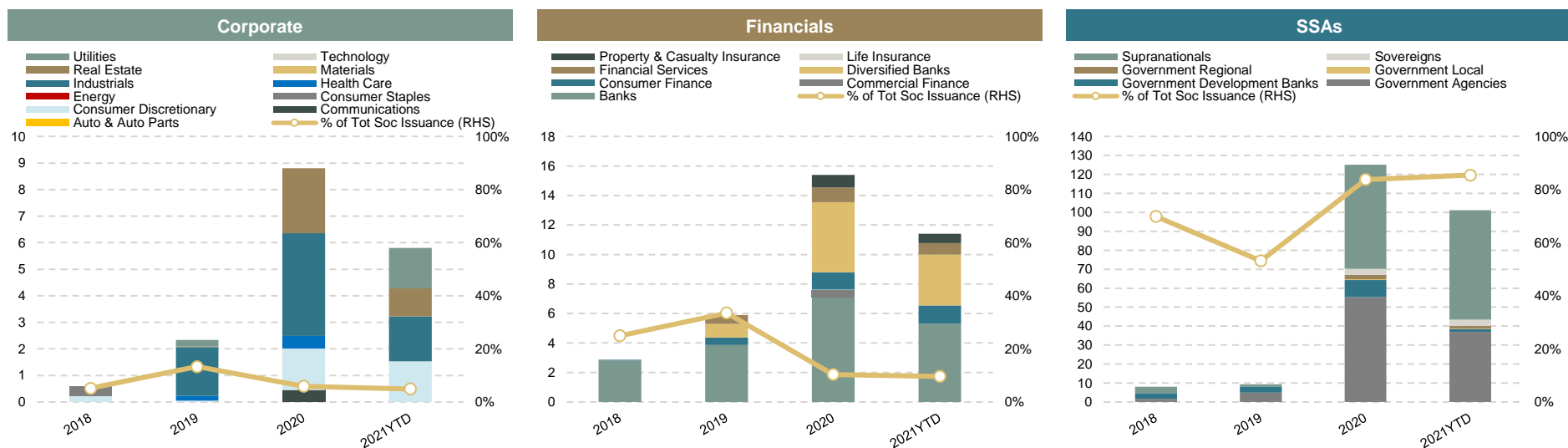
Social Bond Issuance: Key Points

- **Social Bond volumes recently remained extremely strong as a few large issuers in the SSA space continued to support the market by issuing to finance their response to the Covid-19 pandemic** – the EU via its SURE Programme, CADES and UNEDIC combined for \$73 billion of Social Bond volume in 1Q 2021 only.
- Though Social Bond issuance remains mainly concentrated among SSAs and, to a lesser extent, Financials, the market anticipates that Social Bonds will remain a meaningful part of the GSS Bond market over the long term as **governments and companies increasingly focus on a broader array of social issues.**
- **Sector innovation among Corporates has mainly originated outside Europe (except EDF in France), and particularly in Japan** where inaugural issuers such **ANA, East Nippon Expressway, The University of Tokyo**, etc. have brought breakthrough Social Bond transactions within their respective sector contributing to further diversification in the market.

Quarterly Social Bond Issuance by Region (in \$bn)



Annual Global Social Bond Issuance by Issuer Type (in \$bn)



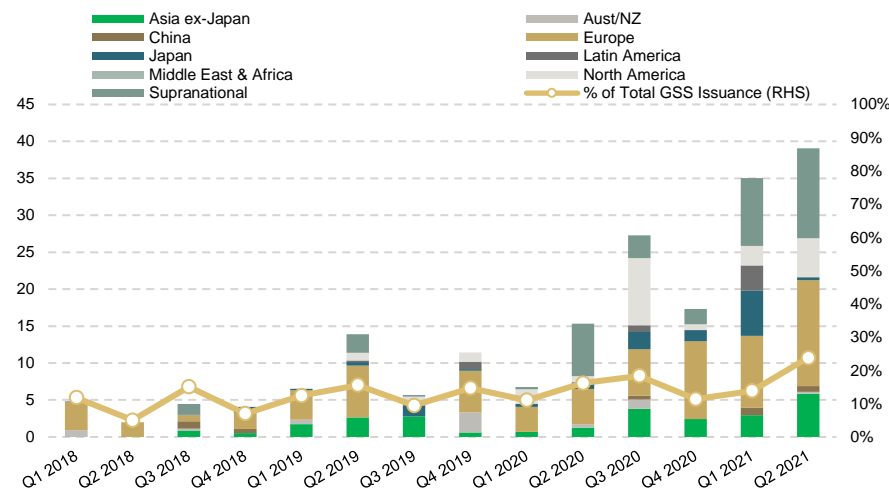
Source: Bloomberg, SMBC Nikko as of 4 June 2021

