

# GREEN BOND / GREEN BOND PROGRAMME INDEPENDENT EXTERNAL REVIEW FORM

## Section 1. Basic Information

Issuer name:	ARUHI Corporation
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:	Green Ritz Series 1 Housing Loans Receivable Trust Beneficial Interests
Independent External Review provider's name:	Japan Credit Rating Agency, Ltd.
Completion date of this form:	January 29, 2020
Publication date of review publication:	January 29, 2020

## 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 Independent External REVIEW PROVIDER

- |  |  |
|--|--|
| <input type="checkbox"/> Second Party Opinion    | <input type="checkbox"/> Certification             |
| <input type="checkbox"/> Verification            | <input checked="" type="checkbox"/> Scoring/Rating |
| <input type="checkbox"/> Other (please specify): |  |

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

ARUHI Corporation (the "Company") is one of the largest mortgage-lending financial institutions (mortgage banks) founded in 2000. In 2001, the Company commenced handling of "Good Housing Loans," a fixed-term housing loan for 30 years. The Company commenced full-fledged operations as a mortgage bank. In December 2004, the Company began handling long-term fixed-rate housing loan "[Flat 35]" in collaboration with the Housing Loan Corporation (currently Japan Housing Finance Agency). The Company deals [Flat 35] the most of all financial institutions until March 2019 for nine consecutive years, and the share in fiscal 2018 is 26% including refinance.

Under the slogan of "Lifestyle Production Company," ARUHI provides a variety of products and services, mainly housing loans, with the aim of creating a society where many people can continue to live with peace of mind while residing strongly against changes in the environment and social conditions.

The subject to be evaluated is Green Ritz Series 1 trust beneficiary interests (the "Trust Beneficial Interests") backed by [Flat 35 (Guarantee Program) ] loan pools originated by the Company. JCR evaluates whether the Trust Beneficial Interests complies with the Green Bond Principles (2018 edition) and Green Bonds Guideline of Ministry of Environments.

The Company shall trust [Flat 35] S loans that satisfy the criteria set forth in ARUHI Green Finance Framework (the "Framework") among [Flat 35 (Guarantee Program)] owned by it to the trust bank as the trustee, and receive Trust Beneficial Interests. [Flat 35 (Guarantee Program)] On the nature of [Flat 35 (Guarantee Program)], [Flat 35] S, the underlying assets, is covered by housing loan insurance provided by Japan Housing Finance Agency. If the mortgage debtor is unable to make full payment by the final repayment date, the agency pays insurance benefits.

In the Framework, the Company uses new and used houses to meet energy conservation, durability and variable standards of [Flat 35] S. In order to satisfy the standards for energy conservation, durability, and variable standards, the houses must have at least one of the primary energy consumption grades of 4 or higher, or one of the insulation performance grades of 4. JCR evaluates that the proceeds are used for housing with environmental improvement effects.

Arrangement of Green RMBS and the implementation of each Green RMBS are determined through appropriate processes, including reporting to management and approval those authorized to approve in-house regulations. Regarding reporting, JCR confirmed that the management and operation system of ARUHI was properly established and that transparency was ensured, as disclosures are to be made to investors in an appropriate manner and with appropriate frequency.

As a result, based on JCR Green Finance Evaluation Methodology, JCR assigns "g1" for the "Greenness Evaluation (Use of Proceeds)" and "m1" for the "Management, Operation and Transparency Evaluation." Consequently, JCR assigns "Green1" for the overall "JCR Green BondEvaluation" to the Trust Beneficial Interests.

The Trust Beneficiary Interests meet the criteria for items required by the Green Bond Principles and the Ministry of the Environment's Green Bond Guidelines.

<https://www.jcr.co.jp/en/greenfinance/>

## 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):

#### **a. On the environmental improvement effects of the project**

- i. The use of proceeds is for acquiring housing loans that meet primary energy consumption grade 4 or higher (measures must be taken to significantly reduce design primary energy consumption) or insulation performance grade 4 or higher (measures must be taken to significantly reduce heat loss, etc.) and is expected to have a high environmental improvement effect.
- ii. Projects subject to use of proceeds are green projects as defined in the Green Bond Principles or the Ministry of the Environment's Green Bond Guidelines and fall under the category of "Energy conservation".

