

Second-Party Opinion

Aozora Bank, Ltd. Green Bond Framework



Evaluation Summary

Sustainalytics is of the opinion that the Aozora Bank, Ltd. Green Bond Framework (The "Framework") is credible and impactful and aligns with the four core components of the Green Bond Principles 2018 (GBP). This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds, renewable energy and green buildings, are aligned with those recognized by the Green Bond Principles. Sustainalytics considers that the eligible projects will lead to positive environmental impacts and advance the UN Sustainable Development Goals (SDGs) 7 and 9.



PROJECT EVALUATION / SELECTION The project evaluation and selection process will be carried out by the Bank's front-office business units and the Financial Management Division. Projects are evaluated and selected by front-office business units based on the eligibility criteria, and the final selection is evaluated by the Financial Management Division. The Bank's process is in line with market practices.



MANAGEMENT OF PROCEEDS Aozora Bank's Financial Management Division will be responsible for the management of the proceeds and will track and manage the allocation of proceeds semi-annually, using a file system for internal management until the maturity of the green bond. The Bank is also committed to holding any unallocated proceeds in cash or cash equivalents. The Bank's management of proceeds is in alignment with market practices.



REPORTING Aozora Bank is committed to reporting on the allocation of proceeds and environmental benefits annually until the maturity of green bonds, in the reporting document that will be disclosed on its website. The allocation report will include the amount of proceeds allocated to finance or refinance projects, while the report on environmental benefits will include quantitative and qualitative information such as the amount of CO₂ emissions reduced through renewable energy projects and the types and levels of green building certifications obtained. Sustainalytics considers that the Bank's reporting is aligned with market practices.

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Issuer Location Tokyo, Japan

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Alignment with Japan's Green Bond Guidelines 2020

Sustainalytics is of the opinion that the Framework is in line with Japan's Green Bond Guidelines 2020 developed by the Ministry of the Environment of Japan. The guidelines communicate what an issuer is expected to do to issue a credible green bond. Sustainalytics assessed the alignment between the Framework and the 'should' items outlined in the Japan's Green Bond Guidelines 2020.

Introduction

Headquartered in Tokyo, Aozora Bank, Ltd. (hereinafter referred to as “Aozora Bank” or the “Bank”) is mainly engaged in the banking and trust business, and through its subsidiaries, financial services related businesses such as internet banking, securities, investment trust, M&A advisory, venture capital, as well as distressed loan servicing. In Japan, it has 20 branches in major cities throughout the country, as well as overseas subsidiaries in New York, London, and Hong Kong, and representative offices in New York, Shanghai, and Singapore.

Aozora Bank has developed the Aozora Bank, Ltd. Green Bond Framework (the “Framework”) under which it intends to issue green bonds and use the proceeds to finance and/or refinance, projects that produce positive benefits. The Framework defines eligibility criteria in two areas:

1. Renewable Energy
2. Green Buildings

Aozora Bank engaged Sustainalytics to review the Aozora Bank, Ltd. Green Bond Framework, dated January 2021, and provide a Second-Party Opinion on the Framework’s environmental credentials and its alignment with the GBP¹ and Japan’s Green Bond Guidelines 2020.² A summary overview of the Framework has been provided in Appendix 1.

Scope of work and limitations of Sustainalytics Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics independent³ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the GBP and Japan’s Green Bond Guidelines 2020;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.6.1, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Aozora Bank’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Aozora Bank representatives have confirmed (1) they understand it is the sole responsibility of Aozora Bank to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Aozora Bank.

Sustainalytics’ Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics’ Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

¹ The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

² Ministry of the Environment, Japan, “Green Bond Guidelines, 2020”, at: http://www.env.go.jp/policy/guidelines_set_version_with%20cover.pdf

³ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

In addition, the Second-Party Opinion opines on the intended allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Aozora Bank has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Aozora Bank, Ltd. Green Bond Framework

Sustainalytics is of the opinion that the Aozora Bank, Ltd. Green Bond Framework is credible and impactful, and aligns with the four core components of the GBP. Sustainalytics highlights the following elements of Aozora Bank's Green Bond Framework:

