

Framework Overview and Second-Party Opinion

Daiwa Securities Group Green Bond

Evaluation Summary

Sustainalytics is of the opinion that the Daiwa Securities Group Inc. Green Bond Framework is credible and impactful, and aligns with the four core components of the Green Bond Principles 2018. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds, 1) Renewable Energy and 2) Green Buildings, are aligned with those recognized by the Green Bond Principles 2018. Sustainalytics considers that the eligible projects will contribute toward increasing renewable energy production and climate targets, and advancing the UN Sustainable Development Goals 7 and 11.



PROJECT EVALUATION / SELECTION The eligible projects will be selected by several teams at Daiwa Securities Group including Treasury Department, Corporate Planning Department composed of the Group Management Section and SDGs Office, and for the case of projects carried out by its affiliates, Daiwa Energy & Infrastructure Co. Ltd. and Daiwa Property Co., Ltd. The final decision will be made by the Chief Financial Officer. Sustainalytics views the C-suite involvement as in line with market best practice.



MANAGEMENT OF PROCEEDS Daiwa Securities Group's process for management of proceeds is in line with market standard, considering that it tracks the amount of allocated and unallocated proceeds by using a separate ledger.



REPORTING Daiwa Securities Group has committed to allocation reporting and impact reporting on an annual basis via its Integrated Report or corporate website. The allocation reporting will include description of projects, amounts of allocated and unallocated proceeds, and expected timeline for allocation. In addition, for impact reporting, Daiwa Securities Group intends to report quantitative and qualitative indicators, such as, the amount of power generated and CO2 emissions reduced for renewable energy projects, and CO2 emission, waste and Energy consumption, recycle rate, in addition to the level of certification for green building projects. This is in line with market practice.

Evaluation date	25 October 2018
Issuer Location	Tokyo, Japan

Report Sections

Introduction.....	2
Overview of Issuer	2
Framework Overview	3
Sustainalytics' Opinion	6
Appendices	11

For inquiries, contact the Sustainable Finance Solutions project team:

Wakako Mizuta (Tokyo)
Project Manager
wakako.mizuta@sustainalytics.com
(+81) 3 4510 7979

Victor Prunar (Timisoara)
Project Support
victor.prunar@sustainalytics.com
(+4) 035 608 9978

Alignment with Japan's Green Bond Guidelines 2017

Sustainalytics is of the opinion that the Daiwa Securities Group Green Bond Framework is in line with Japan's Green Bond Guidelines, which communicate processes and recommendations for credible green bond issuance.

Introduction

Daiwa Securities Group Inc. (Daiwa Securities Group) has developed the Daiwa Securities Group Green Bond Framework (the “framework”) under which it is considering to issue multiple green bonds and use the proceeds to finance/refinance expenditures related to renewable energy and green buildings.

Daiwa Securities Group engaged Sustainalytics to review the Daiwa Securities Group Green Bond and provide a second-party opinion on the alignment of the green bond framework’s environmental credentials with the Green Bond Principles 2018 (the “GBP”), as administered by the International Capital Market Association (the “ICMA”),¹ in addition to alignment with Japan’s Green Bond Guidelines 2017, established by the Japanese Ministry of Environment.

As part of this engagement, Sustainalytics held conversations with various members of Daiwa Securities Group’s Treasury Department, Corporate Planning Department and SDGs Promotion Office to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of Daiwa Securities Group’s green bond. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains two sections: Framework Overview – summary of the Daiwa Securities Group Green Bond; and Sustainalytics’ Opinion – an opinion on the framework.

Overview of Issuer

Headquartered in Tokyo, Daiwa Securities Group, founded in 1902, is one of the leading, comprehensive financial service firms in Asia. The group operates across Japan, America, Europe and Asia, with four primary areas of focus including Retail, Global Markets, Global Investment Banking, Asset Management, and Investment. At the group level, it provides a broad range of services to various clients including individual investors, corporate and institutional investors.

Daiwa Securities Group states that its mission is to contribute to the development of society and the economy through daily operations, including wealth management for investors and public institutions, and deepening the bond with its stakeholders, including customers, shareholders, employees, and society, is essential to sustainable growth together with society.² In accordance with its mission, the group has set out Corporate Principles to achieve sustainable society, and laid out the following two areas of key CSR focus:³

1. Leveraging Financial capabilities to contribute to a sustainable society
2. Developing sound financial and capital markets for the next generation

Based on these key issues, the group has identified 15 areas of CSR materiality which includes environmental initiatives such as reduction of environmental load and responses to environmental changes.⁴ Additionally, as part of its management policy, the group has established ‘Passion for SDGs 2018’⁵ to demonstrate a commitment to and contribute to the achievement of SDGs. Daiwa Securities Group is a signatory of United Nations Global Compact.

In order to incorporate its mission and environmental initiatives into its sustainability practices, the group is planning to issue green bonds as a public offering in the domestic market from 2018, to finance/refinance some of its expenditures related renewable energy and green buildings.

