

Japan Credit Rating Agency, Ltd. (hereinafter referred to as "JCR") will announce the reviewed Green Finance Framework Evaluation Results as follows:

Joint Green Bond issuers (Local Governments)

Joint Local Government Green Bond Framework

Affirmation



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| Issuer | Joint Green Bond issuers (Local Governments) * Joint Green Bond issuers refer to a group that issues Joint Local Government Green Bond. |
| Evaluation Target | Joint Local Government Green Bond Framework |

Evaluation Overview

▶▶▶ 1. Overview of Joint Green Bond Issuers (Local Governments)

Japanese local governments are broadly divided into ordinary local governments and special local governments in Article 1-3, paragraph (1) of the Local Autonomy Law (Act No. 67 of 1947). Ordinary local governments include prefectures and municipalities, and special local governments have special wards, unions of local governments and property wards. Municipalities are categorized into three: (1) designated cities that are required to be designated by cabinet orders among cities with a population of 500,000 or more; (2) core cities whose requirements are to be designated by cabinet orders from cities with a population of 200,000 or more; (3) special cities at the time of the enforcement (they were actually special cities when the special city system was abolished); (4) other cities that are required to have a population of

50,000 or more or others; and (5) towns and villages¹. Local bonds can be issued by local governments except for property wards according to budgets stipulated, respectively.

Municipal bonds refer to debts borne by local governments through externally financing proceeds financially required, which are to be repaid for more than one fiscal year². Municipal bonds, in principle, can be issued only in the cases listed in each item of Article 5 of the Local Finance Law (Act No. 109 of 1948), including those when financing financial resources for expenditures of public corporations (transportation, gas or water supply) or construction expenses for public or official facilities. The main characteristics of municipal bonds are: (1) debts borne by local governments; (2) debts borne through financing; (3) debts in the form of loans on deeds or securities issuance; (4) debts whose substantial collateral are taxation rights of local governments; (5) debts are to be repaid beyond one fiscal year; and (6) municipal bonds can be issued for businesses stipulated by law³.

Among these municipal bonds, joint local government bonds are municipal bonds jointly issued by local governments that issue publicly offered local bonds nationwide and have been issued since April 2003. The joint local government bonds mainly have the following characteristics: (1) they are issued in accordance with Article 5-7⁴ of the Local Finance Law through assuming joint and several debts⁵ by local governments; (2) measures are taken to supplement liquidity; and (3) they have large issuance lots and high liquidity. As for (1), respective participating organizations are responsible for fully repaying the issuance amount of the joint local government bonds as joint and several obligors and thus the system is extremely robust on the certainty of the repayment. Regarding (2), a fund is established, aiming to supplement liquidity by depositing part of sinking funds of respective organizations in the trustee bank so as to repay the principal and interests without delay even if the participating organizations face unforeseen situations caused by disasters and others. Concerning (3), products are superior with high liquidity as the issuance amount is large, approximately 100 billion yen every month (FY 2024).

▶▶▶ 2. Environmental Initiatives of Joint Green Bond Issuers (Local Governments)

Local governments can be a key to implement regional priority strategies and are main promoters on local environmental conservation, which is a core for developing a sustainable society and are expected to play a role as a coordinator of local initiatives in the government's "Sixth Basic Environmental Plan." Therefore, local governments are expected to comprehensively deploy environmental conservation measures in their regions by discussing targets or directions of regional efforts with local firms, organizations or residents and making cooperative initiatives through communication with residents, businesses, private organizations, other local governments or government-affiliated institutions, including: creating places for discussion; presenting targets or directions, setting respective systems or developing infrastructures for

¹ Source: Ministry of Internal Affairs and Communications website at <https://www.soumu.go.jp/mainsosiki/jichigyousei/bunken/chihou-koukyoudantaikubun.html>

² Source: Ministry of Finance website <https://www.mof.go.jp/policy/filp/summary/filplocal/tihousaiseidonogaiyou.htm>

³ Source: Akane Enatsu (2007) "Local Bond Investment Handbook" published by Zaikei Shoho Sha

⁴ Article 5-7 of the Local Finance Law (Joint Issuance of Municipal Securities)

In case of issuing municipal bonds by a method to issue securities, two or more local governments can jointly issue securities through the vote of the Assembly

⁵ Joint and several debts: Respective Joint and several debtors shall be accountable for repaying all debts (Article 436 of the Civil Code)

social capital or encouraging respective bodies to take actions according to regional characteristics while striving to closely cooperate among related divisions.

In the national Plan for Global Warming Countermeasures, it has listed two main roles to be played by local governments as follows: "Promoting measures in accordance with natural and social conditions in regions" and "Taking measures on their own affairs and projects." Local governments will promote measures comprehensively and systematically to reduce greenhouse gas (hereinafter referred to as "GHG") emissions according to the natural and social conditions in regions for the former. Prefectures and municipalities will map out/implement plans on measures to reduce GHG emissions and to conserve/strengthen absorption mechanisms for their own affairs and projects (Local Governments' Implementation Plan for Affairs/Businesses) as local governments shall aim to be a model for business operators and residents in the areas by working through efforts initiatively for the latter.

Furthermore, local governments are to strive to consider the plan and to formulate the regional climate change adaptation plan so as to promote measures on climate change adaptation according to regional natural economic and social conditions in the national Climate Change Adaptation Plan. Simultaneously, the local governments actively incorporate climate change adaptation into related measures, including disaster prevention/national resilience, promoting agriculture, forestry and fisheries and preserving biodiversity in cooperation with related departments and strive to promote measures on climate change adaptation in respective categories.

As described above, local governments are promoting measures for climate change mitigation and adaptation based on Basic Environmental Plan, the Plan for Global Warming Countermeasures and Climate Change Adaptation Plan formulated by the national government or respective local governments.

Joint Local Government Green Bonds (hereinafter referred to as "joint green bonds") have been issued since FY 2023. Mitigation and adaptation measures for climate change can be accelerated nationwide more than ever as utilizing the mechanism of the Joint Local Government Bond enables the local governments that could not handle allocation projects to finance proceeds with green bonds individually.