- Use of Proceeds:
 - The two eligibility categories for the use of proceeds, Renewable Energy and Green Buildings, are recognized by the Green Bond Principles as project categories with clear environmental benefits. The use of proceeds will further promote contributions to environmental and energy issues in terms of business as set forth in the Bank's medium-term management plan, and at the same time will contribute to anti-climate change measures through the use of renewable energy sources for decarbonization and the reduction of greenhouse gas (GHG) emissions emitted from buildings. Please refer to Section 3 for Sustainalytics' in-depth assessment of environmental benefits expected from the use of proceeds.
 - In the Renewable Energy category, Aozora Bank intends to use the proceeds to finance investments and loans to the construction, acquisition, renovation, and operation of solar, wind, and biomass power generation facilities. The Bank has committed to Sustainalytics that if any of its investments are to be financed through equity investments in renewable energy projects, the proceeds will be allocated to pure players that derive at least 90% of their revenues from renewable energy that meet the eligibility criteria. Additionally, in the same category's eligibility criteria, the Bank limits the use of proceeds to power generation facilities that comply with the Environmental Impact Assessment Act and related ordinances and, in the case of biomass power generation, facilities that use sustainably sourced feedstock and waste as fuel. It also defines in the Framework that, if a biomass power generation facilities use any waste sourced from a palm oil company, facilities will be excluded from the use of proceeds if they have not obtained certification under the Roundtable on Sustainable Palm Oil (RSPO) or Roundtable on Sustainable Biomaterials (RSB). Furthermore, as exclusionary criteria, the Bank has committed to Sustainalytics to exclude all peat and palm oil and any other feedstocks that are not RSB-certified when it comes to its sustainably sources feedstock. Sustainalytics positively views the Bank's exclusionary criteria and commitment thereto, as well as its eligibility criteria for the category, as they are expected to generate more environmental benefit by reducing potential environmental risks.
 - In the Green Building category, Aozora Bank defines that it will use the proceeds to finance investments and loans to expenditures related to the construction, acquisition, and renovation of buildings that have obtained the top two levels of nationally and internationally recognized third-party green building certifications, which are CASBEE for Buildings (New Construction, Existing Buildings, and Renovation), CASBEE for Real Estate, CASBEE for New Detached Houses, LEED, BELS, DBJ Green Building, or BREEAM certification. Sustainalytics considers that the establishment of eligibility criteria based on the above certification schemes will ensure the allocation of proceeds to green buildings with environmental benefit, and that the limiting of the use of proceeds to properties that have obtained top two levels of certifications is in line with market practices (For details of the green building certification schemes, please refer to Appendix 2.). In addition, the Bank has also committed to Sustainalytics that it will allocate a

- proportionate amount of its investments and loans in green buildings to properties and expenses that meet the eligibility criteria.
- Aozora Bank intends to allocate the green bond proceeds towards new and existing investments and loans. The Bank sets the lookback period for refinancing existing investments and loans at three years preceding the date of green bond issuance.
- **Project Evaluation and Selection:**
 - Aozora Bank's front-office business units and the Financial Management Division are assigned to the evaluation and selection of eligible projects. Each front-office business unit involved in the project for which the proceeds will be used will evaluate and select projects based on the criteria for selecting eligible projects. The Financial Management Division will evaluate whether the projects, which have been selected by the front-office business units, are valid to be funded by the proceeds by checking the trail documents in loan and investment screenings. After the projects are selected, the Sustainability Management Office of the Business Strategy Division reviews the conformity of the selection and evaluation process with the selection criteria at least annually.
 - Considering the process involving multiple departments before and after the above project selection, Sustainalytics views the Bank's project evaluation and selection process as in line with market practices.
 - **Management of Proceeds:**
 - The Bank's Financial Management Division will be responsible for the management of green bond proceeds and manages green projects that meet the eligible criteria, using a file system for internal management. The Financial Management Division tracks and manage the allocation of proceeds semi-annually with the internal file system, until the maturity of green bond. In addition, the Sustainability Management Office of the Business Strategy Division checks the operational status of tracking and managing the proceeds at least annually. The Bank does not expect that there will be any unallocated proceeds. However, if any unallocated proceeds exist, the Bank is committed to holding them in cash or cash equivalents.
 - Considering the management of the proceeds using the internal file system, Sustainalytics views Aozora Bank's proceeds management process as aligned with market practices.
 - **Reporting:**
 - Aozora Bank is committed to reporting annually, and in the event of significant changes in circumstances until the maturity of green bonds, on the allocation of green bond proceeds and environmental benefits of the projects financed by the proceeds in the reporting document, which will be disclosed on its website. The allocation report will include the allocated amount for each type of renewable energy and green buildings, as well as the amount of allocated proceeds used for refinancing. The Bank's report on the environmental benefits will include the number of projects and the amount of CO₂ emissions reduced by the type of renewable energies, as well as the number of properties by the type and level of third-party green building certifications.
 - In view of the disclosure policy and disclosure indices above, Sustainalytics considers the Bank's reporting to be aligned with market practices.

Alignment with Green Bond Principles 2018

Sustainalytics has determined that the Aozora Bank, Ltd. Green Bond Framework aligns to the four core components of the GBP. For detailed information please refer to Appendix 4: Green Bond/Green Bond Programme External Review Form.

Alignment with Japan's Green Bond Guidelines 2020

Japan's Green Bond Guidelines 2020 developed by the Ministry of the Environment of Japan communicate what an issuer is expected to do to issue a credible green bond. Sustainalytics assessed the alignment between the Framework and the 'should' items outlined in the Japan's Green Bond Guidelines 2020. For detailed information please refer to Appendix 3: Alignment with Japan's Green Bond Guidelines 2020.

