

————— Green Loan Evaluation by Japan Credit Rating Agency, Ltd. —————

Japan Credit Rating Agency, Ltd. (JCR) publishes the results of its Green Loan Evaluation as follows.

JCR Assigned Green 1 to Long-term Loan borrowed by Japan Excellent, Inc.

Subject	:	Long-term loan borrowed by Japan Excellent, Inc.
Type	:	Long-term Loan (Green Loan 1)
Lender	:	Mizuho Bank
Borrowing amount	:	JPY 2 billion
Interest rate	:	Benchmark rate +0.20%
Date of the loan agreement	:	August 24, 2018
Date of Disbursement	:	September 28, 2018
Repayment date	:	September 30, 2020
Repayment method	:	Lump-sum repayment on the due date
Use of proceeds	:	Refinancing of funds borrowed at the time of acquisition of green eligible assets

<Green Loan Evaluation Results>

Overall evaluation	Green 1
Evaluation of Greenness (use of proceeds)	g1
Evaluation on Management, Operation and Transparency	m1

Chapter 1: Evaluation Overview

Japan Excellent, Inc. (JEI) was established in February 2006 under the Investment Trust Act and listed on the Tokyo Stock Exchange Real Estate Investment Trust Market (J-REIT Market) in February 2006. The asset management operation is conducted by Japan Excellent Asset Management Co., Ltd. (JEAM). JEAM sponsors include Nippon Steel Kowa Real Estate Co., Ltd., Daiichi Life Insurance Co., Ltd., as well as Daiichi Building Co. Ltd., Sohgo Housing Co. Ltd., Mizuho Bank, Ltd., and Mizuho Trust & Banking Co., Ltd., which provide diverse

support in property acquisition, PM, financial affairs, and human resources. JEI mainly invests in office buildings in metropolitan areas, mainly in the six central wards of Tokyo.

JCR evaluates JEI's long-term loan to be borrowed from Mizuho Bank. JCR shall assess whether the borrowings are in line with Principles established by Loan Market Association and Asia Pacific Loan Market Association in March 2018.¹

JEI defines green eligible assets as three stars or more certified by the DBJ Green Building and B+ or more rated by the CASBEE Real Estate Evaluation Certificate. As Akasaka Intercity AIR (hereinafter referred to as the "Property") which is subject to refinancing through this long-term borrowing has obtained five stars of DBJ Green Building certification, JCR confirmed that it is a "green eligible asset" as defined in JEI's Green Bond Framework. In addition to DBJ Green Building certification, which is a condition of the eligible criteria, this property has been certified by a third party as a highly energy-efficient building, such as AAA-certified by the Tokyo Metropolitan Government. In addition, it has achieved a greening rate of more than 50% and has been working to create a valuable greenery space in the city center. It has also been certified by the SEGES City Oasis, which is awarded to properties that are superior in terms of social and environmental considerations.

The JEAM has confirmed that there are no particular social and environmental problems when acquiring assets and that there is no possibility that the property will have a negative impact on the environment that exceeds the effects of environmental improvements. From the above, JCR evaluates that the use of proceeds subject to this evaluation has a high environmental improvement effect, such as reduction of CO2 emissions and reduction of water use.

With regard to the management and operation system, it was confirmed that it has solid internal controls structure. For example, the selection and implementation of green eligible assets for funding is decided by the Sustainability Committee, which includes the management team as a member, and the management of the proceeds is subject to external and internal audits. JEI has already formulated and disclosed its Green Bond Framework to ensure high transparency in green finance.

As a result, JCR's Green Loan Evaluation Method has been used to JCR evaluates the long-term borrowings for "g1" in the Green Evaluation (use of funds) and "m1" in the Management/Operation System and Transparency Evaluation, resulting in "Green1" in the Comprehensive Evaluation, according to JCR's Green Finance Evaluation Methodology. Detailed evaluation results are discussed in detail in the next chapter. The loan also satisfies the criteria for the items required under the Green Loan Principles.

Chapter 2: Current Status of the project on each evaluation factor and JCR's evaluations

Evaluation Phase 1: Greenness Evaluation

JCR assigns "g1", the highest grade, to "Evaluation phase 1: Greenness Evaluation".