▶▶▶ 3. Joint Local Government Green Bond Framework

The evaluation target is "Joint Local Government Green Bond Framework" (hereinafter referred to as "this Framework"), which was jointly established so as to exclusively restrict the proceeds financed through joint green bonds by local governments to the use with environmental benefits. JCR will evaluate whether this Framework has been aligned with the Green Bond Principles⁶ and the Green Bond Guidelines⁷, which are principles or guidelines and are not regulations legally authorized; however, JCR will evaluate this Framework with reference to the aforementioned Principles and Guidelines as they are domestically and internationally unified standards at the present moment.

JCR assigned "Green 1 (F)" - an overall evaluation as a result of Green Bond Framework Evaluation to this Framework of local governments on August 31, 2023. JCR is to review this

⁶ International Capital Market Association (hereinafter referred to as "ICMA") (2021) *Green Bond Principles*
<https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/>

⁷ Ministry of the Environment (2022) *Green Bond Guidelines*
<https://www.env.go.jp/content/000062495.pdf>

Framework as local government updated it in response to the amendment made to the Building-Housing Energy-efficiency Labeling System (hereinafter referred to as "BELS") and the introduction of the new BELS standards, which came into effect in April 2024.

Local governments decided to use the proceeds for the followings in the Framework as of August, 2023: renewable energy, energy conservation, pollution prevention and control, sustainable management of natural resources/land use, biodiversity conservation, clean transportation, sustainable water resource management, climate change adaptation and green buildings in accordance with targets and policies formulated in the Basic Environmental Plan, the Plan for Global Warming Countermeasures or the Climate Change Adaptation Plan established by the national government or respective local governments. It is also stipulated that appropriate measures shall be taken in consideration of adverse impacts on the environment and society in implementing eligible projects. Accordingly, JCR has evaluated that eligible criteria defined by local governments are projects with environmental benefits.

The recent updates to this Framework includes: adding projects that are expected to achieve energy efficiency with ZEB Oriented or ZEH Oriented or higher for energy efficiency; changing/clarifying the scope of CASBEE certification in green building standards; clarifying the version of LEED certification; and deleting BELS certification. JCR has evaluated that any of updates continuously have environmental benefits.

Local governments aim to finance proceeds through green bonds with clear environmental objectives. A structure to address environmental issues has been appropriately established in place, and a mechanism has been ensured in which a department with specialized knowledge on the environment is involved in the selection process for projects to which proceeds will be used. The proceeds procured through green bonds will be appropriately managed by pre-defined departments. Proceeds allocation and indicators for environmental benefits will be disclosed in terms of reporting. Accordingly, JCR has confirmed that the management/operation system on green bonds jointly issued by local governments has been adequate, the same as the previous evaluation and highly transparent.

Consequently, JCR has assigned "g1(F)" for "Green Evaluation (Use of Proceeds)," "m1(F)" for "Management, Operation, and Transparency Assessment" and "Green 1(F)" for "JCR Green Finance Framework Assessment" based on the JCR Green Finance Assessment Methodology. JCR has also evaluated that this Framework has met the criteria required in the Green Bond Principles and the Green Bond Guidelines.

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Review Items

In this section, JCR will describe items that shall be confirmed in reviewing this Framework. JCR will mainly confirm items whose details have been changed since the previous evaluation in the review as follows:

1) Use of Proceeds

Whether the category of eligible criteria and use of proceeds of green finance continuously have greenness after changes are made.

2) Selection Criteria and Processes for Use of Proceeds

Whether the goals to be achieved through green finance and the selection criteria of green projects and their processes are continuously appropriate.

3) Management of Proceeds

Whether the proceeds raised through green finance are certainly allocated to green projects, and whether there are a scheme and an internal structure in which the allocation can be easily tracked and managed.

4) Reporting

Whether allocation reporting and impact reporting on green finance are adequately prepared after the framework is modified in a manner defined by issuers upon evaluation of green finance.

5) Organizational Sustainability Initiatives

Whether sustainable issues are continuously positioned as highly prioritized key issues.

Review Contents

I. Use of Proceeds

In this Framework, local governments have specified the use of proceeds as follows: updated items however are eligibility requirements for respective green related projects; therefore, these are not reflected into the followings:

This Framework for Use of Proceeds

The proceeds procured through the issuance of joint green bonds will be allocated to target projects that fall under "green-related projects."

| No. | Green related Projects | Environmental Benefits |
|----------------|---|--|
| Major Category | 1. Projects for renewable energy | |
| Subcategory | (1) Projects for development of renewable energy-related facilities/equipment | |
| 1 | Development of solar power generation facilities/equipment | Reduction of CO ₂ emissions |
| 2 | Development of micro-hydroelectric power generation facilities/equipment | Reduction of CO ₂ emissions |
| 3 | Renovation of deteriorated hydroelectric power plants | Reduction of CO ₂ emissions |
| 4 | Development of onshore wind power generation facilities/equipment | Reduction of CO ₂ emissions |
| 5 | Development of offshore wind power generation facilities/equipment | Reduction of CO ₂ emissions |
| 6 | Development of facilities for geothermal power generation | Reduction of CO ₂ emissions |
| 7 | Development of woody biomass power generation facilities/equipment | Reduction of CO ₂ emissions |
| 8 | Development of sewage sludge/human waste biomass power generation facilities/equipment | Reduction of CO ₂ emissions |
| 9 | Development of facilities for effective use of sludge (Generation of biogas/conversion of sewage sludge into solid fuels) | Reduction of CO ₂ emissions |
| Major category | 2. Projects for energy saving | |
| Subcategory | (1) Convert public facilities into ZEB | |
| 1 | Convert public facilities into ZEB | Reduction of energy consumption |
| 2 | Convert public housing into ZEH | Reduction of energy consumption |
| Subcategory | (2) Introduction of equipment with high energy saving performance into public facilities | |
| 1 | Convert lighting for public facilities or traffic lights into | Reduction of energy consumption |

