

JCR Green Finance Framework Evaluation by Japan Credit Rating Agency, Ltd.

Japan Credit Rating Agency, Ltd. (JCR) announces the following Green Finance Framework Evaluation Results.

## JCR Assigns Green 1(F) to the Green Finance Framework of Fukuoka REIT Corporation

Issuer/Borrower : Fukuoka REIT Corporation (security code: 8968)  
Subject : Green Finance Framework of Fukuoka REIT Corporation

### <Green Finance Framework Evaluation Results>

Overall Evaluation	Green 1(F)
Greenness Evaluation (Use of Proceeds)	g1(F)
Management, Operation and Transparency Evaluation	m1(F)

### Chapter 1: Evaluation Overview

Fukuoka REIT Corporation (the Investment Corporation) was established in July 2004 and is a J-REIT listed on the Tokyo Stock Exchange and the Fukuoka Stock Exchange (the real estate investment trust securities market) in June 2005. The Investment Corporation is the first regionally specialized REIT in Japan that invests in the entire Kyushu (including Okinawa Prefecture), centered on Fukuoka, and Yamaguchi Prefecture. It is a comprehensive J-REIT that invests in office buildings, hotels, residences, logistics facilities, etc. with commercial facilities as its core. The asset management business is conducted by Fukuoka Realty Co., Ltd. (the Asset Management Company), which is owned 55% by Fukuoka Jisho Co., Ltd., a developer representing Fukuoka, and is owned by Kyushu Electric Power and other Kyushu-based companies and banks.

As its basic policy, the Investment Corporation aims to be in the best interests of its unitholders by utilizing the information capabilities and know-how of asset management companies that are familiar with individual circumstances in the Kyushu region. The investment target area is 60-90% in the Fukuoka metropolitan area, 10-30% in other Kyushu areas (including Okinawa and Yamaguchi prefectures), and 0-10% in other areas. The investment type is 40-70% in commercial facilities, 20-50% in office buildings, and 0-30% in other areas (hotels, residences, logistics facilities, etc.). As of the end of February 2022, the Investment Corporation had assets of JPY 202.0 billion (on an acquisition price basis) and 32 properties.

The Asset Management Company considers the best interests of the Investment Corporation's medium-to long-term unitholders to be its mission, and in order to achieve this mission, in addition to pursuing profitability, which is its primary goal, the promotion of sustainability through consideration for the environment, society, and governance (ESG) is also indispensable. The Asset Management Company established a sustainability policy in January 2018 as a concrete implementation policy for this concept. In addition, in-house systems to promote the aforementioned policies are being developed, and ESG-related initiatives are being strengthened, such as promoting DBJ Green Building certification, participating in GRESB, and signing the Principles for Responsible Investing (PRIs).

The scope of this evaluation is the Green Finance Framework (the Framework), which is designed to limit the use of proceeds procured by the Investment Corporation through Green Bonds and Green Loans (Green Finance) to those that have environmental improvement effects. JCR assesses whether the Framework complies with the Green Bond Principles<sup>1</sup>, the Green Loan Principles<sup>2</sup>, the Green Bond Guidelines<sup>3</sup> and the Green Loan and Sustainability Linked Loan Guidelines<sup>4</sup>. These principles and others are not binding because they are voluntarily published principles or guidelines and are not regulations by the International Capital Markets Association (ICMA), the Loan Market Association (LMA), the Asia Pacific Loan Market Association (APLMA), the Loan Syndication and Trading Association (LSTA) and the Ministry of the Environment, respectively; however, JCR refers to these principles and guidelines as uniform national and international standards at the present time.

In the Framework, the Investment Corporation uses proceeds to acquire Green Buildings with certification levels above a certain level, and uses them to fund the refinancing of borrowings required to acquire Green Eligible Assets or to fund the redemption of Investment Corporation Bonds. The eligible criteria for green building are defined as properties that have acquired or will be acquired three stars and more in DBJ Green Building certification, B+ rating and higher in CASBEE Real Estate Certification, or three stars and more in BELS. JCR evaluates that the definition of eligible criteria established by the Investment Corporation covers buildings with environmental improvement effects.