Rationale: 100% use of proceeds of this borrowing is allocated to green projects, considering the factors described below.

(1) JCR's key consideration in this factor

In this section, we first assesses whether the funding money will be allocated to green projects that have explicit improvement effects on environment. Next, JCR assesses whether an internal department/division which is exclusively in charge of environment issues or a third party agency prove it sufficiently and have taken

¹ LMA (Loan Market Association/Asia Pacific Loan Market Association)

necessarily workaround or mitigation measures, in case of possibility on use of proceeds have negative impact on the environment. Finally, it confirms consistency with the Sustainable Development Goals (SDGs).

(2) Current status of the project on each evaluation factor and JCR's evaluation.

<Overview of the Use of Proceeds>

The outline of the construction of the Akasaka Intercity AIR, which will be used to finance this loan, is as follows.

Building name	Akasaka Intercity AIR
Location	Part of 1-5, Akasaka, Minato-ku, Tokyo, 6, 8, and 9
Principal uses	Offices, apartments, conference facilities, stores, etc.
Site area	16,088.32 m ²
Total floor area	178,328.01 m ²
Maximum height of building	205.08m (TP+214.23m)
Structure	Steel-framed reinforced concrete structures
Damper	Unbonded braces, tunable viscous mass dampers, and viscous damping devices with amplification mechanisms ²³⁴
Date of completion	August 2017

The subject buildings have the following social and environmental significance.

1. It is located within the Asian Head Quarter Special Zone in the International Strategic Comprehensive Special Zone and within the Tokyo Metropolitan/Waterfront Area (around Shinbashi, Akasaka, and Roppongi in the Circular Route 2) in the Specific Urban Reconstruction Emergency Development Area, and is part of the development of urban functions to enhance international competitiveness.
2. Three types of vibration control devices, including the world's first technology, have been installed to secure advanced disaster prevention systems and evacuation areas.
3. By securing a green area ratio of more than 50%, efforts are being made toward greening cities and conserving biodiversity (certified in SEGES's Urban Oasis Division), and the development of green roads that are integrated with surrounding blocks to provide open spaces to the community.
4. Reduction of environmental burden through the area-wide use of energy in the Roppongi Ark Hills district heating (DHC) area and the energy-saving effects of the energy-saving air conditioning system using medium-temperature cooled water in connection with DHC.

a. On the environmental improvement effects of the project

2 The unbonded brace is a brace in which the core steel material is restrained with steel pipes and concrete, and is stabilized without buckling. A special cushioning material (unbonded material) is used between the center steel material and the concrete, so that axial forces are not applied to the steel pipe and the concrete. With this combination, both tension and compression can be used as dampers and earthquake-resistant members with stable historical characteristics of the same properties.

3 A tuning viscous mass damper is a viscous mass damper with a rotational amplifier mechanism. A tuned vibration system is constructed by connecting [1] to a structure by a flexible support member, and is developed with the aim of reducing the response more efficiently than the conventional damper.

4 A viscous damping device with an amplifier mechanism is a damping device that uses a ball screw, which is widely used as an industrial machine, to convert and amplify the expansion and contraction of the device axial direction generated by the deformation of the building into a rotating motion and absorb energy by the resistance of the viscous fluid filled in the rotating part. Because of the amplification mechanism inside the device, it has a large effect even if it is small.

i. 100% of the proceeds are allocated to refinance part of the cost of acquiring Akasaka Intercity AIR, which has high environmental performance, and it has high environmental improvement effect.

JEI defines green eligible assets as follows.

"Eligible Green Assets" refers to the specified assets held by JEI that have acquired or are scheduled to be acquired the green building certifications within the past two years on the payment date of each green bond (or the execution date of a green loan).

1. DBJ Green Building certification: 5-star, 4-star, or 3-star evaluations
2. CASBEE Real Estate Appraisal Certification: Evaluation of rank S, rank A, or rank B+

With regard to the Akasaka Intercity AIR, where the proceeds will be allocated from this loan, JEI acquired five stars, the highest ranking in the DBJ Green Building that meets the definition of green eligible assets. The following three points were evaluated in acquiring certification.