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| | LED | Reduction of CO ₂ emissions |
| 2 | Development of air conditioning equipment for public facilities (Introduction of air conditioning equipment with high energy efficiency) | Reduction of energy consumption Reduction of CO ₂ emissions |
| 3 | Improvement of elevators in public facilities (Introduction of elevators with high energy efficiency) | Reduction of energy consumption Reduction of CO ₂ emissions |
| 4 | Energy saving for other public facilities | Reduction of energy consumption Reduction of CO ₂ emissions |
| Subcategory | (3) Utilization of unused energy | |
| 1 | Development of facilities that utilize unused thermal energy (geothermal/sewage heat) | Reduction of energy consumption |
| Major category | 3. Projects for pollution prevention and control | |
| Subcategory | (1) Development of sewage treatment facilities | |
| 1 | Development of sewerage facilities (related to sewage treatment) (Improvement of sewage treatment facilities/conduits or renovation projects for widening) *Including development of agricultural community effluent treatment facilities | Improvement of water quality Reduction of energy consumption Reduction of CO ₂ emissions Improvement of sludge recycling rates |
| 2 | Improvement of combined sewage systems | Improvement of water quality |
| 3 | Development of night soil treatment facilities | Improvement of water quality Reduction of energy consumption Reduction of CO ₂ emissions Improvement of sludge recycling rates |
| Subcategory | (2) Development of waste disposal-related facilities | |
| 1 | Improvement of core equipment in general waste treatment facilities, such as energy recovery type waste treatment facilities/high-efficient refuse-burning power generation facilities (Related to energy recovery) | Improvement of energy recovery rates |
| 2 | Improvement of energy recovery type waste treatment facilities/high-efficient refuse-burning power generation facilities (Consolidation, reconstruction) | Improvement of energy recovery rates |
| 3 | Development of general waste treatment equipment/facilities, which lead to reduce hazardous | Reduction of emissions from hazardous substance |

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| | substances emissions, and consolidation or reconstruction in case of improving facilities | |
| 4 | Improvement of facilities/equipment for proper reuse, such as used products or of facilities/equipment on recycling of resources (waste) | Increases in recycling/reuse of resources |
| Subcategory | (3) Monitoring/removal of contaminants | |
| 1 | Development of monitoring facilities of water/air pollutants and hazardous chemical substances | Preservation of living environment with preventive measures against water pollution |
| 2 | Projects for reduction of nitrate nitrogen (Improvement of animal excrement treatment facilities (compost centers)) | Increases in processing of animal excrement Reduction of nitrate nitrogen in groundwater |
| 3 | Projects for removal of contaminated soil | Reduction of contaminated soil Reduction of water contaminant, such as water quality derived from contaminated soil |
| 4 | Projects for marine pollution measures | Increases in removal of flotsam on the beach Reduction of water pollutants |
| Major category | 4. Projects for sustainable management of natural resources/land use | |
| Subcategory | (1) Conservation/management of marine resources | |
| 1 | Creation of tidal flats, shallow bottom and seaweed beds | Control, maintenance and increases in declined fishery resources |
| 2 | Development of fish beds | Control, maintenance and increases in declined fishery resources |
| 3 | Creation of breeding grounds | Control, maintenance and increases in declined fishery resources |
| 4 | Improvement of river environment (fish ladder installation) | Control, maintenance and increases in declined fishery resources |
| 5 | Development of seed production facilities | Control, maintenance and increases in declined fishery resources |
| 6 | Improvement of fisheries technology development facilities | Control, maintenance and increases in declined fishery resources |
| Subcategory | (2) Conservation/management of forest resources | |
| 1 | Development of forest roads | Maintenance of forest sinks Conservation of sustainable forest resources |

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| 2 | Improvement of forests, such as thinning or afforestation (excluding opening of forest roads) | Maintenance of forest sinks Conservation of sustainable forest resources |
| 3 | Promote to introduce wooden structure and wooden interior decoration with wood produced by the issuers in public facilities | Promotion of recycling forest resources |
| Subcategory | (3) Improvement of personnel training bases on natural resources management | |
| 1 | Improvement of bases to develop human resources who are responsible for sustainable forests/forestry | Conservation of sustainable forest resources |
| Subcategory | (4) Greening promotion | |
| 1 | Development of parks (creation of green space) | Increases in green areas |
| 2 | Greening of public facilities | Increases in green areas |
| Subcategory | (5) National park development | |
| 1 | Improvement of national park facilities | Conservation of natural environment |
| Major category | 5. Projects for biodiversity conservation | |
| Subcategory | (1) Development of wildlife habitat | |
| 1 | Conservation of wetlands or coral reefs | Preservation of flora and fauna in wetlands or coral reefs |
| 2 | Development of wildlife habitat under conservation | Conservation or breeding of wildlife |
| 3 | Improvement of rare species protection facilities/laboratory | Conservation or breeding of rare species |
| Subcategory | (2) Prevention of damage by wildlife or alien species | |
| 1 | Prevention of damage by wildlife or alien species | Preservation of ecosystem |
| Subcategory | (3) Landscape conservation | |
| 1 | Development of landscape-friendly facilities with the natural river reconstruction method | Conservation of natural landscape |
| 2 | <i>Satoyama</i> (community-based forest) conservation | Conservation of natural landscape |
| Major category | 6. Projects for clean transportation | |
| Subcategory | (1) Development of vehicles in public transportation | |
| 1 | Development of vehicles in the railway business (public/quasi-public corporation) | Reduction of CO ₂ emissions |
| 2 | Improvement of facilities (station buildings) in the railway business (public/quasi-public corporation) | Reduction of CO ₂ emissions |
| 3 | Development of vehicles in the bus business (public/quasi-public corporation) | Reduction of CO ₂ emissions |