Sustainability Bond Issuance Overview

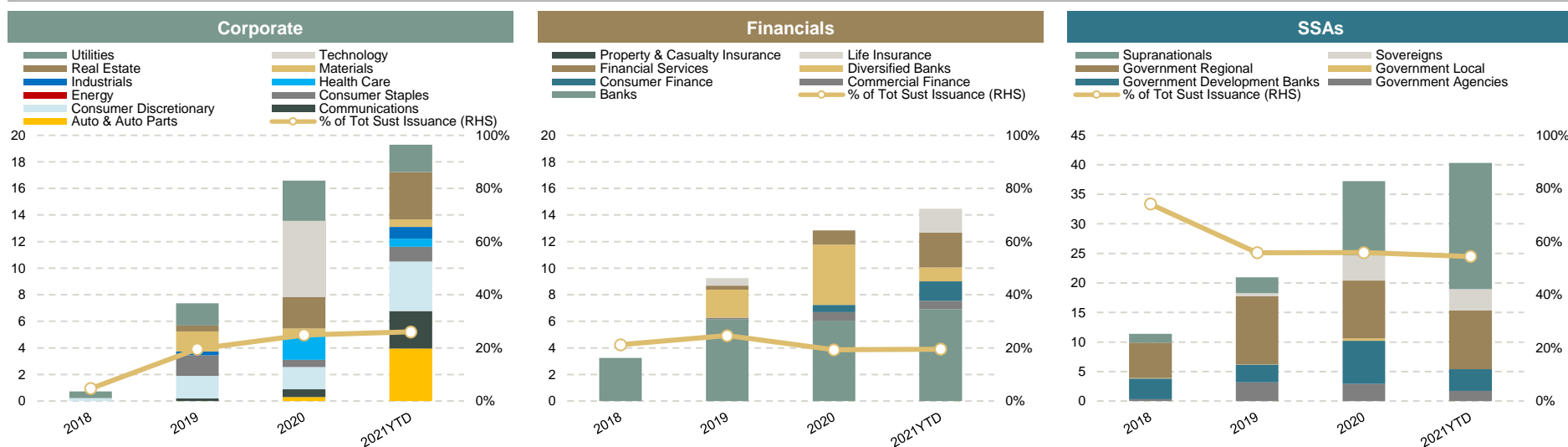
Sustainability Bond Issuance: Key Points

- **Greater participation from financial and non-financial companies seeking to highlight both their environmental and social objectives**, adding up to the historical large supply from SSAs, has led to new quarterly issuance records of Sustainability Bonds coupled with a meaningful increase of the share vs total GSS Bond market.
- Supranational issuers continue to be the leading regional segment for Sustainability Bonds though **the market continues to be more diverse**.
- From a sector perspective the market is seeing corporate issuance following SSAs, with Asian and selected Emerging Market issuers (e.g. **Kookmin Bank, Southern Water, Toyota, TSKB, VakifBank, Goldman Sachs, etc.**) recently contributing to more diversification.
- In the **Communications sector** we highlight how recent issuance only came in Sustainability Bond format mainly through offerings from **Telefonica, Telecom Italia, Orange** securing funding in both senior and, for the Spanish operator, in hybrid format, too showing further diversity.

Quarterly Sustainability Bond Issuance by Region (in \$bn)



Annual Global Sustainability Bond Issuance by Issuer Type (in \$bn)