(Source: JEI website disclosure information)

<p>Items which was highly evaluated about Akasaka Intercity AIR, when acquiring the certification.</p> <ol style="list-style-type: none"> (1) Efforts to conserve energy and resources, such as solar radiation shielding by vertical louvers, natural wind catch type ventilation, air conditioning systems using medium-temperature cooled water, rainwater and raw water reuse, and photovoltaic power generation and waste heat from cogeneration systems (2) In addition to the latest office environment, the facilities supporting office workers, visitors, and local residents, such as office lounges, conference spaces, day care facilities, clinics, and large-scale greenery, are also enriched. (3) Excellent BCP measures, such as the dual-fuel emergency generator using medium-pressure gas and heavy oil to supply power for up to 200 hours and the use of a strong seismic damping method

In particular, JCR has evaluated that the energy and resource conservation efforts in item (1) contributes significantly to environmental improvement. The PAL reduction rate, which is an index for evaluating the energy efficiency performance related to the heat insulation performance, such as building plans and exterior design (thickness of insulation material and glass specifications), and the ERR, which is an index for the reduction rate of energy use for the entire facility system, all have energy efficiency performance that meets the highest standard (AAA of Tokyo Metropolitan Government Energy Efficiency Standard). In addition, improvements in energy efficiency through the installation of photovoltaic power generation facilities and the utilization of waste heat from cogeneration systems are also equipment that supports the high environmental performance of the building.

Based on the above, JCR has evaluated that the environmental improvement effects of the target assets are high.

ii. The use of proceeds falls under the category of "green buildings which meet regional, national or internationally recognized standards or certifications" among the eligible Green Project Categories of the LMA Green Loan Principles.

b. Negative impact on the environment

When acquiring new assets, JEI conducts preliminary reviews on the negative impact on the social/environmental aspects and whether there are any disputes with local residents. JCR confirmed at a hearing with JEI that there are no such social and environmental issues in this case.

(Reference)

i. DBJ Green Building Certification System

A certification system provided by DBJ (Development Bank of Japan) that evaluates properties with environmental and social considerations. The evaluation results are expressed as the number of stars, and the evaluation axis is "Buildings with consideration for the environment and society." Each is represented by five stars (the best class in Japan), four stars (exceptionally high), three stars (excellent), two stars (high), and one star (satisfactory). Although it is not an environmental performance-specific evaluation, it is highly recognized in Japan and has a certain evaluation item regarding environmental performance. Therefore, JCR has evaluated this certification as equivalent to "regional, national or internationally recognized standards and certified green buildings" in the category of green projects as defined in the GBP and the guidelines. However, since the certification is not limited to environmental performance, JCR believes that it is desirable to confirm the evaluation of environmental performance individually.

ii. CASBEE (Comprehensive Assessment System for Build Environment Efficiency)

This is the rating methodology to evaluate the buildings' environmental performance. Total environmental evaluation research committee was established in April 2011 as a project in cooperation with government, academic and industry supported by Ministry of Land, Infrastructure and Transport. The evaluation results are provided in five ranks; S rank (Excellent), A rank (very good), B+ rank (good), B- rank (slightly poor) and C rank (poor).

c. Alignment with SDGs goals and target

This project is classified as "regional, national or internationally recognized standards and certified green buildings". JCR evaluated the project to contribute to the following SDGs objectives and targets, while referring to ICMA's SDG mapping.



Goal 7: Ensure access to affordable, reliable, sustainable, and modern energy for all.

Target 7.3. By 2030, double the global rate of improvement in energy efficiency.



Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

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



Goal 11: Make cities and human settlements inclusive, safe, resilient and sustainable.

Target 11.6. By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management.

Evaluation Phase 2: Evaluation on Management, Operation and Transparency

JCR assigns “m1”, the highest rating on JCR evaluation Phase 2: Evaluation on Management and Operation and Transparency.

Rationale: These projects have allocated the funding and implemented the businesses as planned through a firmly equipped management and operation system and high transparency as described below.

1. Appropriateness and Transparency concerning selection standard and processes of the use of proceeds

(1) JCR’s key consideration in this factor

This section confirms that the objectives to be achieved through the green loan, the criteria for selecting green projects, the appropriateness of the process, and the series of processes are appropriately disclosed to investors.