¹ ICMA’s Green Bond Principles 2018: <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

² Daiwa Securities Group, Daiwa Securities Group Corporation Principles and Key Issues: <http://www.daiwa-grp.jp/english/csr/materiality/index.html>

³ Daiwa Securities Group, Daiwa Securities Group Corporation Principles and Key Issues: <http://www.daiwa-grp.jp/english/csr/materiality/index.html>

⁴ Daiwa Securities Group, CSR Report 2017: http://www.daiwa-grp.jp/english/pdf/2017_Sustainability_Report/daiwa_csr_2017_e.pdf

⁵ Daiwa Securities Group, Passion for SDGs 2018: http://www.daiwa-grp.jp/corporate/corporate_04_02.html (Japanese)

Framework Overview

For the purpose of issuing multiple green bonds, Daiwa Securities Group has developed the following framework which addresses the four core components of the Green Bond Principles (GBP): use of proceeds, project evaluation and selection process, management of proceeds, and reporting as well as Japan's Green Bond Guideline 2017. The framework belongs to Daiwa Securities Group, and a summary overview has been provided below.

Use of Proceeds

The proceeds of the green bond will be allocated towards financing and/or refinancing projects that meet one or more of the following categories of eligibility as recognized in the Green Bond Principles 2018 by the International Capital Market Association (ICMA) and Japan's Green Bond Guidelines 2017.

Eligibility Criteria

1. RENEWABLE ENERGY

Investment and lending through Daiwa Energy & Infrastructure Co. Ltd. (DEI)⁶ for renewable energy generation projects that meet the following criteria:

- 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.

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.

2. 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.⁷. The green buildings should meet the following criteria:

- 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:
 - 3,4 or 5 Stars under the DBJ Green Building Certification
 - B+, A or S Rank under CASBEE

Project Evaluation and Selection Process

Application of Eligibility and Exclusionary Criteria in Project Selection

The selection of the green projects will be determined through the following procedures;

⁶ Daiwa Energy & Infrastructure Co. Ltd. is wholly owned by Daiwa Capital Holdings Co., Ltd, which is wholly owned by Daiwa Securities Group Inc.: http://www.daiwa-grp.jp/data/attach/2541_98_en20180730a.pdf

⁷ Daiwa Property Co.,Ltd is wholly owned by Daiwa Securities Group Inc.: <http://www.daiwa-property.co.jp/> (Japanese)

- 1) Daiwa Securities Group's Treasury Department will evaluate and select project candidates in accordance with eligibility criteria,
- 2) Daiwa Securities Group's Corporate Planning Department which consists of the Group Management Section that manages and plans for the group's subsidiaries and SDGs Promotion Office that plans and promotes Daiwa's SDGs and CSR activities, will check and confirm that selected candidates for green projects are appropriate and eligible considering the above defined criteria. For the case of projects carried out by its affiliates, the projects will be also assessed to verify eligibility by Daiwa Energy & Infrastructure Co. Ltd. and Daiwa Property Co.,Ltd. respectively for renewable energy generation projects and green buildings projects.
- 3) The final confirmation will be made by the Chief Financial Officer based on the selected eligible projects.

Environmental Objectives

Daiwa Securities Group has set out Environmental Principles and Basic Environmental Policies as its action guideline while stating that the group pledges to solving environmental issues through its business as a financial service company.⁸ Additionally, the group launched the SDGs Promotion Committee chaired by Seiji Nakata, President and CEO of Daiwa Securities Group Inc., in February 2018 with the commitment toward achieving SDGs especially in the theme of "Finance", "Technology", "Local Community", and "Life".⁹ Furthermore, in addition to the traditional securities business, Daiwa Securities Group, as "Integrated Securities Group with Hybrid Business Model", is committed to promoting new businesses contributing to the sustainable environment. As part of the commitments, the group has established "Daiwa Energy & Infrastructure Co. Ltd." in July 2018 in order to reduce CO2 emissions and promote sustainable energy through investment in renewable energies.¹⁰ In line with its commitments, Daiwa Securities Group views the financing of renewable energy and green buildings projects as helping to advance its environmental initiatives.

Process to Mitigate Environmental and Social Risks

For renewable energy projects, based on its Environmental Policies, Daiwa Securities Group has an internal due diligence process to assess financial and non-financial risks, including environmental and social risks, and to confirm the validity of projects. The group conducts due diligence on the environmental and social risks, and based on the assessment, the investment committee of Daiwa Energy & Infrastructure Co. Ltd. will make a final decision on the investment. Evaluation of the projects, risk recognition and prevention measures are discussed by and representatives from risk management, compliance, and legal section teams. As part of the process, Daiwa Securities Group, by the contract, checks and ensures that 1) investees (power producers) have undertaken the environmental impact assessments on the facility to be funded, in accordance with laws and regulations such as the Japan's Feed-in Tariff (FIT) System for Renewable Energy¹¹ and guidelines to formulate business plans for each renewable energy projects established by Agency for Natural Resources and Energy of METI, and 2) investees comply with laws and regulations in accordance with FIT System and such as Japan's Forest Act in case of domestic projects, and with other relevant local laws and regulations in case of international projects. Additionally, DEI's risk management team will monitor each project during the investment period. DEI holds meetings concerning risk management including environmental and social matters once a month and, if there are large projects or problematic projects, scrutinize such projects in order to identify and mitigate problems and establish counter measures. For green buildings project, Daiwa Securities Group selects all eligible green buildings based on a clear set of external third-party green building certifications (CABSEE and DBJ Green Building Certification etc.) in which environmental and social risks have been already contemplated.