Section 2: Sustainability Strategy of Aozora Bank

Contribution of framework to Aozora Bank, Ltd.'s sustainability strategy

With the aim of achieving the goal of “actively contributing to the sustainable growth of society,” as its key priorities stated in its management philosophy,⁴ Aozora Bank selected three major ESG (environment, society, and governance) issues—including “environmental protection”—to be solved through its business under its mid-term management plan⁵ for the three years from FY2020. As an initiative to address these issues, the Bank aims to contribute to the solution of environment/energy problems by: the promotion of investments/loans in renewable energy projects; examination of incorporating ESG elements in the securities portfolio; creation/disclosure of a basic policy for environmental investments and loans; and response to climate change risk through support of TCFD.⁶ The Bank structures project finance for renewable energy sources including solar and wind power generation, and aims to reduce the environmental impact of its business activities by recycling waste materials at its facilities and introducing energy-saving measures including implementation of LED lighting to reduce electricity consumption and CO₂ emissions⁷.

Sustainalytics considers that Aozora Bank has integrated sustainability initiatives into its business activities through the above plan, and that the Bank is well positioned to issue green bonds. Moreover, Sustainalytics is of the opinion that the use of proceeds defined in the Framework will further promote the Bank's initiatives to address environmental and energy issues.

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

Sustainalytics views that, as stated in the Bank's Framework, the proceeds will be allocated to renewable energy and green buildings that will generate positive environmental impacts. At the same time, Sustainalytics recognizes that the Bank is exposed to environmental and social risks through its granting of investments and loans. Some of the major risks associated to projects include the impact of large-scale infrastructure development projects on the ecosystems, water pollution, noise, and negative impacts on neighboring residents. For the following reasons, Sustainalytics recognizes that Aozora Bank is well positioned to mitigate environmental and social risks:

- In its Framework, Aozora Bank has set both selection and exclusionary criteria for renewable energy (solar, wind, and biomass power generation) projects, and is committed to reviewing compliance with the Act and ordinances related to environmental impact assessment. According to this commitment, for projects located in Japan, the Bank will assess environmental impacts produced by: 1) solar power plants that are determined to be subject to the assessment and have an output of more than 30,000 kW and less than 40,000 kW, in addition to those with an output of 40,000 kW or more as required by Japan's Environmental Impact Assessment Act; and 2) wind power generation plants that are determined to be subject to the assessment and have an output of more than 7,500 kW and less than 10,000 kW, in addition to those with an output of 10,000 kW or more as required by the same Act. Indicators to be assessed for solar power plants' environmental impacts⁸ include: 1) air quality, noise, and vibration during construction and other processes; 2) impacts on animals, plants, and ecosystems; and 3) impacts on the landscape and spaces for human-nature interaction activities. Indicators to be assessed for offshore wind power plants' environmental impacts⁹ include: 1) noise, ultra-low frequency, and water quality; 2) impacts on flora and fauna; and 3) impacts on the landscape and human-nature interactions. The Bank will be able to confirm the reduction of environmental risks that may be incurred in the development of power generation facilities and successfully manage its environmental and social risks by considering eligible projects' business and regional characteristics, assessing impacts using the key environmental indicators, and holding briefing/reporting sessions for local residents.

⁴ Aozora Bank, Ltd., “Management Policy (Japanese only)”, at :<https://www.aozorabank.co.jp/about/corporate/management/philosophy/>

⁵ Aozora Bank, Ltd., “Mid-term plan for 2020-22 (Japanese only)”, at : https://www.aozorabank.co.jp/ir/library/2019/pdf/fy19_4q_am_j.pdf#page=26

⁶ Aozora Bank, Ltd., “Annual Report (Integrated Report) 2020”, at : https://www.aozorabank.co.jp/english/ir/library/2019/pdf/2019_all.pdf

⁷ Aozora Bank, Ltd., “Annual Report (Integrated Report) 2020”, at : https://www.aozorabank.co.jp/english/ir/library/2019/pdf/2019_all.pdf

⁸ Ministry of Economy, Trade and Industry, “Environmental Impact Assessment for Solar Power Generation Project (Japanese only)”, at:

https://www.meti.go.jp/shingikai/sankoshin/hoan_shohi/denryoku_anzen/pdf/020_03_00.pdf

⁹ Ministry of Environment, “Summary - Report of the Study Group on the Basic Concept of Environmental Impact Assessment for Offshore Wind Farms (Japanese only)”, at :<http://www.env.go.jp/press/files/jp/105418.pdf>

- In June 2019, Aozora Bank announced its policy of avoiding project finance for coal-fired power plants in principle.^{10,11} Additionally, in line with the endorsement of the TCFD proposal in March 2020, the percentage of carbon-related assets in loans is monitored and disclosed.^{12,13}

Section 3: Impact of Use of Proceeds

The two use of proceeds categories described in the Framework by Aozora Bank are recognized by the GBP and Japan's Green Bond Guidelines 2020 as projects that produce positive environmental impacts. Sustainalytics explains why those project categories produce positive environmental impacts in Japan as follows:

Importance of promoting the use of renewable energy for the achievement of decarbonization in Japan