Source: Bloomberg, SMBC Nikko as of 4 June 2021

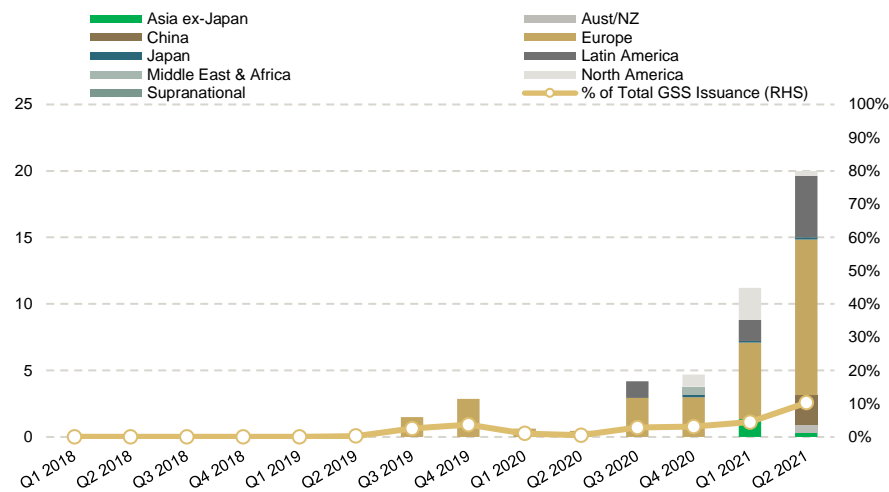
Sustainability-Linked Bond Issuance Overview



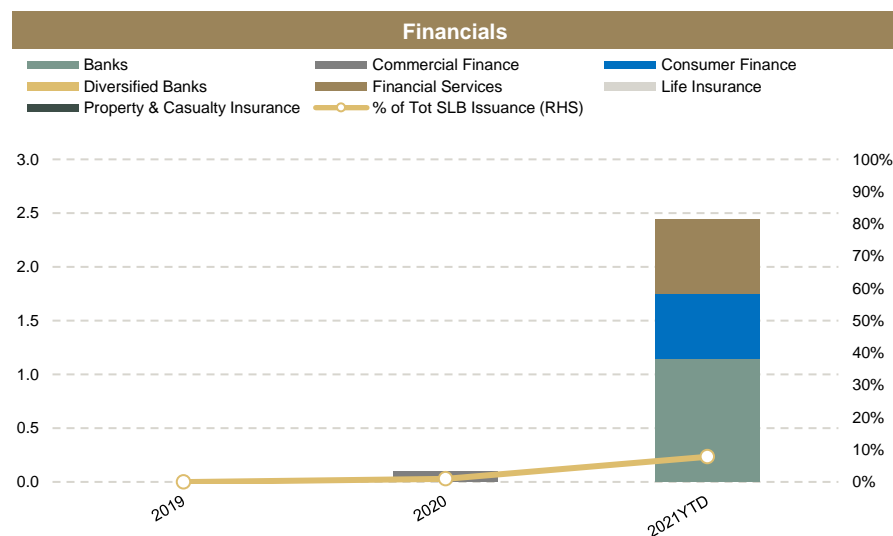
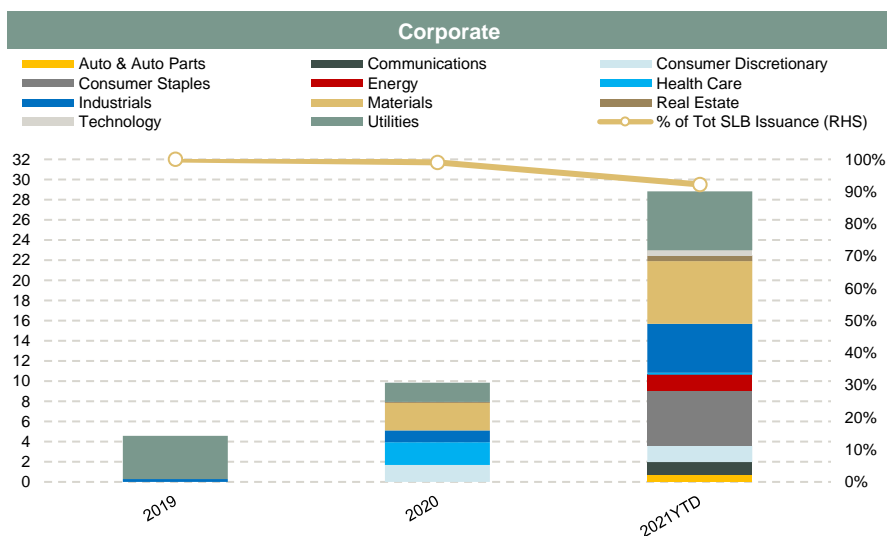
Sustainability-Linked Bond Issuance: Key Points