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| Subcategory | (2) Spread and expansion of electric vehicles | |
| 1 | Switch official vehicles from conventional cars to electric vehicles | Reduction of CO ₂ emissions |
| 2 | Improvement of battery charging facilities for electric vehicles | Reduction of CO ₂ emissions |
| 3 | Development of hydrogen stations | Reduction of CO ₂ emissions |
| Subcategory | (3) Promotion of utilizing clean modes of transport | |
| 1 | Improvement of bicycle running space | Reduction of CO ₂ emissions |
| 2 | Development of facilities for park and ride | Reduction of CO ₂ emissions |
| Subcategory | (4) Formation of carbon neutral port (CNP) | |
| 1 | Formation of carbon-neutral port (CNP) | Reduction of energy consumption Reduction of CO ₂ emissions |
| Major category | 7. Projects for sustainable water management | |
| Subcategory | (1) Development of water supply facilities | |
| 1 | Development of water supply facilities (Improvement of energy efficiency by introducing high efficient equipment and downsizing equipment) | Reduction of energy consumption |
| 2 | Consolidation/expansion of water supply facilities (Improvement of energy efficiency by consolidating water supply and utilizing potential energy) | Reduction of energy consumption |
| 3 | Preventive measures against disasters, such as water supply facilities (Development of erosion control (hereinafter referred to as "SABO") as floods/landslide preventive measures) | Provision of stable water supply during disasters |
| Major category | 8. Projects for adaptation to climate change | |
| Subcategory | (1) Measures for damage from storms and floods | |
| 1 | Development of river bank protection (improvement of banks or dams) | Reduction of human/property damage caused by floods |
| 2 | Removal of sediment from rivers | Reduction of human/property damage caused by floods |
| 3 | Widening rivers | Reduction of human/property damage caused by floods |
| 4 | Improvement of floodway | Reduction of human/property damage caused by floods |
| 5 | Development of roads (drainage/permeability | Reduction of human/property damage |

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| | pavement, roads for emergency transportation) | caused by floods |
| 6 | Improvement of flood control dams | Reduction of human/property damage caused by floods |
| 7 | Development of agricultural irrigation facilities (drainage pump stations) | Reduction of human/property damage caused by floods |
| 8 | Development of railway bridge replacement at the bottleneck in watercourses | Reduction of human/property damage caused by floods |
| 9 | Extending the life of river management facilities (improvement of switching gears) | Reduction of human/property damage caused by floods |
| 10 | Improvement of flood control facilities (retention/equalizing reservoirs or basins) | Reduction of human/property damage caused by floods |
| 11 | Removal of all power poles on roads (for reducing damage in case of damage from storms and floods) | Reduction of human/property damage caused by storms and floods |
| 12 | Development of additional devices of emergency power supply for traffic lights | Reduction of human/property damage caused by storms and floods |
| 13 | Water level gauge for crisis management, river monitoring camera or river information infrastructure (information gathering/processing devices of precipitation) | Reduction of human/property damage caused by storms and floods |
| 14 | Improvement of wide-area disaster prevention bases that will be evacuation sites in the event of disasters | Reduction of human/property damage caused by storms and floods |
| 15 | Development of sewerage facilities (related to rainwater) (Improvement of rainwater drainage/infiltration facilities, expansion of pumps or introduction of high efficient pumps) | Reduction of human/property damage caused by floods |
| Subcategory | (2) Measures for high tide/waves | |
| 1 | Development of facilities to protect the coastline (bank protection, embankment, detached breakwaters, groins, floodgates, improvement of drainage pumping stations or rising breakwater) | Reduction of human/property damage caused by high tide/waves |
| 2 | Development of harbor and fishing port facilities (quay walls) | Reduction of human/property damage caused by high tide/waves |
| Subcategory | (3) Measures for landslide | |
| 1 | Development of SABO facilities (SABO dams or mountain stream maintenance work) | Reduction of human/property damage caused by sediment disasters |
| 2 | Improvement of afforestation facilities (check dams or | Reduction of human/property damage |

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| | channel works) | caused by sediment disasters |
| 3 | Development of protection forests | Reduction of human/property damage caused by sediment disasters |
| 4 | Implementation of projects to prevent landslides at steep slopes (development of retaining wall/ slope work) and to take measures for landslide | Reduction of human/property damage caused by sediment disasters |
| 5 | Implementation of measures for road slopes and projects for stone fall prevention | Reduction of human/property damage caused by sediment disasters |
| 6 | SABO information infrastructure (information gathering/processing equipment of precipitation) | Reduction of human/property damage caused by sediment disasters |
| Subcategory | (4) Research and development in preparation for climate change by the agriculture, forestry and fisheries industry | |
| 1 | Improvement of developmental facilities for varieties of agricultural products or agricultural production technology | Maintenance/expansion of agricultural production to be affected by climate change |
| 2 | Development of fisheries research facilities | Maintenance/expansion of fishery production to be affected by climate change |
| 3 | Improvement of seeding production facilities for aquatic plants and animals | Maintenance/expansion of fishery production to be affected by climate change |
| Subcategory | (5) Measures for temperature increase | |
| 1 | Addressing summer heat along with heat island phenomenon (Improvement of heat shielding/water retention on roads) | Improvement of thermal barrier or water retention effects |
| 2 | Creating cool spots in cities | Improvement of thermal barrier or water retention effects |
| Major category | 10. Projects for green buildings | |
| Subcategory | (1) Green buildings | |
| 1 | New construction/renovation of public facilities (Those to obtain environmental certification) | Reduction of energy consumption |

*The major category and subcategory are based on the Green Bond Guidelines (2022) formulated by the Ministry of the Environment.

Evaluation by JCR to the Framework

The recent updates to this Framework are as follows:

- Addition of projects that are expected to achieve energy saving performance with ZEB Oriented or ZEH Oriented (or ZEH-M Oriented) or higher
- Changes and clarification of the scope of CASBEE certification, clarification of the version of LEED certification and deletion of BELS certification in projects for green buildings

The followings are overviews of "2. Projects for energy efficiency" and "10. Projects concerning Green Buildings" in this Framework, to which the eligibility criteria have made changed. Please refer to the Green Bond Framework Evaluation published on August 31, 2023⁸ for the existing eligibility criteria, which remain unchanged.