Aozora Bank intends to allocate the green bond proceeds to renewable energy projects including solar, wind, and biomass power generation. In response to the increasing use of thermal power generation¹⁴ as a result of nuclear power plant shutdowns following the Great East Japan Earthquake in 2011, the Japanese government established a policy in 2014 to maximize the use of renewable energy.¹⁵ In 2015, the government set a goal of increasing the ratio of renewable energy sources to the total electricity generation by FY2030, to 22-24% (including 7% by solar power, 1.7% by wind power, and 3.7-4.6% by biomass), which is approximately twice the 2010 level.¹⁶ Furthermore, in the Nationally Determined Contributions (NDC)¹⁷ under the Paris Agreement, the government made an official commitment to reducing GHG emissions by 26% from the FY2013 level by FY2030, on condition that the above energy mix is achieved. Under these circumstances, promoting the use of renewable energy sources is critical for Japan to successfully meet its emissions reduction target for FY2030.¹⁸ As of the end of March 2020, the levels of the achievement of the government's FY2030 targets were approximately 87% for solar power, approximately 42% for wind power, and approximately 68% for biomass, highlighting the need for further increasing the use of respective energy sources.¹⁹

Consequently, Sustainalytics is of the opinion that the Bank's use of proceeds for solar, wind, and biomass power generation will support the promotion of the use of such energy sources and are expected to contribute to the achievement of the Japanese government's energy policy and climate goals.

Contribution to Japan's anti-climate change measures through the promotion of green building projects

The Framework specifies that the green bond proceeds will be used for buildings that have obtained third-party green building certifications. In FY2018, final energy consumption in the residential and the commercial and other sectors related to buildings increased by approximately 20% compared to 1990,²⁰ and CO₂ emissions from buildings account for approximately 30% of Japan's total emissions.²¹ In the Nationally

¹⁰ For cases of considering project finance as an exception, Aozora Bank has also formulated and announced a policy of carefully considering the background and characteristics of each individual project, based on the energy policy and climate change initiatives of respective countries, and with reference to international guidelines such as the OECD Arrangement on Officially Supported Export Credits, and limited to projects with high efficiency of ultra-supercriticality or higher.

¹¹ Aozora Bank, Ltd., "Aozora Announces Coal-fired Plant Project Finance Policy", at: https://www.aozorabank.co.jp/english/about/newsrelease/2019/pdf/19061901_n.pdf

¹² Aozora Bank, Ltd., "Aozora Announces Support for Task Force on Climate-related Financial Disclosures Recommendations", at: https://www.aozorabank.co.jp/english/about/newsrelease/2020/pdf/20031701_n.pdf

¹³ Aozora Bank, Ltd., "Annual Report (Integrated Report) 2020", at: https://www.aozorabank.co.jp/english/ir/library/2019/pdf/2019_all.pdf

¹⁴ Agency for Natural Resources and Energy, "FY2018 Energy Supply and Demand Report (Final Figures) (Japanese only)", at: https://www.enecho.meti.go.jp/statistics/total_energy/pdf/stte_029.pdf

¹⁵ Ministry of Economy, Trade and Industry, "Basic Energy Plan", at:

https://www.enecho.meti.go.jp/en/category/others/basic_plan/5th/pdf/strategic_energy_plan.pdf

¹⁶ Ministry of Economy, Trade and Industry, "Long-term Energy Supply and Demand Outlook", at:

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

¹⁷ "Submission of Japan's Nationally Determined Contribution (NDC) (Japanese only)", at: <https://www.env.go.jp/press/files/jp/113664.pdf>

¹⁸ "Submission of Japan's Nationally Determined Contribution (NDC) (Japanese only)", at: <https://www.env.go.jp/press/files/jp/113664.pdf>

¹⁹ Agency for Natural Resources and Energy, "Current State of Renewable Energy in Japan and Overseas and Draft Issues Proposed for the Current Year by the Procurement Price Calculation Committee (Japanese only)", at: https://www.meti.go.jp/shingikai/santeti/pdf/061_01_00.pdf

²⁰ Ministry of Land, Infrastructure, Transport and Tourism, Housing Bureau, Housing Production Division, "Revision of the Building Energy Conservation Act (Japanese only)", at: https://www.meti.go.jp/shingikai/enecho/shoene_shinene/sho_energy/pdf/028_03_00.pdf

²¹ "Greenhouse Gas Emissions in Fiscal Year 2018 (Final Figures) (Japanese only)", at: <https://www.env.go.jp/press/files/jp/113761.pdf>

Determined Contributions (NDC),²² the Japanese government made an official commitment to reducing GHG emissions by 26% by FY2030 compared to the FY2013 level, and set the target for the residential and the commercial and other sectors of reducing CO₂ emissions by 40%, which was the highest among all sectors. In view of this, promotion of energy saving at buildings is playing an important role for the achievement of Japan's climate goal. In order to meet the increasing energy demand and achieve the 2030 reduction target, the Japanese government has been working on the strengthening of regulatory measures that govern energy conservation of buildings. In 2015, the government enforced the "Act on the Improvement of Energy Consumption Performance of Buildings" ("Building Energy Efficiency Act"),²³ which requires buildings to comply, in a phased manner, with the energy conservation standards. In its Strategic Energy Plan,²⁴ the government also set a goal of achieving ZEB (Net Zero Energy Building) on average with regard to newly constructed buildings by 2030.

