

Green Bond / Green Bond Programme

Independent External Review Form

Section 1. Basic Information

Issuer name:

AEON Product Finance Co., Ltd.

Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:

Reform Loan/Solar Loan Receivable Beneficial Interest 201812(Contract No. 00012883)

Class A Senior Beneficial Interest, Mezzanine I-1 Beneficial Interest, Mezzanine I-2 Beneficial Interest

Mezzanine II Beneficial Interest and Subordinated Beneficial Interest

Independent External Review provider's name:

Japan Credit Rating Agency, Ltd.

Completion date of this form:

December 28, 2018

Publication date of review publication:

January 9, 2019

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.

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

The originator, AEON Product Finance Co., Ltd., is a consolidated subsidiary of AEON Financial Services Co., Ltd. In May 2013, the company became a member of Aeon Financial Services Group. Within the group, the company handles installment sales.

Aeon Product Finance, together with Aeon Financial Services, plans to strengthen its CSR-related business as a member of Aeon Group. Aeon is working to realize a decarbonized society in the Aeon Sustainability Basic Policy, and is carrying out activities that can contribute to the environment with specific targets such as Aeon Decarbonization Vision 2050.

The scope of the evaluation is a part of beneficiary interests issued by Sumitomo Mitsui Trust Bank, Limited as the trustee, backed by renovation loans and solar loans executed by AEON Product Finance to customers. Aeon Product Finance entrusts renovation loans, solar loans, and money to Sumitomo Mitsui Trust Bank and receives Class A Senior Beneficial Interests, Class B Senior Beneficial Interests, Mezzanine I-1 Beneficial Interests, Mezzanine I-2 Beneficial Interests, Mezzanine II Beneficial Interests, and Subordinated Beneficial Interests. These beneficiary interests, except for subordinated beneficiary interests, will be transferred to investors and will be securitized accordingly.

During the securitization period, the principal and interest of the loans to be repaid by the customers are used to pay dividends and redeem the principal to each beneficiary interest in a manner predetermined by the trust agreement.

Among the underlying assets, Solar Loans are loan receivables executed by AEON Product Finance to individual and corporate customers for the purpose of installing solar power generation systems, storage batteries, all-electric facilities, etc. All the facilities to be installed are energy efficient facilities. JCR confirmed the following regarding the target facilities: (1) small-scale solar power generation systems are mainly installed, and no serious negative environmental impact is anticipated, (2) Construction is carried out by the member stores selected in the screening process of AEON Product Finance, and the customers confirm that the construction completed before the loan is executed. Due to the above reasons, JCR found that it is highly probable that environmental improvement effects will be appropriately materialized. JCR also confirmed that the possible environmental risks are appropriately avoided. JCR evaluates that the use of proceeds is considered as a green project that will contribute to environmental improvement as a renewable energy project. In this securitization, a total of approximately JPY 17.6 billion of beneficiary interests were issued.

Among this securitization, Class A Senior Beneficiary Interests, Mezzanine I-1 Beneficiary Interests, Mezzanine I-2 Beneficiary Interests, Mezzanine II Beneficiary Interests, and Subordinated Beneficiary Interests (approximately JPY 12.33 billion in total) are the subject of this green bond evaluation, and its use of proceeds is the acquisition of solar loan receivables.

JCR confirms that the proceeds have been properly paid in accordance with the methodologies set forth in the trust agreement and other agreements relating to the securitization. JCR also confirms that Aeon Product Finance, as a member of Aeon Group, recognizes that environmental problems are important to tackle with clear targets.

Based on the JCR Green Finance Evaluation Methodology, JCR assigned "g1" for the "Green Evaluation (Use of Funds)" and "m1" for the "Management, Operating System and Transparency Evaluation." As a result, the JCR assigned "Green 1" for the overall evaluation of "JCR Green Bonds." In conclusion, the beneficial interests are considered to meet the standards for the items required by the Green Bond Principles and the Green Bond Guideline of the Ministry of the Environment of Japan.

<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. 100% of the use of proceeds is used for renovation loan receivables aimed at installing solar power generation systems and ancillary facilities, which can be expected to reduce CO2.
- ii. The use of proceeds falls under the category of "renewable energy and energy conservation (energy efficiency)" among the green projects defined in the Green Bond Principles or the Ministry of the Environment's Green Bond Guidelines. The Government's Basic Energy Plan promotes the improvement and diffusion of distributed energy systems as one of the technological innovations toward 2050.

b. Negative impact on Environment

Aeon Product Finance confirms the terms of contracts with customers so that renovation projects are executed properly before implementing renovation loans and solar loans. Once the completion of the renovation work has been confirmed by the customer, the company is to receive notification, therefore it has secured a framework to ensure the operation of solar power generation systems and other systems. JCR confirms that there is little negative impact on renovation loans and solar loans.

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 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):

AEON Prodat Finance has a clear environmental goal, project selection criteria and process to determine the proceeds, which are shown in the evaluation report composed by JCR.

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 of the trust beneficiary interests will be effectively used to acquire the underlying assets. JCR confirms through the trust agreement that the outstanding balance of the underlying assets will be reduced by the repayment of principal and interest from the obligors, but that the principal of the beneficiary interests will also be redeemed and reduced accordingly .

In addition, tracking the proceeds is not required, since the trust agreement and the beneficial interest transfer agreement clearly stipulate that the proceeds of the beneficiary interests are effectively used for the acquisition of the underlying assets.

Transactions until the beneficiary interests are delivered and transferred to investors for the acquisition of underlying assets are clearly stipulated in the agreements. Therefore, it is considered that internal controls are ensured as long as businesses are conducted in accordance with the agreements.

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 (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 checked="" type="checkbox"/> Allocation to a portfolio of disbursements |

☐ Disclosure of portfolio balance of unallocated proceeds

☐ Other (please specify):

4. REPORTING

Overall comment on section (if applicable):

a. Reporting on proceeds allocation

The entire amount of the proceeds of the beneficiary interests is deemed to be substantially used for the acquisition of the underlying assets, so it is not assumed that the reporting about unallocated proceeds will be made until the redemption period.

b. Reporting on environmental improvement effects

An overview of the solar loan receivables is provided in Evaluation Phase 1 of this report. In the future, AEON Product Finance plans to regularly disclose the environmental improvement effects (estimated power generation and estimated CO₂ reductions, etc.) of installing solar power generation systems, etc., which are eligible for solar loans, in the trust fund status report.

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): Monthly through the trust fund status report to be made by the trustee

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): Monthly through the trust fund status report to be made by the trustee

Information reported (expected or ex-post):

☒ GHG Emissions / Savings

☐ Energy Savings

☐ Decrease in water use

☐ Other ESG indicators (please specify):

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

Yes, both use of proceeds and impact 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.*)

The website about CSR efforts of AEON Financial Service, a parent company of AEON Procut Finance
<http://www.aeonfinancial.co.jp/eng/activity/index.html>

JCR's website about green bond evaluation methodology
<https://www.jcr.co.jp/en/greenfinance/>

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 (<i>please specify</i>): | |

Review provider(s):

Japan Credit Rating Agency, Ltd.

Date of publication:

December 28, 2018

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.
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.