Use of Proceeds 2: Project for Energy Saving (ZEB conversion of public facilities)

The use of proceeds 2 refers to ZEB conversion of public facilities. Since high energy conservation performance is expected to be achieved in line with the building's use, it is expected to have environmental benefits. The use of proceeds falls under "Energy efficiency" in the Green Bond Principles and "Projects for energy efficiency" among the use of proceeds illustrated in the Green Bond Guidelines.

In this Framework, local governments will use the proceeds to convert public facilities into ZEB and public housing into ZEH. "Projects that are expected to obtain any of the following certification: ZEB, Nearly ZEB, ZEB Ready or ZEB Oriented (ZEB Oriented or higher)" were stipulated as eligible criteria in terms of ZEB conversion into public facilities in the Framework as of August, 2023. In the latest updates to this Framework, the new requirement, "the project is expected to achieve energy saving performance with ZEB Oriented or above" was added. Similarly, in terms of ZEB conversion of public housing, the requirement, "projects that are expected to obtain any of the following certification: ZEH, Nearly ZEH, ZEH Ready or ZEH Oriented (or ZEH Oriented or higher) (or ZEH-M, Nearly ZEH-M, ZEH-M Ready or ZEH-M Oriented)" were added to "projects that are expected to achieve energy saving performance with ZEH Oriented (or ZEH-M Oriented) or higher."

Evaluation was previously made on the premise that certification was granted; however, with this change, buildings without certification but have energy saving performance equivalent to certification are included in the eligibility criteria. The energy saving performance required to obtain certification is clarified as energy efficiency of buildings is the only evaluation items for ZEB, ZEH and ZEH-M in terms of the added eligibility criteria. Then, JCR has evaluated that both non-residential buildings and residential buildings are expected to have environmental benefits as non-residential buildings are targeted to buildings with an energy saving performance of 30% or more in case of ZEB Oriented or higher and residential buildings are those that meet the induction standard that is higher than energy conservation standard in case of ZEH Oriented or ZEH-M Oriented or higher.

The environmental benefits will be secured as they are verified by a third-party evaluation organization upon issuance of an individual bond.

⁸ JCR Green Bond Framework Evaluation Report published on August 31, 2023 (Joint Local Government Green Bond Framework) <https://www.jcr.co.jp/download/dd7e1298068f30089373016b0fbe00f530069b6f5527b9f879/23d0616.pdf>

The overview of ZEB and ZEH is as follows:

ZEB (Net Zero Energy Building) is defined as: (1) ZEB (energy savings of 100 percent or more); (2) Nearly ZEB (energy savings of 75 percent or more and less than 100 percent); and (3) ZEB Ready (without introduction of renewable energy) for buildings that have further reduced energy consumption by introducing renewable energy depending upon the reduction amount after making efforts to save 50 percent or more energy. Additionally, (4) ZEB Oriented is defined as a building of 10,000 square meters or more to achieve energy savings of at least 30 to 40 percent and has adopted technologies that are expected to save energy but are not presently evaluated in the energy conservation calculation program under the Act on Improvement of Energy Consumption Performance of Buildings (Act No. 53 of 2015).

With regard to ZEH (Net Zero Energy House), residences that achieved energy savings of 20 percent or more and then reduced primary energy consumption through introduction of renewable energy sources are defined depending upon the amount of reduction as follows: (1) ZEH (100 percent or more reduction); (2) Nearly ZEH (between 75 percent and 100 percent reduction); (3) ZEH Ready (between 50 percent and 75 percent reduction); and (4) ZEH Oriented (without introduction of renewables). The same standards shall be applied to ZEH-M (Net Zero Energy House Mansion).

The government has aimed to ensure that newly constructed architectures have energy saving performance that meets the ZEB standard and that newly constructed residences have energy efficiency that meets the ZEH standard by making maximum use of currently available technical and economical technologies as ideal architectures and residences in 2030 while looking ahead to achieving carbon neutrality in 2050 in the Plan for Global Warming Countermeasures. In the Plan, "Taking the lead in realizing ZEB in public buildings" and "Promoting ZEH in public rental housing" are listed as measures that are expected to be implemented by local governments.

Local governments, in some cases, have set forth their goals of converting public facilities to ZEB and public housing to ZEH in their local governments action plans (administrative work and projects) toward the achievement of carbon neutrality. JCR has evaluated that the use of proceeds will contribute to the plans for national and local governments that have listed to promote ZEB conversion and ZEH conversion.

Use of Proceeds 26: Project for Green Buildings (green buildings)

The use of proceeds 26 refers to projects for green buildings, which is expected to have environmental benefits as it covers buildings with high environmental performance. The use of proceeds falls under "Green buildings which meet regional, national or internationally recognized standards or certifications" in the Green Bond Principles and "Projects for green buildings" among the use of proceeds illustrated in the Green Bond Guidelines.

In this Framework, local governments will use the proceeds for projects for green buildings. The eligibility criteria were defined in the Framework as of August 2023 as follows:

"It shall be expected to obtain environmental certification, such as CASBEE certification (B+ or higher), LEED certification (SILVER or higher) or BELS certification (three stars or more)."

The eligibility criteria were changed in this update as follows: the scope of CASBEE certification was changed/clarified, the version of LEED certification was clarified and BELS certification was deleted.

"It shall be expected to obtain CASBEE certification (A or higher, excluding CASBEE (local government version)) or LEED certification (SILVER or higher, v4 or later in case of LEED BD+C)."

JCR has evaluated that the type and rank of certification are given to real estate with environmental performance; therefore, these real properties have environmental benefits.