⁸ Daiwa Securities Group, CSR Report 2017: http://www.daiwa-grp.jp/english/pdf/2017_Sustainability_Report/daiwa_csr_2017_e.pdf

⁹ Daiwa Securities Group, FY2018 Management Strategy: http://www.daiwa-grp.jp/data/attach/2497_2018-E-Management_Strategy_Meeting.pdf

¹⁰ Daiwa Securities Group, Establishment of Daiwa Energy & Infrastructure Co. Ltd. (DEI): http://www.daiwa-grp.jp/data/attach/2541_98_en20180730a.pdf

¹¹ Agency for Natural Resources and Energy, Japan's Feed-in Tariff (FIT) System for Renewable Energy: http://www.enecho.meti.go.jp/category/saving_and_new/saiene/kaitori/surcharge.html

Management of Proceeds

The management and allocation of proceeds will be executed by the Treasury Department. The Treasury Department will use a separate ledger and track budgets and actual spending for eligible green projects through reporting from subsidiaries or departments which are allocated as proceeds on a quarterly basis. Unallocated proceeds will be credited to a subaccount that is financially separate from other general accounts to be tracked appropriately and actual spend for eligible green projects will be monitored by using a separate ledger. Pending allocation to finance eligible green projects, the amount equal to the balance of the proceeds will be temporally invested in cash and/or cash equivalents.

Reporting

Allocation and Impact Reporting

Throughout the term of the green bond, Daiwa Securities Group will report annually on allocation of proceeds in its Integrated Report or corporate website, until the proceeds are fully allocated to eligible green projects. The group will also update the report in case where material changes.

Allocation reporting will include the following information on an individual project basis:

- Description of projects
- Amount allocated (in case of expected use of proceeds, expected allocation amount)
- Whether each project is being refinanced or financed
- Amount of unallocated proceeds, expected timing to disburse, and intended types of temporary placement

Impact reporting will include the following indicators on an individual project basis, and Daiwa Securities Group plans to disclose calculation for the indicators where possible:

Renewable Energy	<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)
Green Buildings	<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

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Daiwa Securities Inc Green Bond Framework

Summary

Sustainalytics is of the opinion that the Daiwa Securities Group Green Bond Framework is credible and impactful, and it aligns with the four core components of the Green Bond Principles 2018 and with Japan's Green Bond Guidelines 2017. Sustainalytics highlights the following elements of Daiwa Securities Group's Green Bond Framework:

Use of Proceeds

- The eligible use of proceeds categories, 1) Renewable Energy and 2) Green Buildings, are recognized by the Green Bond Principles as project categories having positive environmental benefits.
- Under the renewable energy category, Daiwa Securities intends to allocate the proceeds into development, construction and operation of renewable energy generation projects. Sustainalytics recognizes that CAPEX such as development and construction is generally preferred by investors for funding the projects, however, it also believes that, given the nature to the eligible projects, OPEX will be important to maintain renewable energy projects and to sustain positive environmental impacts.
- Daiwa Securities Group is committed to financing hydroelectric power limited to the projects with lower than 20MW and biomass power limited to projects with waste sources. Sustainalytics considers this is in line with market standard.
- The eligibility criterion of Daiwa Securities Group's certified buildings is based on regional standards such as DBJ Green Building Certification and CASBEE. Sustainalytics views the buildings meeting such certification standards as having a positive impact (see Appendix 1 for additional details on the certification schemes). Sustainalytics also considers that financing buildings which meet the top two levels of certification may be preferred by investors and is market best practice while the inclusion of a third level of certification still creates positive environmental positive impact.

Project Evaluation and Selection:

- The selection of eligible projects will be completed by several teams at Daiwa Securities Group including the Treasury Department, and Corporate Planning Department composed of the Group Management Section and SDGs Office. For the case of projects carried out by its affiliates, the projects will be also assessed to verify compliance with the eligibility criteria by the group's wholly owned subsidiaries, Daiwa Energy & Infrastructure Co. Ltd for renewable energy projects and Daiwa Property Co., Ltd for green buildings projects. This is in line with market standard.
- The final selection will be made by the group's Chief Financial Officer. Sustainalytics views the C-suit involvement as in line with market best practice.