Given the information above, Sustainalytics is of the opinion that the Bank's use of proceeds for green buildings will help reduce CO₂ emissions from buildings and is expected to contribute to the achievement of anti-climate change targets set by the Japanese government.

Alignment with/contribution to SDGs

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 SDGs 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	9. Industry, innovation and infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities

Conclusion

Aozora Bank intends to issue green bonds under the Framework and use the proceeds to finance and/or refinance green building and renewable energy projects. Sustainalytics expects that the use of proceeds defined in the Framework by the Bank will not only contribute to the achievement of targets set under its mid-term management plan, but support the achievement of the Japanese government's climate goals and energy policy as well as SDGs 7 and 9.

Aozora Bank's use of proceeds set forth in the Framework is recognized by the GBP and Japan's Green Bond Guidelines 2020 as a project category with clear environmental benefits. The Bank defines both eligibility and exclusionary criteria to select solar, wind, and biomass power generation projects eligible for the use of proceeds. Furthermore, with regard to green buildings, the Bank is committed to taking into consideration properties that have obtained top two levels of third-party green building certifications as eligible for the green bond proceeds. Sustainalytics has a positive view of the threshold set by the Bank for the use of proceeds, as it will ensure environmental benefits. Moreover, in addition to the eligibility criteria for the use of proceeds, the Bank's commitments related to the management and reporting of the proceeds, described in the Framework, is in line with market practices.

²² "Submission of Japan's Nationally Determined Contribution (NDC) (Japanese only)", at: <https://www.env.go.jp/press/files/jp/113664.pdf>
 Ministry of Economy, Trade and Industry, "Basic Energy Plan", at:
https://www.enecho.meti.go.jp/en/category/others/basic_plan/5th/pdf/strategic_energy_plan.pdf

²³ Ministry of Land, Infrastructure, Transport and Tourism, "Overview of the Act on the Improvement of Energy Consumption Performance of Buildings (Building Energy Conservation Act) (Japanese only)", at: http://www.ibec.or.jp/ee_standard/files/outline_pamphlet.pdf

²⁴ Ministry of Economy, Trade and Industry, "Basic Energy Plan", at:
https://www.enecho.meti.go.jp/en/category/others/basic_plan/5th/pdf/strategic_energy_plan.pdf

Based on the above considerations, Sustainalytics is of the opinion that the Framework is credible and transparent, and in alignment with the four core components of the GBP and Japan's Green Bond Guidelines 2020.

Appendices

Appendix 1: Framework Overview

For the purpose of issuing green bonds, Aozora Bank has developed the following Framework which addresses the four key core components of the GBP: use of proceeds, project evaluation and selection process, management of proceeds, and reporting, in January 2021. The Framework belongs to Aozora Bank.

1. Use of proceeds

The green bond proceeds will be allocated to the financing of new investments and loans made after the green bond issuance or the refinancing of existing investments and loans with the look-back period being three years preceding the green bond issuance.

1.1 Eligibility Criteria

Eligibility criteria are as follows:

- Renewable Energy
Investments and loans related to construction, acquisition, renovation, or operation of solar power generation facilities, wind power generation facilities, or biomass power generation facilities
- Investments and loans for expenditures related to construction, acquisition, or renovation of green buildings

Any projects that do not meet the following criteria will be excluded from the allocation of proceeds:

- Power generation facility projects that comply with the Environmental Impact Assessment Act and related ordinances at the stage of feasibility study;
- Feedstock for biomass power generation projects must be sustainable feedstock and/or wastes (wastes from palm oil businesses are limited to those that have obtained certifications from RSPO or RSB); and
- Green buildings that achieved top two or higher levels of CASBEE (for Buildings (New Construction, Existing Buildings, Renovation), Real Estate, and (New Detached Houses), LEED, BELS, DBJ Green Building, or BREEAM certification.

In the case of refinancing through the issuance of multiple green bonds, the amount of refinancing and the number of years elapsed since the start of operation of the facility to which the proceeds will be allocated at the time of issuance will be disclosed per criteria as an indicator to evaluate the long-term sustainability of environmental benefits, and the long-term sustainability of environmental benefits will be evaluated for renewable energy.

2. Process for project evaluation and selection

2.1 Application of Eligibility and Exclusionary Criteria in Project Selection

[Selection Criteria]

- Renewable energy
 - Applicability to solar, wind, or biomass power generation
 - Power generation facility projects that comply with the Environmental Impact Assessment Act and related ordinances at the stage of feasibility study
(In the case of an investment corporation specialized in renewable energy, its regulatory compliance policy will be confirmed.)
 - Biomass power generation projects that use sustainable feedstock and/or wastes only (wastes from palm oil businesses are limited to those that have obtained certifications from RSPO and RSB)

• Green Building

- Projects that achieved top two or higher levels of green building certifications

[Selection/evaluation department]

• Selection

The front-office business units confirm that the "selection criteria" are satisfied and selects projects.