The outline of CASBEE certification and LEED certification is as follows:

CASBEE (Integrated Built Environment Performance Evaluation System)

CASBEE is an acronym standing for Comprehensive Assessment System for Built Environment Efficiency and is a method to evaluate and rate the environmental performance of buildings. In April 2001, a comprehensive environmental evaluation research committee for buildings was established as an industry-academia-government collaboration project with the support of the Housing Bureau of the Ministry of Land, Infrastructure, Transport and Tourism and has been continuously developed and maintained since then. The evaluation tools include CASBEE for Construction, CASBEE for Cities or CASBEE for Real Estate that was developed for real estate market to show environmental performance in an easy-to-understand manner.

CASBEE for New Construction is evaluated with the value of BEE (Built Environment Efficiency) with L (L means Load) as the denominator and Q (Q refers to Quality) as the numerator after the reconstruction from the viewpoint of environmental quality of buildings and environmental loads of buildings for the evaluation items in the four areas: energy consumption, resource recycling, regional environment and indoor environment. The evaluation results are categorized into five as follows: Rank S (excellent), Rank A (very good), Rank B + (good), Rank B - (slightly inferior) and Rank C (inferior). CASBEE for Real Estate falls under four categories as follows: Rank S (excellent), Rank A (very good), Rank B + (good) and Rank B (satisfied with items required). In order to be highly evaluated, consideration for indoor comfort or landscape is required in addition to concern for the environment, such as energy saving or using equipment with a low environmental burden, and integrated buildings with high quality are required.

Buildings with A or higher defined as eligible criteria by local governments shall have BEE of 1.5 or higher in CASBEE-Building (New Construction) and shall be properties whose environmental quality clearly outweighs their environmental burden. Those buildings are equivalent to A in the conventional CASBEE-Building although the measurement standard is not based on BEE in CASBEE-Real Estate, and therefore JCR has evaluated them as having environmental benefits.

LEED (Leadership in Energy and Environmental Design)

LEED refers to an environmental performance evaluation system for buildings and urban environments developed and operated by the U.S. Green Building Council (USGBC), a non-profit organization. LEED is an acronym standing for Leadership in Energy and Environment Design, and the draft was published in 1996 and has been updated every few years since then. LEED v4 and v4.1 are currently operating and LEED v5 will be released in 2025.

The certification is categorized into six: BD+C (Building Design and Construction), ID+C (Interior Design and Construction), O+M (Building Operations and Maintenance), ND (Neighborhood Development), HOMES (Home) and CITIES (City). The certification levels are shown with the total of points obtained for each item with Platinum (80 points or more), Gold (60 to 79 points), Silver (50 to 59 points) and Certified (standard certification) (40 to 49 points) from top to bottom. Scoring high or achievement for items on energy conservation is often prerequisites for evaluation, and high energy efficiency is necessary so as to obtain a high certification level.

Silver or higher defined as eligibility criteria by local governments are equivalent to a certification level that can be obtained by buildings that have achieved high energy efficiency and therefore are evaluated as having environmental benefits.

Accordingly, JCR has evaluated that the revised eligibility criteria are also expected to have significant environmental benefits.

II. Selection Criteria and Processes for Use of Proceeds

Local Governments stipulated the selection criteria and processes for the use of proceeds stipulated in this Framework as follows: (no change was made).

This Framework for Process

[Process for Project Evaluation and Selection]

Each specific project to be appropriated with proceeds financed through the issuance of joint green bonds will be selected in accordance with the following procedures and will be externally evaluated whether it has been aligned with the Green Bond Principles 2021 and the Green Bond Guidelines 2022.

1. MIC will present lists of target projects or measures against potential negative impacts (attached sheets) to an organization who will issue joint green bonds (hereinafter referred to as "Joint Green Bond issuers").
2. Finance Dept. and project-related departments, including Environment Dept. or Civil Engineering Dept. in respective Joint Green Bond issuers will cooperatively select candidate projects and submit these projects selected with materials that indicate such projects are suitable as target projects to MIC and Japan Local Government Bond Association.
3. MIC and Japan Local Government Bond Association will confirm that these candidate projects are expected to bring about environmental benefits through the documents submitted in 2 above and interviews with respective Joint Green Bond issuers where appropriate.
4. After completing the confirmation process in 3 above, MIC will send lists of candidate projects finally selected by respective Joint Green Bond issuers and related materials to an external evaluation organization selected by Joint Green Bond issuers and will obtain the evaluation of the target projects in which these candidate projects are expected to properly have environmental benefits in each issue number of joint green bonds.

In selecting and evaluating projects from the aforementioned 2 to 4, MIC and Japan Local Government Bond Association have confirmed that respective Joint Green Bond issuers plan to take countermeasures against adverse environmental and social impacts that are assumed to make through the implementation of projects (see the attached sheets, "Potential Negative Impacts and Measures").

Evaluation by JCR to the Framework

JCR evaluated that the selection criteria and their processes in this Framework was adequate upon the previous evaluation and that it has been continuously proper after confirming that no change has been made since the previous evaluation in recent review.

III. Management of Proceeds

Local Governments have stipulated the management of proceeds in this Framework as follows: (no change was made).

This Framework for Proceeds Management

[Management of Proceeds]

Respective Joint Green Bond issuers will manage their own share of the proceeds raised through joint green bonds in the following manner:

Pursuant to Article 208 of the Local Autonomy Act (Act No. 67 of 1947), local governments are required to appropriate their revenues for each fiscal year to their expenditures for the same fiscal year. Therefore, the proceeds procured through the issuance of joint green bonds will be promptly transferred to accounts designated by respective Joint Green Bond Issuers via the trustee bank every time and will be, in principle, allocated to the target projects within the fiscal year in which the proceeds are raised. In cases where any target project is not closed within the fiscal year due to its progress, the proceeds will be allocated to target projects that are carried over to the following fiscal year in accordance with the provisions of Article 213-3 of the Local Autonomy Act.

The proceeds financed through respective Joint Green Bond Issuers will be managed in cash or highly secured financial assets in a designated account until the proceeds are determined to be allocated.