Management of Proceeds:

- Daiwa Securities Group's process for management of proceeds is in line with market standard, considering that it tracks the amount of allocated and unallocated proceeds by using a separate ledger.

Reporting:

- Daiwa Securities Group has committed to allocation reporting and impact reporting on an annual basis, disclosed via its Integrated Report or corporate website, which is in line with market standard.
- The allocation reporting will include description of projects, amounts of allocated and unallocated proceeds, and expected timing for allocation. In addition, for impact reporting, Daiwa Securities Group intends to report quantitative and qualitative indicators, such as the amount of power generated and CO2 emissions reduced for renewable energy projects, and CO2 emissions, waste and energy consumption, recycle rate, in addition to the level of certification for green building projects. Sustainalytics considers reporting on this information and KPIs as market practice.

Alignment with Green Bond Principles 2018

Daiwa Securities Group Green Bond

Sustainalytics has determined that the Daiwa Securities Group Green Bond Framework aligns with the four core components of the ICMA Green Bond Principles 2018. For detailed information please refer to Appendix 2: Green Bond/Green Bond Programme External Review Form.

Alignment with Japan's Green Bond Guidelines 2017

Sustainalytics has also assessed and determined the alignment between the Daiwa Securities Group Green Bond Framework and Japan's Green Bond Guidelines, which communicate processes and recommendations for credible green bond issuance.

ICMA Green Bond Principles 2018 and Japan's Green Bond Guidelines, 2017 ¹²	Alignment with GBP and with Japan's Green Bond Guidelines?	Sustainalytics' comments on alignment with Japan's Green Bond Guidelines
1. Use of Proceeds	Yes	Daiwa Securities Group' eligibility criteria, renewable energy and green (energy efficient) buildings, are recognized as projects with clear environmental benefits in the Japanese green bond guidelines. Additionally, the information on the green bond proceeds, green project categories as well as the process to mitigate negative impacts are all described in the framework for investors.
2. Process for Project Evaluation and Selection	Yes	Daiwa Securities Group outlines Environmental Principles and Basic Environmental Policies as its action guidelines for solving environmental issues that it can take as a financial institution. Furthermore, Daiwa Securities Group ensures that projects are aligned with the criteria for eligible green projects by evaluating and selecting them by the Corporate Planning Department and Treasury Department. Additionally, Eligible Projects will be selected based on eligibility criteria aligned with the abovementioned DBJ Green Building Certification and CASBEE levels (for green building projects) and relevant local laws and regulations, such as the Japan's Feed-in Tariff (FIT) System for Renewable Energy, guidelines to formulate business plans for each renewable energy projects established by Agency for Natural Resources and Energy of METI, Japan's Forest Act, coupled with environmental impact assessments (for renewable energy projects).
3. Management of Proceeds	Yes	Daiwa Securities Group' framework clearly explains that the use of proceeds will be tracked and managed by the

¹² Green Bond Guidelines, 2017, Summary, Ministry of the Environment, Japan: <https://www.env.go.jp/en/policy/economy/gb/summary2017.pdf>

		Treasury Department using a separate ledger and that unallocated proceeds will be credited to a financially separate subaccount. Additionally, it explains that the amount of unallocated proceeds will be temporally invested in cash and/or cash equivalents.
4. Reporting	Yes	Daiwa Securities will report relevant information annually via its Integrated Report or corporate website and includes, among others, a description of projects, amount of allocated and unallocated proceeds, information on unallocated proceeds, as well as KPIs on the environmental impact of the projects.

Section 2: Sustainability Strategy of the Issuer

Contribution of framework to issuer's sustainability strategy and past performance

In line with one of its CSR key pillars of “protecting the precious global environment and preserving it for future generations by leveraging financial capabilities”, Daiwa Securities Group outlines the following five environmental policies: (i) to make positive environmental contributions through our core business activities, (ii) implement an environmental management system, (iii) take steps to save natural resources, reduce energy consumption, and promote a biodiversity system, (iv) promote environmental communication, and (v) strictly observe environmental regulations.¹³ In addition, in February 2018, Daiwa launched the SDG Promotion Committee, with the President and CEO of the group, as the chairperson, demonstrating Daiwa's commitment towards supporting the SDGs.¹⁴ Daiwa Securities Group also established a subsidiary called Daiwa Energy & Infrastructure Co. Ltd. under its “integrated securities group with hybrid business model” to reduce CO₂ emissions and provide sustainable energy by investing in renewable energy.¹⁵, which is indicative of the priority the company assigns to achieving results.

After reviewing Daiwa's CSR and environmental policies, as well as environmental initiatives, Sustainalytics considers Daiwa Securities Group's issuance of green bonds to be aligned with the company's sustainability commitments.