• Evaluation

The Financial Management Division confirms the status of compliance with selection criteria of selected projects, through trail documents in loan and investment screenings and others.

- Ensuring validity of the selection process

The Sustainability Management Office of the Business Strategy Division checks the operational status at least annually to ensure the validity of the selection and evaluation process.

2.2 Environmental Objectives

As a way to actively contribute to the sustainable development of society, the Aozora Group has set “environmental protection” as one of its major issues to be addressed under its Basic Policy for SDGs/ESG Initiatives. The Group also announced that, with the aim of solving environment issues and thereby achieving a sustainable society, it prioritizes efforts to contribute to environment/energy issues in terms of business through further promotion of project financing for renewable energy businesses intended, for example, to reduce CO₂ emissions and wastes.

2.3 Process to Mitigate Environmental and Social Risks

- Environmental and social risks will be identified by incorporating them into the criteria of the above selection process.
- The identification will be carried out by the status of compliance with the Environmental Impact Assessment Act and related ordinances at the stage of feasibility study of Power generation facility projects, or levels of green building certifications.

3. Management of Proceeds

- Eligible Green Projects (projects that meet the eligibility and exclusionary criteria defined in the use of proceeds. The same applies hereafter.) evaluated by the Financial Management Division are managed using a file system for internal management.”
- Based on the file that manages Eligible Green Projects, the Financial Management Division will use a file system for internal management to track and manage the allocation of green bond proceeds and the amount of unallocated proceeds until the maturity of the green bond.
- The management and tracking of Eligible Green Projects will be updated at least semi-annually to monitor the allocation.
- No unallocated proceeds are expected to exist; however, if they do exist, they will be held in cash or cash equivalents.
- The Sustainability Management Office of the Business Strategy Division checks the operational status of tracking and managing the proceeds at least annually.

4. Reporting

4.1 Allocation reporting

Until the maturity of green bond, the Financial Management Division will annually disclose, on the corporate website, a reporting document that includes the items below.

Renewable energy:

The number of projects, the amount of allocated proceeds, environmental benefits, and the amount of refinancing for each category of solar power generation, wind power generation, and biomass power generation

Green building:

The number of properties per type and level of Green Building certifications obtained, the amount of allocated proceeds, and the amount of refinancing

4.2 Impact reporting

Environmental benefits (for renewable energy projects, the amount of CO₂ emissions reduced; for green building projects, the number of properties)

In the event of a major change in circumstances, information will be disclosed in a timely manner as needed.

Appendix 2: Overview and Comparison of Green Building Certification Schemes

	CASBEE Certification ²⁵	LEED ²⁶	BELS ²⁷	DBJ Green Building Certification ²⁸	BREEAM ²⁹
Background	The Comprehensive Assessment System for Built Environment Efficiency (CASBEE) Certification is a green building certification scheme in Japan, which a third party certifies the environmental performance of buildings. The certification scheme includes, based on types of buildings: CASBEE for Buildings, CASBEE for Real Estate, and CASBEE for Housing.	Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by the non-profit U.S. Green Building Council (USGBC) and covers the design, construction, maintenance and operation of buildings.	The Building-Housing Energy-efficiency Labelling System (BELS) is an energy performance label, issued under guidelines established by Japan's Ministry of Land, Infrastructure, Transport, and Tourism. The BELS certification scheme evaluates primary energy consumption in order to measure performance of energy conservation.	The Development Bank of Japan (DBJ) Green Building Certification Programme was launched by Development Bank of Japan in 2011 and is operated in conjunction with the Japan Real Estate Institute (JREI), a major appraisal firm in Japan. The certification scheme is recognized as one of Japan's major regional standards. The certification is available for office buildings, logistics, residential, and retail facilities.	BREEAM (Building Research Establishment Environmental Assessment Method) was first published by the Building Research Establishment (BRE) in 1990. Based in the UK. Used for new, refurbished and extension of existing buildings.
Certification levels	C (Poor) B- (Slightly Poor) B+ (Good) A (Very Good) S (Excellent) * 4-grade evaluation for CASBEE for Real Estate excluding C rank	Certified Silver Gold Platinum	1 Star 2 Stars 3 Stars 4 Stars 5 Stars	1 Star 2 Stars 3 Stars 4 Stars 5 Stars	Pass Good Very Good Excellent Outstanding
Areas of Assessment: Environmental Performance of the Building	<ul style="list-style-type: none"> • Energy Efficiency • Resource efficiency • Local environment • Indoor environment 	<ul style="list-style-type: none"> • Energy and atmosphere • Sustainable Sites • Location and Transportation • Materials and resources • Water efficiency 	Energy efficiency	<ul style="list-style-type: none"> • Energy & Resources (Energy conservation, resource conservation, etc.) 	<ul style="list-style-type: none"> • Energy • Land Use and Ecology • Pollution • Transport • Materials • Water • Waste

²⁵ Institute for Building Environment and Energy Conservation, "CASBEE certification scheme (Japanese only)", at: <http://www.ibec.or.jp/CASBEE/certification/certification.html>.

