

Green Bond / Green Bond Programme Independent External Review Form

Section 1. Basic Information

Issuer name:	Nippon Accommodations Fund Inc.
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:	Green Finance Framework
Independent External Review provider's name:	Japan Credit Rating Agency, Ltd.
Completion date of this form:	June 18, 2020
Publication date of review publication:	June 18, 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.

Nippon Accommodations Fund Inc. (NAF) is a J-REIT sponsored by Mitsui Fudosan Co., Ltd. and mainly invests in rental apartments. It was established in October 2005 and was listed on the Tokyo Stock Exchange (Real Estate Investment Trust securities market) in August of the following year. Mitsui Fudosan Accommodations Fund Management Co., Ltd. (the Asset Manager) is in charge of the asset management business of NAF, and Mitsui Fudosan is 100% owned by the Asset Manager. The current portfolio consists of 127 properties (of which 112 are rental apartments, 16 are hospitality facilities such as dormitories/corporate housing, serviced apartments, senior residences and hotels), with assets of JPY 312.1 billion (based on acquisition prices).

NAF's basic policy is to secure stable earnings and steady growth in the Investment Assets from the medium- and long-term view, aiming to maximize the value of unit holders. Maximizing the value chain of the Mitsui Fudosan Group, NAF aims to realize a high-quality portfolio and management system. NAF recognizes that the promotion of sustainability, including the environment, is consistent with the NAF's basic policy. Based on this recognition, NAF understands that these initiatives are important management issues, and has developed policies and organizational structures to implement organizational initiatives.

The scope of evaluation is the Green Finance Framework (the "Framework") established by NAF to limit the use of proceeds of green bonds or green loans (the "Green Finance") to projects with environmental improvement effects. JCR evaluates whether the framework complies with the "Green Bond Principles", the "Green Loan Principles", the "Green Bond Guidelines" and the "Green Loan and Sustainability Linked Loan Guidelines". These Principles and Guidelines are not binding as they are voluntarily published by the International Capital Markets Association (ICMA), the Ministry of the Environment, the Loan Market Association (LMA) and the Asia-Pacific Loan Market Association (APLMA) and are not regulations, but JCR evaluates the Framework in reference to these principles and guidelines as currently globally unified standards.

NAF stipulates its "Eligibility Criteria of the use of proceeds" in the Green Finance Framework as follows: Buildings that have been or will be certified 3 star, 4 star, or 5 star DBJ Green Building certification, 3 star, 4 star, or 5 star BELS certification, B+ rank, A rank, or S rank in CASBEE certification (for Real Estate). In selecting assets under management, NAF identifies and manages negative impacts on the environment and takes appropriate measures as necessary. JCR evaluates that the eligibility criteria are expected to have an environmental improvement effect.

The project is planned and verified according to the process described in the Framework, and then evaluated and approved by the Investment Committee. Funds procured by the Green Finance are managed by portfolio management until the Green Finance is redeemed or repaid. The status of fund allocation and environmental improvement effects are also appropriate. From the above, JCR evaluates that the management and administration system of NAF has been established and that it is transparent.

Based on JCR Green Finance Evaluation Methodology, JCR assigns "g1 (F)" for "Greenness Evaluation (Use of Proceeds)" and "m1 (F)" for "Management, Operation and Transparency Evaluation." Consequently, JCR assigns "Green1 (F)" for overall "JCR Green Finance Framework Evaluation" to the Framework.

<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 eligibility criteria set out in the Framework are buildings that have acquired or are planning to acquire environmental certification, limited to the top three categories of regional, national, or internationally recognized certification levels ("Green Buildings"). The Use of Proceeds for acquisition or refinancing is expected to have environmental improvement effect.
- ii. The Use of Proceeds falls under the category of green projects that are "energy efficiency" or "green buildings which meet regional, national or internationally recognized standards or certifications." They are defined in the "Green Bond Principles", the "Green Loan Principles", the "Green Bond Guidelines" and the "Green Loan and Sustainability Linked Loan Guidelines."

b. Negative impact on Environment

The Asset Manager conducts due diligence on the acquisition of assets under management based on the opinion of experts, who are third parties. Risks from economic, physical, and legal viewpoints based on the due diligence are confirmed using a check sheet to prevent omissions, and environmental risks are also confirmed in the same process. When there is a risk of a negative impact on the environment, NAF avoids or mitigates the risk by such means as acquiring assets after correction by the seller or postponing the acquisition of assets.

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 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):

NAF 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) :

NAF will manage the balance of Green Finance by portfolio management until the redemption/repayment of all the Green Finance. In the event of a sale of Eligible Green Assets, a change in the evaluation of Green Building Certification, or a loss due to a disaster, and a decrease in Eligible Green Assets are expected, NAF shall confirm the greenness of Green Finance by confirming that the balance of Green Finance does not exceed the amount of Eligible Green Liabilities. If unallocated funds are generated, NAF will increase the Eligible Green Assets or postpone the sale of such assets. JCR evaluates that there are no particular problems with the treatment of portfolios by NAF, as the management of portfolios is in line with common practice in the marketplace.

The proceeds are managed by the general manager of the financial team. Green Finance will be allocated to the Use of Proceeds within six months, and unallocated funds will be managed in cash or cash equivalents. Allocation plans for green projects are approved by the Investment Committee. Remittance instructions are drawn up by the general manager of the financial team, and mutual checks are attempted by the person responsible for other teams approving them. The status of fund allocations is reported to the Investment Committee once a year.

Internal Control systems are ensured through internal audits, which are headed by the Chief Compliance Officer, and external audits by the accounting auditor.

A system has been put in place for the redemption or repayment of Green Finance, and for a sufficient period of time thereafter, of electronic files of forms related to Green Finance fund management.

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 |
| <input type="checkbox"/> Disclosure of portfolio balance of | <input type="checkbox"/> Other (please specify) : |

unallocated proceeds

4. REPORTING

Overall comment on section (if applicable):

a. Reporting on proceeds allocation

NAF will disclose the allocation status of procurement funds by the Green Finance on its website once a year. In addition, if there is a change in Eligible Green Assets and unallocated funds are generated, the status and the management method of the funds will be disclosed as well.

b. Impact reporting for environmental benefits

In addition to the status of Green Building Certification and the details of them, NAF will disclose the electricity consumption, CO₂ emissions, and water consumption of all properties held by NAF on its website once a year.

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)*:

- The status of Green Building Certification
- Electricity and water consumption etc.
- details of Green Buildings

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):
Show on the website |
| <input type="checkbox"/> Reporting reviewed | |

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 Nippon Accommodations Fund Inc.	https://www.naf-r.jp/english/profile/3-4.html
JCR's website about green bond evaluation methodology	https://www.jcr.co.jp/en/greenfinance/

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: June 18, 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.