Finance Departments in respective Joint Green Bond Issuers will monitor the appropriation for the proceeds raised through joint green bonds in cooperation with departments related to the target projects. In particular, respective Joint Green Bond Issuers will manage the proceeds procured through joint green bonds so as not to exceed their allocated amounts to the local bond with management tables that record business expenses or allocations to issue bonds by project.

Respective Joint Green Bond Issuers will prepare performance results and financial statements for all revenues and expenditures, including target projects, which will be audited in the Audit Committee at the end of the fiscal year. The financial statements with opinions provided by inspection commissioners will then be submitted to the assembly for approval.

Evaluation by JCR to the Framework

JCR has evaluated that proceeds management described in this Framework were proper upon the previous evaluation. JCR has confirmed that no change was made to this revised Framework and has evaluated that it continues to be appropriate.

IV. Reporting

Local Governments defined reporting in this Framework as follows: (no change was made).

This Framework for Reporting

[Reporting]

In terms of joint green bonds issued in respective fiscal years, Allocation Reporting and Impact Reporting will be annually disclosed until the proceeds will be fully allocated in and after the following year of the issuance on homepages of Japan Local Government Bond Association or Joint Green Bond issuers.

In cases where there are any significant change in the allocation plan for proceeds or the plans for target projects after the allocation of proceeds is made, the change will be disclosed in a timely manner on their homepages.

(1) Allocation Reporting

The following items on the allocation of proceeds will be disclosed:

- The amount raised (the total amount financed and the amount procured by respective Joint Green Bond issuers)
- The amount allocated to target projects

(2) Impact Reporting

"Reporting items on environmental benefits" stated in the Appendix with regard to environmental benefits of target projects will be disclosed to the extent practicable.

Evaluation by JCR to the Framework

JCR has evaluated that the reporting on the allocation of proceeds and environmental benefits described in this Framework were appropriate upon the previous evaluation. JCR has confirmed that no change has been made to this revised Framework and that it continues to be appropriate.

V. Organizational Sustainability Initiatives

The 2030 Agenda for Sustainable Development (hereinafter referred to as "the 2030 Agenda") adopted by the United Nations General Assembly in September 2015 presents 17 goals and 169 targets as Sustainable Development Goals (hereinafter referred to as "SDGs.") The 2030 Agenda includes many goals for issues related to the global environment itself and challenges closely related to the global environment, such as water/sanitation, energy, sustainable cities, sustainable production and consumption, climate change, terrestrial ecosystems or marine resources, which signify the international sense of crisis for the sustainability of the global environment. In particular, serious, wide-ranging and irreversible effects of climate change can unexceptionally reach Japan, and thus increasing risks of natural disasters is concerned. The climate systems are undoubtedly warming, and it is apparent that the relationship between cumulative CO₂ emissions that are anthropogenic sources and the changes in global average temperature projected is almost proportional by 2100 according to the Fifth Assessment Report of the IPCC.

In May 2024, the Cabinet decided the Sixth Basic Environment Plan, which is positioned as the highest level plan that integrates all environmental sectors. In the Plan, the aim is to build a "circular and harmonious coexistence society" in which the economy and society can grow and develop by setting the targets, "well-being/high quality of life" for each and every citizen for present and future as its top priority by protecting the environmental carrying capacity (planetary boundaries) and improving the environmental quality. In developing future environmental policies, it is to ensure a speed and scale based on the best available science; to avoid trade-offs as much as possible in measures, such as net zero, circular economy or nature positive, and to address to demonstrate integration and synergy. In order to achieve this ultimate goal, not only the nation but also local governments, citizens or companies need to interact (coevolve) with one another toward realizing a sustainable society.

The government has formulated plans for global warming measures and climate change adaptation to respond to various environmental issues. The current plans for global warming measures cover all GHGs, including those other than carbon dioxide, in order to achieve the goal of reducing GHGs by 46 percent in FY 2030 (from FY 2013) and include the measures and policies that support the targets. The government aims to prevent/reduce damage caused by the effects of climate change, stabilize people's living, soundly develop society/economy, preserve the natural environment and strengthen the national land in a safe, secure and sustainable manner in the current climate change adaptation plan. The roles in which local governments should play are described in the Plan for Global Warming Countermeasures and the Climate Change Adaptation Plan, respectively.

The government, in response to the adoption of the 2030 Agenda with SDGs at its core, established the Sustainable Development Goals Promotion Headquarters in May, 2016 and determined Sustainable Development Goals Implementation Guidelines, a mid- to long-term national strategies to achieve the SDGs in December, 2016. The Implementation Guidelines were partially revised⁹ and the Implementation Guidelines were revised in December 2019 in which local governments are expected to further accelerate efforts to achieve the SDGs, proactively disseminate/share local best practices domestically and internationally and approach diverse stakeholders with the aim of disseminating the SDGs still more. The government is expected local governments to conduct the followings: (1) develop self-reliant areas where local issues will be continuously solved by continuing to generate businesses that will improve the economy,

⁹ The Sustainable Development Goals Promotion Headquarters determined to revise it in December 22, 2016. Subsequently, the Guidelines were partially revised in December 20, 2019 and December 19, 2023, respectively.

society, and environment in an integrated manner with the sustainable use of local resources based on regional autonomy; and (2) work on to create a "regional circular and ecological sphere" that aims to realize a self-reliant/decentralized society in which regions utilize their individuality to form networks that mutually support for each other.

Local governments that are required to create such "Regional Circular and Symbiotic Spheres" have formulated a basic environmental plan, aiming to simultaneously solve environmental, social and economic issues in regions in harmony with the circumstances of respective organizations. Local governments also have formulated plans for global warming measures and climate change adaptation as necessary and promoted to take measure to migrate and adopt climate change based on the specific environmental issues in respective regions. Prefectures and municipalities work together to formulate/promote these plans, taking the situation of each local government into consideration.

Local governments collaboratively work with external institutions; for instance, collaboration is made between MIC and JLGBA.