(2) Current status of the project on each evaluation factor and JCR’s evaluation.

a. Goal

In its sustainability policy, JEI and JEAM recognize the importance of environmental, social, and governance considerations in the real estate investment management business, and strive to reduce environmental impact and collaborate with stakeholders with the aim of realizing a sustainable society as a corporate social responsibility. Of these, environmental policies are as follows.

1. Reduction of environmental burden

(1) Energy saving and reduction of CO2 emissions

JEI will contribute to energy-saving and reduction of CO2 emissions by improving operations to increase energy efficiency, promoting introduction of energy-saving equipment, etc. at properties it operates.

(2) Effective utilization of resources

JEI will work to contribute to the realization of recycling-oriented society through initiatives for saving water and promotion of the 3Rs (reduce, reuse, recycle) for reducing waste.

Specific environmental targets are to reduce energy consumption intensity by an average annual rate of 1% over the medium to long term. In addition, in terms of the environmental performance of owned properties, since 2015, the company has been disclosing the total annual volume of electricity consumption, gas consumption, water consumption, CO2 emissions, and waste. These efforts shows JEI's strong commitment to environmental issues.

b. Selection criteria

JEI's criteria for selecting green eligible assets refer to the specified assets held by the relevant investment corporation that have acquired or are expected to acquire any of the following certification within the past two years from the date of the borrowing.

- i. DBJ Green Building certification at 5 stars, 4 stars, or 3 stars or more
- ii. CASBEE (Comprehensive Assessment System for Built Environment Efficiency) of rank S, rank A, or rank B+

These standards have already been disclosed on the JEI's website as part of the Green Bond Framework, and JCR has confirmed that the same selection criteria will be applied to green loans' use of proceeds. This building is a green eligible asset that has been selected by the Sustainability Council for the use of outstanding green bonds.

c. Process

JEAM has clearly defined the department in charge of green loans with the Finance and Accounting Department and the Planning Department for ESG/Sustainability initiatives with the Corporate Planning Department. In addition, the Financial Accounting Department shall propose and resolve the selection of green eligible assets to be eligible for the sustainability council, which consists of JEI president, all directors, all general managers, and chief compliance officers. At the Sustainability Council, the evaluation and selection of green eligible assets are carried out appropriately, taking into account the selection criteria of the framework and the status of various environmental certifications. We also confirmed that due diligence was conducted based on engineering reports and on-site inspections at the time of acquisition to determine whether there was a negative impact on the environment.

JCR has assessed that the division of roles within the JEAM is clear and that green eligible assets have been selected based on clear management commitments.

JEI's sustainability targets, criteria for selecting green eligible assets, and processes have already been disclosed in the Green Bond Framework to ensure transparency to investors.

2. Appropriateness and Transparency of Management of the proceeds

(1) JCR's key considerations

The management method of the procured funds is usually assumed to be diverse by the borrower. JCR assesses whether the proceeds firmly allocated to the green project, the project have internal systems to easily track the allocation of the proceeds and the money funded by the loan will be allocated to the green project at once. JCR also considers the evaluation of asset management of unallocated money.

It also attaches importance to evaluating the management and operation of the unallocated funds, as well as to confirming that the funds procured from the loan will be allocated to the green projects at an early stage.

(2) Current status of the project on each evaluation factor and JCR's evaluation.

- a. The full amount of the long-term borrowings subject to this evaluation will be used for the partial refinancing of the Akasaka Intercity AIR acquisition, and there is no plan to use this amount for any other purpose.
- b. JCR confirms that the use, date, and balance of funds procured through the current borrowing will be managed via electronic media such as Excel files by the department in charge of the Company. JCR has confirmed that long-term borrowings can be allocated to refinance "green-eligible assets" as soon as they are procured, and that it is sufficient to tracking management at the time of collective allocation. In addition, the Board of Directors of JEAM, an asset management company entrusted with the management of JEIs, a borrower, makes decisions on the execution of borrowings based on the final decision of the executive officer in charge, after the resolutions adopted by the investing committee of JEI. As such, appropriate internal procedures are ensured.
- c. JEI has been audited by accounting auditors in general and conducts regular internal audits. The management of this loan is also subject to these audits. From the above, JCR has evaluated that the internal control system has been sufficiently established.
- d. This green loan will be used for part of the refinancing of the Akasaka Intercity AIR immediately after the borrowing is executed, so there will be no unallocated funds.