- Sustainability-Linked Bonds (SLB) are the most dynamic area of the GSS Bond markets following the publication of **ICMA's Sustainability-Linked Bond Principles in June 2020**.
- Sustainability-Linked Bonds have brought **new diversity to the market in terms of issuer type and bond structure** and have led to **more granular discussions around each issuer' sustainability ambitions**.
- Nearly all SLBs have been issued by corporates to date, in both the IG and HY space, these come from a **broad range of sectors, including utilities, shipping, cement, apparel, pharmaceuticals, and lately Oil & Gas**. (e.g. Enel, Suzano, Novartis, Chanel, H&M, LafargeHolcim, Hulic, Tesco, Ahold, Verbund, Verallia, Eni, etc.).
- **Within Oil & Gas, Eni SpA is the only one to have issued an SLB**, whereas TotalEnergies and Repsol have so far only disclosed their intentions, framework (for Repsol only) and potential KPIs/SPTs.
- **Berlin Hyp and China Construction Bank were the first banks globally to have issued an SLB.**

Quarterly Sustainability-Linked Bond Issuance by Region (in \$bn)



Annual Global Sustainability-Linked Bond Issuance by Issuer Type (in \$bn)



Source: Bloomberg, SMBC Nikko as of 15 June 2021

Guidance and expectations in Climate Transition Finance Handbook

Climate Transition Finance Handbook provides guidance and expectations to capital markets participants as below:

<p>Issuer's Climate Transition Strategy and Governance</p>	<ul style="list-style-type: none"> • Establishment of a corporate strategy to address climate change-related risks is a pre-requisite to issuing a transition-labelled instrument • A range of climate change scenario providers exist in the market today⁴ to inform strategy design. The choice of relevant provider, or the decision to design an in-house scenario, are up to the issuer. However, regardless of the source, an issuer's strategy should be guided by the objective of limiting global temperature increases ideally to 1.5° C and, at the very least, to well below 2° C • Suggested information and indicators: <ul style="list-style-type: none"> – A long-term target to align with the goals of the Paris Agreement (e.g. the objective of limiting global warming ideally to 1.5° C and, at the very least, to well below 2° C); – Relevant interim targets on the trajectory towards the long-term goal; – Disclosure on the issuer's levers towards decarbonisation, and strategic planning towards a long-term target to align with the goals of the Paris Agreement; – Clear oversight and governance of transition strategy; – Evidence of a broader Sustainability strategy to mitigate relevant environmental and social externalities and contribute to the UN Sustainable Development Goals
<p>Business Model Environmental Materiality</p>	<ul style="list-style-type: none"> • The climate transition trajectory as far as it relates to financing should also be a material factor to the future success of the business model, as opposed to being an incidental aspect. The trajectory should also consider the salience of an issuer's climate impacts on the environment and society, and seek to mitigate negative externalities.
<p>Climate Transition Strategy to be Science-based including Targets and Pathways</p>	<ul style="list-style-type: none"> • Issuer's climate strategy should reference science-based targets and transition pathways. The planned transition trajectory should: <ul style="list-style-type: none"> – be quantitatively measurable (based on a measurement methodology which is consistent over time); – be aligned with, benchmarked or otherwise referenced to recognized, science-based trajectories where such trajectories exist; – be publicly disclosed (ideally in mainstream financing filings), include interim milestones; – be supported by independent assurance or verification • Suggested information and indicators <ul style="list-style-type: none"> – Short, medium, and long-term greenhouse gas reduction targets aligned with Paris Agreement; – Baseline; – Scenario utilised, and methodology applied (e.g. ACT, SBTi, etc.); – Greenhouse gas objectives covering all scopes (Scope 1, 2 and 3); – Targets formulated both in intensity and absolute terms.
<p>Implementation Transparency</p>	<ul style="list-style-type: none"> • Market communication in connection with the offer of a financing instrument which has the aim of funding the issuer's climate transition strategy should also provide transparency to the extent practicable, of the underlying investment program including capital and operational expenditure. This may include R&D-related expenditure where relevant, and details of where any such operating expenditure is deemed 'non-Business as Usual', as well as other relevant information indicating how this program supports implementation of the transition strategy, including details of any divestments, governance and process changes. • Suggested information and indicators <ul style="list-style-type: none"> – Disclosure on the percentage of assets/revenues/expenditures/divestments aligned to the various levers of the strategies and pathways ; – Capex roll-out plan consistent with the overall strategy and climate science