²⁶ More information on the LEED certification scheme at: <https://new.usgbc.org/leed>.

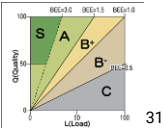




²⁷ Association for Housing Performance Evaluation & Labeling, "Building-Housing Energy-efficiency Labelling System Building Energy-efficiency Performance Labeling System (Japanese only)", at: <https://www.hyokakyokai.or.jp/bels/bels.html>.

²⁸ Development Bank of Japan, Japan Real Estate Institute (JREI), "DBJ Green Building", at: <http://igb.jp/en/index.html>.

²⁹ BREEAM 「BREEAM とは (英文)」 : <https://www.breeam.com/>

	<ul style="list-style-type: none"> * Areas for assessment of CASBEE for Real Estate are energy/GHG, water, resource, biodiversity, indoor environment 	<ul style="list-style-type: none"> • Indoor environmental quality • Innovation in Design • Regional Priority 		<ul style="list-style-type: none"> •Amenity (Convenience and comfort) •Resilience (Environmental risks, legal compliance, etc.) •Community & Diversity (Consideration for the surrounding environment and biodiversity, etc.) •Partnership (information disclosure, etc.) 	<ul style="list-style-type: none"> • Health and Wellbeing Innovation
Requirements	<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>	<p>Prerequisites (independent of level of certification) + Credits with associated points.</p> <p>These points are then added together to obtain the LEED level of certification</p> <p>There are several different rating systems within LEED. Each rating system is designed to apply to a specific sector (e.g. New Construction, Major Renovation, Core and Shell Development, Schools- /Retail- /Healthcare New Construction and Major Renovations, Existing Buildings: Operation and Maintenance).</p>	<p>Score-based performance level.</p> <p>The BELS score is based on the Building Energy Index, obtained by comparing the energy consumption of a building to the standard primary energy consumption of the building type in official guidelines.</p> <p>A two-star rating is equivalent to meeting existing energy conservation standards, with higher star ratings implying greater savings.</p> <p>The score is calculated by an accredited third party.</p>	<p>Score-based performance level.</p> <p>The assessment has a full score of 300 points and consists of 85 questions, 73 of which are regular questions and 12 of which are innovative initiatives.</p> <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.</p>	<p>Prerequisites depending on the levels of certification + Credits with associated points</p> <p>This number of points is then weighted by item³⁰ and gives a BREEAM level of certification, which is based on the overall score obtained (expressed as a percentage).</p> <p>Majority of BREEAM issues are flexible, meaning that the client can choose which to comply with to build their BREEAM performance score.</p> <p>BREEAM has two stages/ audit reports: a 'BREEAM Design Stage' and a 'Post Construction Stage', with different assessment criteria.</p>

³⁰ BREEAM weighting: Management 12%, Health and wellbeing 15%, Energy 19%, Transport 8%, Water 6%, Materials 12.5%, Waste 7.5%, Land Use and ecology 10%, Pollution 10% and Innovation 10%. One point scored in the Energy item is therefore worth twice as much in the overall score as one point scored in the Pollution item

	<p>* CASBEE for Real Estate does not use BEE, additional point system. Certification will not be given, if required item are not met.</p>				
Performance display	 <p>31</p>	 <p>Platinum 80+ points earned</p> <p>32</p>	 <p>33</p>	 <p>34</p>	 <p>35</p>
Qualitative considerations	<p>CASBEE is continuously developed based on industry-government-academia collaboration under the support of Ministry of Land, Infrastructure, Transport and Tourism. In Japan, many local governments have made CASBEE assessment results mandatory for building permits.</p> <p>Compared to similar tools available internationally, CASBEE displays a unique and simple structure.</p>	Worldwide recognition and application	<p>BELS is aligned with official government standards.</p> <p>The scheme assesses only energy performance, without any broader consideration of holistic environmental factors.</p>	<p>In addition to LEED and CASBEE, DBJ Green Buildings Certification Programme is considered as one of the green building standards in Japan. According to its website, as of March 2019, 695 properties in Japan are certified by the programme.³⁶</p>	Worldwide recognition and application

³¹ Institute for Building Environment and Energy Conservation, "Method of Evaluation and Built Environment Efficiency (BEE)", at: http://www.ibec.or.jp/CASBEE/CASBEE_outline/method.html.

³² U.S. Green Building Council "Green building leadership is LEED.", at: <https://new.usgbc.org/leed>

³³ Institute for Building Environment and Energy Conservation, "Display example of BELS (Japanese only)", at: https://www.hyoukakyukai.or.jp/bels/pdf/170401bels_07.pdf.

³⁴ Development Bank of Japan, "DBJ Green Building", at: http://www.dbj.jp/en/pdf/service/finance/g_building/gb_presentation.pdf.