JCR has confirmed that the current borrowings are securely allocated to the refinancing of Green Building, that the account management is appropriately managed internally, that the internal management system is in place, and that there is no possibility of asset replacement until the repayment period. Therefore, JCR has evaluated that the cash management is appropriate.

3. Reporting

(1) JCR's key considerations

This section evaluates whether the disclosure system for investors before and after JCR borrowing is planned in a detailed and effective manner at the time of green loan borrowing.

(2) Current status of the project on each evaluation factor and JCR's evaluation.

a. Reporting about the proceeds allocations

As confirmed in the previous section, the funds procured from the green loan is immediately allocated for the refinancing of "Green-Qualified Assets," and therefore, it is not currently assumed that the reports on the unappropriated funds will be made during the period. It was also confirmed that the possibility of a replacement of the target assets until the repayment date is not at the present stage.

b. Impact reporting for environmental benefits

As the environmental improvement effect covers the same green qualifying assets as the green bond, the following disclosures of the indicators for the total green qualifying assets will include the buildings for which the current borrowing will be made.

- Evaluation of the Number of Properties Eligible for Green Assets and Certification
- Total rentable area of green eligible assets
- Quantitative indices of "electricity consumption," "water consumption," and "CO2 emissions" related to green eligible assets (limited to the extent that JEI has the authority to manage their energy)

Considering that the category of this JCR project is "Green Building that has obtained environmental certification," we believe it is most important to continue disclosing the "Evaluation of Certification." In addition, it is reasonable to use the disclosure of quantitative indicators for individual properties as a whole for the purpose of consistency with the framework. This is because it is difficult to disclose quantitative indicators for individual properties, in view of the fact that the target assets are jointly owned properties, and because the Green Bond Framework presupposes the management of green eligible assets as a portfolio as a whole. Therefore, it is rational to use the disclosure of quantitative indicators for all green eligible assets as a whole from the viewpoint of consistency with the framework.

4. Efforts taken by the organization

(1) JCR's key considerations

This section evaluates whether the borrower's management positions environmental issues as a high-priority management issue, and whether the JEI's green loan borrowing policy, process and the criteria for selecting green projects are clearly defined through the establishment of a department specializing in the environmental field or through the assistance of external organizations.

(2) Current status of the project on each evaluation factor and JCR's evaluation.

JEI, JEAM Sustainability and ESG-related Initiatives

JEI and JEAM recognize the importance of environmental, social, and governance (ESG) considerations in the real estate investment management business, and have formulated a sustainability policy aimed at realizing a sustainable society as a corporate social responsibility, and are working to reduce environmental burden and collaborate with stakeholders. JEI's approach to ESGs as a whole has been highly appreciated, including receiving the GRESB's highest five-star rating⁵ for two consecutive years. In particular, in the area of the environment, we are actively working to reduce environmental impact by setting energy consumption targets and increasing the share of properties that have acquired green building certification. As a result, the ratio of properties that have acquired three or more stars of DBJ Green Building Certification, including this building, to the total portfolio has reached a high level of 61%. JCR highly evaluates such efforts of the organization.

In addition, as described in detail in Chapter 2, 1. (2) c., departments specializing in environmental and ESG areas have been clarified. JCR also evaluates that the Green Bond Framework has received a second opinion from an external reviewer, and that funding policies, processes, and criteria for selecting green eligible assets are clearly positioned within the organization.

■ Assessment result

Based on JCR Green Loan Evaluation Method, the target long-term borrowings were "g1" in the Green Evaluation (fund use) and "m1" in the Management/Operation System and Transparency Evaluation, and the "Comprehensive Evaluation" was "Green1." This loan is considered to meet the criteria for items in Green Loan Principle and MOE's Green Bond Guidelines.