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

Based on the use of proceeds, the main ESG risks related to the projects financed are mainly related to largescale renewable energy infrastructure projects, as well as occupational health and safety for construction work. Sustainalytics is of the opinion that Daiwa Securities Group is well positioned to mitigate environmental and social risks related to the use of proceeds as follows:

- Daiwa Securities Group has recognized (i) reduction of environmental load and responses to environmental changes, (ii) initiatives to address social concerns and contribute to future development of society, and financial and capital markets, (iii) contribution to local communities and (iv) appropriate risk controls as material issues in its CSR Report. Its company-wide risk management is under the supervision of the Group Risk Management Committee, which reports directly to the

¹³ Daiwa CSR Report 2017 available at: http://www.daiwa-grp.jp/english/pdf/2017_Sustainability_Report/daiwa_csr_2017_e.pdf

¹⁴ Daiwa FY2018 Management Strategy: http://www.daiwa-grp.jp/data/attach/2497_2018-E-Management_Strategy_Meeting.pdf

¹⁵ Establishment of Daiwa Energy & Infrastructure Co. Ltd. (DEI) press release: http://www.daiwa-grp.jp/data/attach/2541_98_en20180730a.pdf

Executive Management Committee and follows the Tokyo Stock Exchange's Corporate Governance Code and the Core Labor Standards of the International Labor Organization.¹⁶

- Daiwa Securities also commits to respecting the UN Global Compact principles, being a member since 2010,¹⁷ and is part of other international initiatives, such as the United Nations Guiding Principles on Business and Human Rights, ISO26000, and The Charter of Corporate Behavior of the Nippon Keidanren,¹⁸ which provide clear guidelines on environmental and social issues.
- For renewable energy projects, Daiwa Securities Group's investees (power producers) are contractually obliged to confirm that they conduct environmental impact assessments where required by the laws and regulations, and relevant local laws and regulations.
- For green buildings projects, Daiwa Securities Group will select the eligible projects based on the third-party programs such as DBJ green building certification and CASBEE (Please see Appendix 1 for details).

Section 3: Impact of Use of Proceeds

Importance of renewable energy generation and green buildings in Japan

Around 30% of Japan's total electricity generation was being produced from nuclear energy plants before the Fukushima-Daiichi nuclear disaster from 2011.¹⁹ However, as a consequence of the nuclear accident, the Japanese government has issued a nation-wide shutdown of its nuclear power plants, opening less than a quarter of its total operable reactors since then. Following the closure of nuclear energy generating facilities, Japan enacted its Fourth Strategic Energy Plan in 2014,²⁰ which identified safety as a main objective of its energy policy, alongside other elements such as energy efficiency, energy security, environmental protection and promoting the spread of renewable energy production. This strategy was later confirmed in Japan's Fifth Strategic Energy Plan in 2018,²¹ highlighting renewable energy generation as the main method of reaching its climate-related goals, such as reducing its GHG emissions by 26% by 2030 and by 80% by 2050.²² Thus, Japan plans to increase its share of renewable energy production from 10% in 2010 to 22-24% by 2030,²³ along with reducing the nuclear power usage from 28% to 20-22%.²⁴ Sustainalytics holds a positive view of Daiwa Securities' financing of renewable projects given its alignment with Japan's strategy of supporting clean energy production and its climate targets.

Regarding energy efficiency, as Japan's building sector accounts for around a third of the country's energy consumption,²⁵ the Building Energy Efficiency Act from 2015 stipulates the importance of measure that reduce the energy consumption of buildings.²⁶ Moreover, the Japanese Central Environment Council estimated that in order to promote low-carbon investments such as energy efficient buildings, an additional JPY 135 to JPY 163 trillion is required.²⁷ Sustainalytics has a positive opinion of Daiwa Securities Group' financial investments in certified green buildings with average and above-average ratings, which contributes to Japan's low-carbon efforts and goals.

Alignment with/contribution to SDGs

¹⁶ Daiwa Securities CSR Report 2017; http://www.daiwa-grp.jp/english/pdf/2017_Sustainability_Report/daiwa_csr_2017_e.pdf

¹⁷ UN Global Compact; <https://www.unglobalcompact.org/what-is-gc/participants/10978>

¹⁸ Daiwa Securities CSR Report 2017; http://www.daiwa-grp.jp/english/pdf/2017_Sustainability_Report/daiwa_csr_2017_e.pdf

¹⁹ Nuclear Power in Japan, World Nuclear Association; <http://www.world-nuclear.org/information-library/country-profiles/countries-g-n/japan-nuclear-power.aspx>

²⁰ Japan's Fourth Strategic Energy Plan issued in April 2014 available at:

http://www.enecho.meti.go.jp/en/category/others/basic_plan/pdf/4th_strategic_energy_plan.pdf

²¹ Japan's Fifth Strategic Energy Plan available at: http://www.meti.go.jp/english/press/2018/pdf/0703_002c.pdf

²² Long-term Low-carbon Vision available at: <http://www.env.go.jp/earth/report/h30-01/ref02.pdf>