Ministry of Internal Affairs and Communications (hereinafter referred to as "MIC") has provided local governments with information on issuance of green bonds since FY 2017 when the Tokyo Metropolitan Government issued a green bond as a local government for the first time in collaboration with JLGBA. In recent years, MIC is considering issuing green bonds utilizing the joint bond framework in order for local governments to stably finance proceeds to meet the investors' need in light of the growing need for ESG investments in the domestic markets or the expansion of issuance of green bonds by individual local governments. MIC contributes to solving issues, such as ensuring issuance lots (a financing amount that is enough to issue green bonds) or labor-saving of local governments.

JLGBA that is supporting to formulate green bond frameworks has established a working group in the "Research and Study Committee on Local Bonds" as the Secretariat to organize challenges when issuing green bonds and to investigate/consider concrete measures in order to promote issuing, including jointly issued green bonds. JLGBA provides local governments that issue joint local government green bonds with the knowledge obtained through the Research and Study Committee on Local Bonds.

Consequently, JCR has evaluated that the local governments regard issues on sustainability as significant challenges and are considering policies/initiatives on sustainability by widely incorporating the knowledge of outside experts.

Review Results (Conclusion)

JCR has confirmed that the details of this Framework, including the changes, are expected to have significant environmental benefits in the green projects for which the proceeds will be used. This framework has also met the criteria for the items required in the Green Bond Principles, Green Loan Principles, Green Bond Guidelines and Green Loan Guidelines.

| | | Management, Operation and Transparency Evaluation | | | | |
|------------------|-------|---|------------|------------|------------|------------|
| | | m1(F) | m2(F) | m3(F) | m4(F) | m5(F) |
| Green Evaluation | g1(F) | Green 1(F) | Green 2(F) | Green 3(F) | Green 4(F) | Green 5(F) |
| | g2(F) | Green 2(F) | Green 2(F) | Green 3(F) | Green 4(F) | Green 5(F) |
| | g3(F) | Green 3(F) | Green 3(F) | Green 4(F) | Green 5(F) | N/A |
| | g4(F) | Green 4(F) | Green 4(F) | Green 5(F) | N/A | N/A |
| | g5(F) | Green 5(F) | Green 5(F) | N/A | N/A | N/A |

(Responsible analysts for this evaluation) Rieko Kikuchi, Takuto Touda

Important Explanation on this Evaluation

1. Assumptions, Significance and Limitations of JCR Green Finance Framework Evaluation

JCR Green Finance Framework Evaluation, which is granted and assigned by Japan Credit Rating Agency, Ltd. (hereinafter referred to as "JCR") is a comprehensive statement of JCR's current opinion on the alignment with green projects as defined by JCR and the extent of the initiatives to ensure management, operations and transparency on the use of proceeds with policies set forth by the Green Finance Framework as the target evaluation. Therefore, it is not intended to evaluate the specific environmental benefits, management/operation systems and transparency of individual bonds or borrowings to be executed based on these policies concerned. In cases where a green finance evaluation is granted or assigned to an individual bond or borrowing based on the said framework, a separate evaluation is required. JCR Green Finance Framework Evaluation neither proves environmental benefits from the individual bond or borrowing executed based on the framework concerned nor does it assume responsibility for any environment benefits. JCR, in principle, will not directly measure environmental benefits of proceeds financed through the Green Finance Framework although JCR will confirm the items measured quantitatively and qualitatively by the issuer and/or borrower (hereinafter an issuer and borrower are collectively referred to as "a fundraiser") or a third party requested by the fundraiser. Green Equity may also be included in the evaluation only if all assets, in case of investment JCR corporations, fall under green projects.

2. Methodology Used in this Evaluation

The methodology used to make this evaluation is posted as "JCR Green Finance Evaluation Methodology" in the "Sustainable Finance/ESGs" section on the JCR's website at <https://www.jcr.co.jp/en/>.

3. Relation with Conduct of Credit Rating Activities

The conduct of assigning and providing JCR Green Finance Framework Evaluation is performed by JCR as its related business and is different from the conduct of credit rating activities.

4. Relation with Credit Rating

This evaluation is different from a credit rating and is not committed to providing a predetermined credit rating or making available for inspection.

5. Impartiality in Evaluating JCR Green Finance Framework

There are neither capital ties nor personnel relationships that could create a conflict of interest between this evaluation and JCR.

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■Terminology

JCR Green Finance Framework Evaluation: The assessment of the extent to which proceeds financed based on the Green Finance Framework are allocated to green projects as defined by JCR and of the degree of management, operation and transparency on the use of proceeds for the said Green Finance. The evaluation is made on a scale of five in the order from top to bottom with evaluation symbols of Green 1 (F), Green 2 (F), Green 3 (F), Green 4 (F) and Green 5 (F).

■Status of Registration as an External Evaluator of Sustainability Finance

- Ministry of the Environment: Registered as an external reviewer for Green Finance
- ICMA (observer registration as an external evaluator with the International Capital Markets Association)
- UNEP FI Positive Impact Financial Principles Working Group Member
- Climate Bonds Initiative Approved Verifier

■Other Registration Status as Credit Rating Agency

- Credit Rating Agency: the Commissioner of Financial Services Agency (Credit Rating) No. 1
- EU Certified Credit Rating Agency
- NRSRO: JCR has registered with the following four of the five credit rating classes of Nationally Recognized Statistical Rating Organization ("NRSRO") as defined by the U.S. Securities and Exchange Commission: (1) financial institutions, broker/dealers, (2) insurance companies, (3) general business corporations and (4) government and local governments. In cases where disclosure is required based on Rule 17g-7(a) of the Securities and Exchange Act, such disclosure is attached to News Release posted on the JCR's home page at <https://www.jcr.co.jp/en/>.

■For all other inquiries, please contact us below

TEL: 03-3544-7013 FAX: 03-3544-7026

Information Service Department

Japan Credit Rating Agency, Ltd.

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026