【JCR Green Bond Evaluation Matrix】

		Management, operation, and transparency assessment				
		m1	m2	m3	m4	m5
Greenness evaluation	g1	Green 1	Green 2	Green 3	Green 4	Green 5
	g2	Green 2	Green 2	Green 3	Green 4	Green 5
	g3	Green 3	Green 3	Green 4	Green 5	Not qualified
	g4	Green 4	Green 4	Green 5	Not qualified	Not qualified
	g5	Green 5	Green 5	Not qualified	Not qualified	Not qualified

⁵ Global Real Estate Sustainability Benchmark is a benchmark which measures sustainability consideration of real estate companies or asset management companies, established by European pension fund group. U.S., European and Asian major institutional investors refer this benchmark for investment decision. "GRESB Rating" is a rating determined by the global ranking of the total score. "Five Star" of this rating will be provided only to the highest 20%.

<Evaluation Subject>

Borrower: Japan Excellent, Inc. (Securities Code: 8987)

[New]

Type	amount	Date of Borrowing	Maturity date	Interest rate	Evaluation
Long-term loan (Green Loan 1)	JPY 2 billion	September 28, 2018	September 30, 2020	Base rate +0.20%	JCR Green Loan Evaluation:Green1 Green evaluation :g1 Management, operation, and transparency :m1

GB Analysts in charge of this Evaluation: Atsuko Kajiwara and Rieko Kikuchi

Important explanation of the Green Loan Evaluation

1. Assumptions, Significance, and Limitations of JCR Green Loan Evaluation

JCR Green Loan Evaluation, which is granted and provided by the Japan Credit Rating Agency (JCR), is a comprehensive expression of JCR's current opinion on the extent to which the funds procured from the issuance of green loans, which are subject to evaluation, are allocated to green projects defined by JCR and the extent to which the management, operation, and transparency of the use of green loans are ensured. JCR Green Loan Evaluation does not fully indicate the extent to which the funds procured from such green loans are allocated and the management, operation, and transparency of the use of the funds are ensured.

JCR Green Loan Evaluation assesses the plan or status of the appropriation of funds at the time of the green loan issuance plan or at the time of issuance, and does not guarantee the status of the appropriation of funds in the future. In addition, JCR Green Loan Evaluation does not prove the environmental effects of green loans and is not responsible for their environmental effects. JCR confirms that the effects of the funds procured from the issuance of green loans on the environment are measured quantitatively and qualitatively by the borrower or by a third party requested by the borrower, but in principle it does not directly measure the effects.

2. Methods used in the conduct of this evaluation

The methods used in this evaluation are listed on JCR website (Green Finance ESG in <https://www.jcr.co.jp/greenfinance>) as JCR Green Finance Evaluation Method.

3. Relationship with Acts Related to Credit Rating Business

JCR Green Loan Evaluation is determined and provided by JCR as a related business, which is different from the activities related to the credit rating business.

4. Relationship with Credit Ratings

The Assessment differs from the Credit Rating and does not promise to provide or make available for inspection a predetermined Credit Rating.

5. Third-party character of JCR

There is no conflicts of interest related to capital or human resources relationships between the subject of this evaluation and JCR.

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JCR publishes its press releases regarding the evaluation actions both in Japanese and in English on the same day. In case that it takes time to translate evaluation rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days.

■Glossary

JCR Green Loan Evaluation: JCR Green Loan Evaluation evaluates the extent to which the funds procured from the Green Loan are allocated to the Green Project as defined by JCR, and the extent to which the management, operation, and transparency of the Green Loan are ensured. Evaluations are graded on a scale of 5, beginning with the top, using the Green1, Green2, Green3, Green4, and Green5 symbols.

■Status of registration as an external assessor of green finance

- Ministry of the Environment's external green bond reviewer registration
- ICMA (registered as an observer with the International Capital Markets Association)

■Status of registration as a credit rating agency, etc.

- Credit Rating Agency: the Commissioner of the Financial Services Agency (Rating) No.1
- EU Certified Credit Rating Agency
- NRSRO: JCR has registered with the following four of the five credit rating classes of the Securities and Exchange Commission's NRSRO(Nationally Recognized Statistical Rating Organization. (1)Financial institutions, broker dealers, (2) insurance companies, (3) general business corporations, and (4) government and local governments. If the disclosure is subject to Section 17g-7(a) of the Securities and Exchange Commission Rule, such disclosure is



attached to the news releases posted on JCR website (<http://www.jcr.co.jp/en/>).

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