Appendix 5: SMBC Nikko Sustainable Finance Platform

Qualification & Credentials on Green, Social, Sustainability (GSS) bond Issuance

SMBC Nikko's Track Record as Structuring Agent (SA)

GLP J-REIT JPY5.1bn Dec 2018	SMBC Group USD227.8mm / AUD83.2mm Dec 2018	TOENEC JPY14.0bn (PP) March 2019	ANA Holdings JPY5.0bn May 2019	United Urban Investment Corp JPY10.0bn May 2019	SMBC Group EUR5.0mm May 2019	Meidensha JPY6.0bn July 2019	Japan Hotel REIT JPY2.0bn July 2019	Mitsui Real Estate JPY50.0bn Sep 2019	Miraca Holdings JPY20.0bn Oct 2019	Daiwa House REIT JPY6.0bn Nov 2019	Gunma Bank JPY10.0bn Nov 2019	GLP J-REIT JPY5.0bn Nov 2019	AEON REIT JPY12.0bn Dec 2019	Nagoya Bank JPY10.0bn Dec 2019	Kenedix Residential Next Investment JPY2.0bn Dec 2019
Healthcare & Medical Investment Corp JPY2.0bn Feb 2020	ARUHI (Green RMBS) JPY5.0bn Jan 2020	Tohoku Electric Power Co. JPY5.0bn Feb 2020	Kajima Corp JPY10.0bn Feb 2020	Mitsui-Soko JPY5.0bn Mar 2020	Sumitomo Mitsui Finance and Lease JPY15.0bn Mar 2020	Daiwa House REIT JPY 4.0bn May 2020	Nippon Accommodations Fund JPY 4.0bn July 2020	CRE REIT JPY 2.0bn Sep,2020	Sumitomo Mitsui Auto Service JPY 10.0bn Sept,2020	Tohoku Electric Power JPY 10.0bn Sep 2020	Honda Finance JPY 30.0bn Sep 2020	GLP J-REIT JPY 5.0bn Sep,2020	Chugoku Bank JPY 10.0bn Oct,2020	KENEDIX OFFICE INV CORP JPY 1.0bn Oct,2020	HANKYU HANSHIN REIT JPY2.0bn Oct,2020
Mori Hills REIT JPY 3.5bn Oct,2020	Kanagawa Prefecture JPY5.0bn Oct,2020	AEON REIT JPY 18bn Dec 2020	NAGOYA EXPRESSWAY JPY15bn Dec 2020	SMFG USD 500m Jan 2021	J-Power JPY 200bn Jan 2021	NH Foods JPY 10bn Feb 2021	JA Mitsui Leasing JPY 10bn Mar 2021	Mitsubishi Estate Logistics REIT JPY 2bn Apr 2021	Japan Logistics Fund JPY 2bn Apr 2021	NTT UD REIT Investment JPY 5.2bn Apr 2021	Chubu Electric Power TBD TBD				

SDGs Bond Structuring Agent League Table (FY 2020)

	Security	# of Deals
1	SMBC Nikko	16
2	Mizuho	15
3	MUMSS	6
4	Nomura	6
5	Daiwa	5
	Total	47

Note: If bonds are issued in multiple maturities at the same time, the number of issuers is counted (not the number of bonds issued)