#### **b. Negative impact on Environment**

Negative effects on the circumstance include noise, vibration, and waste generated during construction work regarding the housing loan receivables which are subject to the use of proceeds. However, housing is constructed in accordance with various laws and regulations such as the Noise Control Law, the Vibration Control Law, and the Waste Disposal Law. JCR considers that appropriate environmental consideration is given.

### Use of proceeds categories as per GBP:

- |  |  |
|--|--|
| <input type="checkbox"/> Renewable energy  | <input checked="" 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                                       | <input 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 (please specify) :  |

*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 Company has established clear environmental objectives, project selection criteria, and processes for the use of proceeds.

Such matters are disclosed in the JCR's evaluation report.

### 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 (please specify) :   |

### Information on Responsibilities and Accountability

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

## 3. MANAGEMENT OF PROCEEDS

### Overall comment on section (if applicable) :

The proceeds from the issuance of the Trust Beneficiary Interests will be fully and promptly allocated to the structuring of loan pool backed by ARUHI, the trustor, and will not be appropriated for any other purposes. Since the process of using proceeds is clearly stipulated in the trust agreement and other various agreements, tracking management is not necessary.

Managing the cash flows from green RMBS and underlying assets until the Trust Beneficiary Interests are redeemed is undertaken by the trust bank, the trustee. Repayments from the debtors shall be applied monthly to the payment of dividends and the redemption of principal of the Trust Beneficiary Interests in the manner set forth in the agreements. JCR confirms by the agreements that in the case that the balance of the loan pool, which is the underlying assets, may decrease due to repayments from debtors, the balance of green RMBS also decreases.

### Tracking of proceeds:

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

### Additional disclosure:

- |  |  |
|--|--|
| <input type="checkbox"/> Allocations to future investments only                  | <input 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 type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input checked="" type="checkbox"/> Other (please specify) :<br>Allocations only to existing investments |

## 4. REPORTING

**Overall comment on section (if applicable):**

### **a. Reporting on proceeds allocation**

As described above, the proceeds of Green RMBS is considered to be used in full to acquire the loan pool which is consisted of [Flat 35] S among [Flat 35] (Guarantee Program), the underlying asset, and therefore no interim reporting for the unallocated funds is expected. It is assumed that no unallocated funds will be generated during the term. However, in the event of any change in the green RMBS, the Company plans to disclose appropriate information on its website.

### **b. Impact reporting for environmental benefits**

It is obvious that the [Flat 35] S which are subject to the use of proceeds is for low-environmental-burden housing, and in addition, the number of the loans is obvious. Therefore, JCR considers that the Company's impact reporting is appropriate as an indicator of the environmental improvement effects of the RMBS.

### **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):

### **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):

### **frequency:**

☒ Annual

☐ Semi-annual

☐ Other (please specify):

### **Information reported (expected or ex-post):**

☐ GHG Emissions / Savings

☐ Energy Savings

☐ Decrease in water use

☒ Other ESG indicators (please specify):

*Number and amount of securitized Flat35 loans*

## 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):<br>Show on the website |
| <input checked="" type="checkbox"/> Reporting reviewed<br><i>Yes, both use of proceeds and impact reporting are subject to external review.</i> |  |

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.)

Sustainability activities by ARUHI Corporation (Japanese Only)	<a href="https://www.aruhi-group.co.jp/sustainability">https://www.aruhi-group.co.jp/sustainability</a>
JCR's website about green bond evaluation methodology	<a href="https://www.jcr.co.jp/en/greenfinance/">https://www.jcr.co.jp/en/greenfinance/</a>

## SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

### Type(s) of Review provided:

- |  |  |
|--|--|
| <input type="checkbox"/> Second Party Opinion    | <input type="checkbox"/> Certification             |
| <input type="checkbox"/> Verification            | <input checked="" type="checkbox"/> Scoring/Rating |
| <input type="checkbox"/> Other (please specify): |  |

**Review provider(s):** Japan Credit Rating Agency, Ltd.

**Date of publication:** January 29, 2020

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

1. **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. 1.
2. **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.
3. **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.
4. **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.