³⁵ BREEAM, "What is BREEAM?", at: <https://www.breeam.com/>

³⁶ Development Bank of Japan, Japan Real Estate Institute (JREI), "DBJ Green Building", at: <http://igb.jp/en/index.html>.

Appendix 3: Alignment with Japan’s Green Bond Guidelines 2020

Japan’s Green Bond Guidelines 2020	Alignment with Japan’s Green Bond Guidelines 2020	Sustainalytics’ comments on alignment with Japan’s Green Bond Guidelines 2020
1. Use of Proceeds	Yes	Projects related to renewable energy and green buildings, which are defined as the use of proceeds in the Framework by Aozora Bank, are recognized by Japan’s Green Bond Guidelines 2020 as project categories with clear environmental benefits. The Bank also provides, in the Framework, explanations about environmental risks associated with eligible projects and its measures to manage and mitigate such risks, allowing investors to access in advance.
2. Process for Project Evaluation and Selection	Yes	In the Framework, Aozora Bank describes its mid-term management plan which it aims to achieve through the issuance of green bonds. It also explains its project evaluation and selection processes along with the eligibility and exclusionary criteria.
3. Management of Proceeds	Yes	In the Framework, Aozora Bank explains that its Financial Management Division will be responsible for the management of proceeds, will track and manage the amount of allocated and unallocated proceeds semi-annually until the maturity of green bonds. While the Bank does not expect that there will be any unallocated proceeds, it is committed to holding unallocated proceeds in cash or cash equivalents in the case where there are such proceeds.
4. Reporting	Yes	In the Framework, Aozora Bank made a commitment to disclosing the allocation of proceeds and environmental benefits annually until the maturity of green bonds, or on a timely basis in the event of material changes. The allocation report will include the amount of proceeds allocated to finance or refinance projects, while the impact report will include number of projects and the amount of CO ₂ emissions reduced by the type of renewable energies, as well as the number of properties by the type and level of third-party green building certifications obtained.

Appendix 4: Green Bond / Green Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Aozora Bank, Ltd.
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:	Aozora Bank, Ltd. Green Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	January 25, 2021
Publication date of review publication:	

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 GBP:

- | | |
|--|--|
| <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 Evaluation Summary 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 and green buildings, are aligned with those recognized by the Green Bond Principles. Sustainalytics considers that the eligible projects will lead to positive environmental impacts and advance the UN Sustainable Development Goals (SDGs) 7 and 9.

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 GBP | <input type="checkbox"/> Other (<i>please specify</i>): |

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

The project evaluation and selection process will be carried out by the Bank's front-office business units and the Financial Management Division. Projects are evaluated and selected by front-office business units based on the eligibility criteria, and the final selection is evaluated by the Financial Management Division. The Bank's process is in line with market practices.

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 checked="" 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

- Evaluation / Selection criteria subject to external advice or verification
 In-house assessment
- Other (please specify):

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

Aozora Bank's Financial Management Division will be responsible for managing the proceeds, and will track and manage the allocation of proceeds semi-annually, using a file system for internal management until the maturity of green bond. The Bank is also committed to holding any unallocated proceeds in cash or cash equivalents. The Bank's management of proceeds is in alignment with market practices.

Tracking of proceeds:

- Green Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (please specify):

Additional disclosure:

- Allocations to future investments only
 Allocations to both existing and future investments
- Allocation to individual disbursements
 Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds
 Other (please specify):

4. REPORTING

Overall comment on section (if applicable):

Aozora Bank has made a commitment to reporting on the allocation of proceeds and environmental benefits annually until the maturity of green bonds, in the reporting document that will be disclosed on its website. The allocation report will include the amount of proceeds allocated to finance or refinance projects, while the report on environmental benefits will include quantitative and qualitative information such as the amount of CO2 emissions reduced through renewable energy projects and the types and levels of green building certifications obtained. Sustainalytics considers that the Bank's reporting is aligned with market practices.

Use of proceeds reporting:

- Project-by-project
 On a project portfolio basis

- Linkage to individual bond(s) Other (*please specify*):

Information reported:

- Allocated amounts Green Bond financed share of total investment
- Other (*please specify*): the amount of proceeds allocated to refinance projects, the number of projects by the type of renewable energy

Frequency:

- Annual Semi-annual
- Other (*please specify*):

Impact reporting:

- Project-by-project On a project portfolio basis
- Linkage to individual bond(s) Other (*please specify*):

Information reported (expected or ex-post):

- GHG Emissions / Savings Energy Savings
- Decrease in water use Other ESG indicators (*please specify*): the types and levels of green building certifications obtained

Frequency

- Annual Semi-annual
- Other (*please specify*):

Means of Disclosure

- Information published in financial report Information published in sustainability report
- Information published in ad hoc documents Other (*please specify*): Corporate website
- 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 INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP**

- i. **Second-Party Opinion:** An institution with environmental expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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Named
2015: Best SRI or Green Bond Research or Rating Firm
2017, 2018, 2019: Most Impressive Second Opinion Provider