Linked bonds SA

ANA Holdings JPY 10bn Jun, 2021 (Plan)
--

Linked bonds JLM

Hulic JPY 10bn Oct,2020

Fuyo General Lease JPY10bn Dec,2020
--

Green Equity SA

Nippon Prologis REIT JPY 36.78 Jan 2021
--

Green Equity Lead Manager

Takara Leben Infrastructure Fund JPY 2.97bn Nov 2020
--

ENEX Infrastructure Investment Corp JPY 23.8bn Nov 2020

SMBC Nikko's Recent Track Records of GSS bonds outside Japan

\$750mm 5 Year Sustainability JLM December 2020	\$1,800mm 5 / 10 Year Green JLM November 2020	\$1,350mm 5 / 7.5 Year Green Lead Manager September 2020	AUD80mm 20 Year Green Lead Manager August 2020	€ 1,000mm Perp Green JLM July 2020	€1,000mm 7 Year SDG-Linked JLM May 2020	GBP300mm 20 Year Sustainability JLM May 2020	\$800mm 3 / 10 Year Sustainability JLM April 2020	\$1,600mm 10 / 30 Year Green JLM March 2020	€750 10NC9 Green JLM January2020	\$7000mm 10 Year Green JLM November 2019	\$1,000mm 7 Year Sustainability JLM October 2019
€1,500mm 11 (Green) / 22Year JLM October 2019	€1,500mm 5 / 10.5 Year Green JLM August 2019	€1,250mm 11 / 20 Year Green JLM May 2019	€500mm 8 Year Green JLM May 2019	\$1,500mm 3 / 5 FRN Green JLM April 2019	€2,500mm Long 4 / Long 7 / 15 Year SDG-Linked JLM October 2019	\$200mm Jan 2024 Tap Green JLM March 2019	\$1,000mm 10 / 30 Year Green JLM March 2019	€1,000mm PNC6 Hybrid Green JLM January2019	€1,250 Long 8 Year Green JLM January2018		

Note: Includes Enel's SDGs-Linked Bond
Source: SMBC Nikko, as of May 24, 2021

Business Alliance with Affirmative Investment Management (AIM)



On July 17, 2020, SMBC Group announced a business alliance with Affirmative Investment Management (AIM), a leading ESG investor based in Europe. AIM is very well known in the market as a dark green investor and utilizes its expertise to support ESG finance on a global scale.

Corporate Profile

- Established in 2014 to create a positive impact on society and the environment through its investment portfolio
- Aims to invest 100% in impact investments, reporting is highly regarded globally
- Reporting includes quantitative impacts on environment, as well as disclosure of the regions in which the proceeds are used, and case studies concerning the use of proceeds.

	AuM	ESG Investments in AuM
Total	\$1.18bn	Full amount



Support for issuers through Collaboration between SMBC Nikko and AIM

Support for ESG Bond Framework construction by providing comments as an ESG Investor	<ul style="list-style-type: none"> As an impact investor, AIM focuses on the greenness of the use of proceeds and the contents of reporting Enhance the appeal of the issuers' ESG framework by providing advice from the perspective of dark green European Investors
Confirmation of the perspective of dark green investors through IR	<ul style="list-style-type: none"> Having IR meetings with dark green investors would help issuers to optimise ESG engagement
Expansion of investor base	<ul style="list-style-type: none"> Possibility for expansion of investor base by following AIM invest policies

ESG criteria for investment "SPECTRUM"

"S"ustainable	Consistency with SDGs and the Paris Agreement
"P"ositive "E"xternality	There is an environmental and/or social externality associated with the issue
"C"redit	Being eligible from financial and ESG aspect
"T"ransparency	Clear and transparent investment policies and information disclosure
"R"esponsible	Issuer's commitment to sustainability in its business model
"U"se of proceeds	Use of proceeds that meet AIM's criteria
"M"aterial impact	Material and measurable impact reporting

Achievement and external evaluation of AIM's impact investment

Reduction in CO2 emissions	70,085t-CO2
Energy saving effect	54%
Introduction of renewable energy facilities	66MW
Production of clean energy	233,114MWh
Daily passenger volume through clean transportation	30,751
Amount of purified water	250,625m ³
Green Building Area	6,297m ²
Number of students with access to green education	17,790



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SMBC Brussels Branch

Financial Services & Markets Authority and National Bank of Belgium.

SMBC DIFC Branch – Dubai

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SMBC Düsseldorf Branch

Supervised by *Bundesanstalt für Finanzdienstleistungsaufsicht* (Federal Financial Supervisory Authority) (BaFin).

SMBC London Branch

Authorised and regulated by the JFSA. Authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

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SMBC EU Düsseldorf Branch

Supervised by BaFin.

SMBC EU *Sucursal en España* (Branch in Spain) – Madrid

Banco de España (Bank of Spain).

SMBC EU Milan Branch

Banca d'Italia (Bank of Italy) and *Commissione Nazionale per le Società e la Borsa* (Italian Companies & Exchange Commission) (Consob).

SMBC EU Paris Branch

Autorité de Contrôle Prudentiel et de Résolution (Prudential Supervision & Resolution Authority) (ACPR) and *Autorité des Marchés Financiers* (Financial Markets Authority) (AMF).

SMBC EU Prague Branch

Česka Národní Banka (Czech National Bank).

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SMBC BI Paris Branch

Authorised by the ACPR. Supervised and regulated by the ACPR and the AMF.

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SMBC Derivative Products Limited is authorised and regulated by the Financial Conduct Authority (FRN 172073).

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SMBC Nikko CM Europe

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