²³ Japan's Energy, Ministry of Economy, Trade and Industry Agency for Natural Resources and Energy:

http://www.enecho.meti.go.jp/en/category/brochures/pdf/japan_energy_2016.pdf

²⁴ Long-term Energy Supply and Demand Outlook, Ministry of Economy, Trade and Industry:

http://www.meti.go.jp/english/press/2015/pdf/0716_01a.pdf

²⁵ Excerpt from the study Energy Consumption and Mitigation Technologies of the Building Sector in Japan available at:

http://www.inive.org/members_area/medias/pdf/Inive%5CIAQVEC2007%5CMurakami_2.pdf

²⁶ The act provides regulatory measures to ensure compliance with energy efficiency standards for large-scale non-residential buildings, and encourages the use of green building certification systems, such as CASBEE. Overview of the Act on the improvement of Energy Consumption Performance of Buildings (Building Energy Efficiency Act), Ministry of Land

²⁷ Summary of Environmental Finance Programs in Japan available at: https://www.env.go.jp/en/policy/economy/efp/summary_EFP.pdf

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This green bond advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Green Buildings	11. Sustainable Cities and Communities	11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management

Conclusion

Daiwa Securities Group has developed its green bond framework through which it intends to issue green bonds to finance and refinance renewable energy such as solar photovoltaic power, wind-power, geothermal power, hydroelectric power and biomass power, and green buildings.

In Sustainalytics' opinion, the environmental impact facilitated by Daiwa Securities Group's investment and lending to renewable energy and green buildings will contribute to advancing its environmental initiatives as well as Japanese government's CO2 emission reduction strategy and Sustainable Development Goals in the context of Japan.

Sustainalytics also views the Daiwa Securities Group's green bond has a transparent project selection, management of proceeds, and reporting process.

Overall, Sustainalytics is of the opinion that Daiwa Securities Group's Green Bond Framework aligns with the ICMA's Green Bond Principles 2018 and Japan's Green Bond Guidelines 2017. The framework is considered robust, credible and transparent, and Daiwa Securities Group is considered well positioned to issue green bonds.

Appendices

Appendix 1: Overview and Comparison of Green Building Certification Schemes


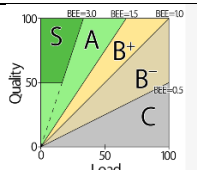
	DBJ Green Building Certification Program^{28 29}	CASBEE Certification Rank³⁰
Background	DBJ Green Building Certification Programme was launched by Development Bank of Japan in 2011 and is operated together with Japan Real Estate Institute (JREI). The programme is recognized as one of regional standards. ³¹ The certification is available for office buildings, logistics, residential & retail facilities.	CASBEE (Comprehensive Assessment System for Built Environment Efficiency) represents a green building management system from Japan, evaluating and rating the environmental performance of buildings and the built environment. CASBEE is formed of four assessment tools tailored to different scales: housing, building, district and city.
Certification levels	<p>1 Star (Properties with satisfactory environmental & social awareness)</p> <p>2 Stars (Properties with high environmental & social awareness)</p> <p>3 Stars (Properties with excellent environmental and social awareness)</p> <p>4 Stars (Properties with exceptionally high environmental & social awareness)</p> <p>5 Stars (Properties with the best class environmental & social awareness)</p>	<p>C (Poor)</p> <p>B- (Slightly Poor)</p> <p>B+ (Good)</p> <p>A (Very Good)</p> <p>S (Excellent)</p>
Areas of Assessment: Environmental Project Management	<p>Evaluation of DBJ Green Building Certification includes construction specifications, environmental features as well as the following factors:</p> <ul style="list-style-type: none"> - Disaster-prevention and anticrime measures; - Tenants' comfort and convenience; - Harmony with the surrounding environment; - Collaboration with stakeholders (including tenants and investors); and - Environmental Investor Relations activities. 	CASBEE assesses two main factors: inside and outside the building site, which translate into Q (Built Environment Quality) and, respectively, L (Built Environment Load).
Areas of Assessment: Environmental Performance of the Building	<p>Assessment include three areas with some examples of following subcategories:</p> <p>Ecology</p> <ul style="list-style-type: none"> • Energy conservation • Water resources conservation • 3R (Reduce, Reuse and Recycle) 	<ul style="list-style-type: none"> • Energy Efficiency • Resource efficiency • Local environment • Indoor environment

²⁸ Certification Overview, Development Bank of Japan; http://www.dbj.jp/en/service/finance/g_building/outline.html

²⁹ DBJ Green Building Certification (Japanese), Development Bank of Japan; http://www.dbj.jp/service/finance/g_building/outline.html

³⁰ CASBEE, BASBEE; <http://www.ibec.or.jp/CASBEE/english/>

³¹ Japan sharpens its green building focus, Read Views; <https://www.jllrealviews.com/places/japan-sharpens-its-green-building-focus/>

	<ul style="list-style-type: none"> • Use of renewable energy <p>Risk management & amenities/diversity</p> <ul style="list-style-type: none"> • Security & Safety of tenant users • Convenience of tenant users <p>Community & partnership</p> <ul style="list-style-type: none"> • Landscape • Biodiversity • Relation with the local community • Owner & stakeholder relationship 	
Requirements	<p>Score-based performance level Assessment structure composed of the following three pillars:</p> <ol style="list-style-type: none"> 1. Areas of assessment The features and characteristics of the green building will be classified into three main categories: ecology, risk management & amenities/diversity, and community & partnership. Each main area consists of five subcategories and has a full score of 100 points. The entire assessment consists of 58 questions. 2. Comprehensive assessment Among the conventional assessment points, some particular importance is attached to the owner operation of the property, such as, in the risk management part, disaster prevention & anticrime measures, and in the community & partnership part, local environment-awareness initiatives. 3. Innovation point system an additional point system is adopted to reflect exceptionally innovative initiatives in each subcategory. Such initiatives need not fit in the scope of the respective questions. <p>JREI will conduct on the ground review of building performance on the indicators above, and a committee set in JREI will decide the result of certification rank.³²</p>	<p>Score-based performance level</p> <p>CASBEE uses the BEE (Built Environment Efficiency) as its assessment indicator, which is calculated from Q (Built Environment Quality) as the numerator and L (Built Environment Load) as the denominator. Q and L are obtained through the classification and rearrangement of the four areas of assessment.</p> <p>Buildings may receive ranks ranging from C (poor) to S (excellent), in order of increasing BEE value.</p> <p>For authorization, a building must receive a report from the CASBEE Certification system, which is afterwards assessed by the local government.</p>
Performance Display	 <p>33</p>	 <p>34</p>

³² Process of certification (Japanese), DBJ Green Buildings; <http://igb.jp/flow.html>

³³ DBJ Green Building, Development Bank of Japan; http://www.dbj.jp/en/pdf/service/finance/g_building/gb_presentation.pdf

³⁴ Built Environment Efficiency, CASBEE; <http://www.ibec.or.jp/CASBEE/english/beeE.htm>

Qualitative considerations	In addition to LEED and CASBEE, DBJ Green Buildings Certification Programme is considered as one of the green building standards in Japan. ³⁵ According to its website, as of Feb 2018, 499 properties in Japan are certified by the programme.	In Japan, many local governments have made CASBEE assessment results mandatory for building permits compared to similar tools available.
-----------------------------------	--	--

Appendix 2: Green Bond / Green Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Daiwa Securities Group Inc.
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable: <i>[specify as appropriate]</i>	Daiwa Securities Group Green Bond
Review provider's name:	Sustainalytics
Completion date of this form:	25 October 2018
Publication date of review publication: <i>[where appropriate, specify if it is an update and add reference to earlier relevant review]</i>	29 October 2018

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBPs:

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

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other <i>(please specify)</i> : | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

Please refer to Green Bond Framework Overview and Second Party Opinion document above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section *(if applicable)*:

The eligible categories for the use of proceeds, renewable energy generation and green buildings with third party certification, are aligned with those recognized by the Green Bond Principles. Sustainalytics considers that clean energy projects will create positive environmental impacts and advance the UN Sustainable Development Goals.

Use of proceeds categories as per GBP:

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

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

The selection of the green projects will be determined through the following procedures;

- 1) Daiwa Securities Group's Treasury Department will evaluate and select project candidates in accordance with eligibility criteria,
- 2) Daiwa Securities Group's Corporate Planning Department which consists of the Group Management Section that manages and plans for the group's subsidiaries and SDGs Promotion Office that plans and promotes Daiwa's SDGs and CSR activities, will check and confirm that selected candidates for green projects are appropriate and eligible considering the above defined criteria. For the case of projects carried out by its affiliates, the projects will be also assessed to verify eligibility by Daiwa Energy & Infrastructure Co. Ltd. and Daiwa Property Co.,Ltd. respectively for renewable energy generation projects and green buildings projects.
- 3) The final confirmation will be made by Chief Financial Officer based on the selected eligible projects.

Sustainalytics views c-suit involvement in the process for project evaluation and selection as in line with market best practice.

Evaluation and selection

- | | |
|--|--|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other <i>(please specify)</i> : |

Information on Responsibilities and Accountability

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

3. MANAGEMENT OF PROCEEDS

Overall comment on section *(if applicable)*:

The management and allocation of proceeds will be executed by the Treasury Department. The Treasury Department will use a separate ledger and track budgets and actual spending for eligible green projects through reporting from subsidiaries or departments on a quarterly basis. Unallocated proceeds will be credited to a subaccount that is financially separate from other general accounts to be tracked appropriately and actual spending for eligible green projects will be monitored by using a separate ledger. Pending allocation to finance eligible green projects, the amount equal to the balance of the proceeds will be temporally invested in cash and/or cash equivalents. Sustainalytics considers this to be in line with market practice.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Green Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other <i>(please specify)</i> : |

Additional disclosure:

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

- | | |
|---|--|
| <input type="checkbox"/> Allocation to individual disbursements | <input type="checkbox"/> Allocation to a portfolio of disbursements |
| <input checked="" type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input checked="" type="checkbox"/> Other (<i>please specify</i>): Allocation to disbursements on a project basis. |

4. REPORTING

Overall comment on section (if applicable):

Daiwa Securities Group has committed to allocation reporting and impact reporting on an annual basis, disclosed via its Integrated Report or corporate website. Additionally, the allocation reporting will include description of projects, amounts of allocated and unallocated proceeds, and expected timeline for allocation. In addition, for impact reporting, Daiwa Securities Group intends to report quantitative and qualitative indicators, such as, the amount of power generated and CO2 emissions reduced for renewable energy projects, and CO2 emission, waste and energy consumption, recycle rate, in addition to the level of certification for green building projects. Sustainalytics considers reporting on this information and KPIs as aligned with market practice.

Use of proceeds reporting:

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

Information reported:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Green Bond financed share of total investment |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Frequency:

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

Impact reporting:

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

Frequency:

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

Information reported (expected or ex-post):

- | | |
|---|---|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input type="checkbox"/> Energy Savings |
| <input type="checkbox"/> Decrease in water use | <input checked="" type="checkbox"/> Other ESG indicators (please specify): For renewable energy projects, the amount of power generated. For green buildings, CO2 emission, waste and energy consumption, recycle rate, in addition to the level of third-party certification |

Means of Disclosure

- | | |
|---|--|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
| <input type="checkbox"/> Information published in ad hoc documents | <input checked="" type="checkbox"/> Other (please specify): Integrated report or company website |
| <input type="checkbox"/> Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): | |

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

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

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- | | |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Review provider(s):

Date of publication:

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

- i. Consultant Review: An issuer can seek advice from consultants and/or institutions with recognized expertise in environmental sustainability or other aspects of the issuance of a Green Bond, such as the establishment/review of an issuer's Green Bond framework. "Second Party Opinions" may fall into this category.
- ii. Verification: An issuer can have its Green Bond, associated Green Bond framework, or underlying assets independently verified by qualified parties, such as auditors. In contrast to certification, verification may focus on alignment with internal standards or claims made by the issuer. Evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria.

Daiwa Securities Group Green Bond

- iii. Certification: An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against an external green assessment standard. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties / certifiers.
- iv. Rating: An issuer can have its Green Bond or associated Green Bond framework rated by qualified third parties, such as specialised research providers or rating agencies. Green Bond ratings are separate from an issuer's ESG rating as they typically apply to individual securities or Green Bond frameworks / programmes.

Disclaimer

© Sustainalytics 2018. All rights reserved.

The intellectual property rights to this Second-Party Opinion (the “Opinion”) are vested exclusively in Sustainalytics. Unless otherwise expressly agreed in writing by Sustainalytics, no part of this Opinion may be reproduced, disseminated, comingled, used to create derivative works, furnished in any manner, made available to third parties or published, parts hereof or the information contained herein in any form or in any manner, be it electronically, mechanically, through photocopies or recordings, nor publicly released without the “Green Bond Framework” in conjunction with which this Opinion has been developed.

The Opinion was drawn up with the aim to provide objective information on why the analyzed bond is considered sustainable and responsible, and is intended for investors in general, and not for a specific investor in particular. Consequently, this Opinion is for information purposes only and Sustainalytics will not accept any form of liability for the substance of the opinion and/or any liability for damage arising from the use of this Opinion and/or the information provided in it.

As the Opinion is based on information made available by the client, the information is provided “as is” and, therefore Sustainalytics does not warrant that the information presented in this Opinion is complete, accurate or up to date, nor assumes any responsibility for errors or omissions. Any reference to third party names is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner.

Nothing contained in this Opinion shall be construed as to make a representation or warranty, express or implied, regarding the advisability to invest in or include companies in investable universes and/or portfolios. Furthermore, nothing contained in this Opinion shall be construed as an investment advice (as defined in the applicable jurisdiction), nor be interpreted and construed as an assessment of the economic performance and credit worthiness of the bond, nor to have focused on the effective allocation of the funds’ use of proceeds.

The client is fully responsible for certifying and ensuring its commitments’ compliance, implementation and monitoring.

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

Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that support investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, the firm partners with institutional investors who integrate ESG information and assessments into their investment processes. Spanning 30 countries, the world's leading issuers, from multinational corporations to financial institutions to governments, turn to Sustainalytics for second-party opinions on green and sustainable bond frameworks. Sustainalytics has been certified by the Climate Bonds Standard Board as a verifier organization, and supports various stakeholders in the development and verification of their frameworks. Global Capital named Sustainalytics the "Most Impressive Second Party Opinion Provider in 2017". In 2018, the firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan for its contribution to the growth of the Japanese Green Bond Market.

For more information, visit www.sustainalytics.com

Or contact us info@sustainalytics.com