In addition, in the project selection process, decisions are made by the management team, including directors, in determining eligible criteria and selecting "Green Eligible Assets" to be subject to the project. In addition, items related to remittance instructions are subject to internal voluntary and external audits, and audits are conducted. JCR confirmed a robust management and operation system and high transparency with respect to the Investment Corporation.

Based on its JCR Green Finance Evaluation Methodology, JCR assigned "g1 (F)" for "Greenness Evaluation (Use of Proceeds)" and "m1 (F)" for "Management, Operation and Transparency Evaluation." As a result, JCR assigned "Green1 (F)" for the overall "JCR Green Finance Framework Evaluation".

The Framework meets the standards for the items required in the Green Bond Principles, the Green Loan Principles and the Ministry of the Environment's Green Bond Guidelines and the Green Loan and Sustainability Linked Loan Guidelines.

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<sup>1</sup> ICMA (International Capital Market Association) Green Bond Principles 2021 Version  
<https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

<sup>2</sup> LMA (Loan Market Association), APLMA (Asia Pacific Loan Market Association), Loan Syndications and Trading Association (LSTA) Green Loan Principles 2021  
<https://www.lma.eu.com/>

<sup>3</sup> Ministry of the Environment's Green Bond Guidelines 2020  
<https://www.env.go.jp/press/files/jp/113511.pdf>

<sup>4</sup> Ministry of the Environment's Green Loan and Sustainability Link Loan Guidelines 2020  
<https://www.env.go.jp/press/files/jp/113511.pdf> (pp.48-89)

## Chapter 2: Current Status of the Project on Each Evaluation Factor and JCR's Evaluation

### Evaluation Phase 1: Greenness Evaluation

Based on the current status described below and JCR's evaluation of the subject, JCR evaluated that the use of proceeds was 100% for green projects and assigned the highest rank of "g1(F)" for Phase 1: Greenness Evaluation.

### (1) JCR's Key Consideration in This Factor

In this section, JCR first confirms whether the proceeds set out in the Framework is used for green projects that have clear environmental improvement effects. Next, in cases where the use of proceeds is expected to have a negative impact on the environment, JCR confirms whether the impact is fully examined by an internal specialist department or an external third party and whether necessary measures have been taken for its avoidance and mitigation. Finally, JCR confirms the consistency with the Sustainable Development Goals (SDGs).

### (2) Current Status of Evaluation Targets and JCR's Evaluation

<The Framework for Use of Proceeds>

#### Eligibility criteria to be invested in Green Finance

Funds procured through green finance will be used to fund the acquisition of assets that meet the following eligible criteria (green eligible assets), or to refinance loans required to acquire green eligible assets or to fund the redemption of investment corporation bonds.

[Eligibility Criteria]

At the time of procurement and reporting of Green Finance, any of the certifications of the third-party certifying organizations listed in i-iii below have been acquired or are scheduled to be acquired in the future shall be Green Qualified Assets.

- i. 5-star, 4-star or 3-star ratings in DBJ Green Building certification
- ii. S, A or B+ in CASBEE real estate appraisal certification
- iii. 5-star, 4-star, or 3-star BELS

### (3) JCR's Evaluation for the Framework

#### a. Environmental Improvement Effects of the Project

- i. **The use of proceeds is the acquisition or refinancing of buildings (green buildings) that have already or are scheduled to acquire regional, national or internationally recognized certifications at the certification level up to the top three categories, and high environmental improvement effects are expected.**

#### **DBJ Green Building certification**

Certification system provided by DBJ (Development Bank of Japan) to evaluate real estate 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". It evaluates three major categories: "Ecology (environmental)," "Amenity (comfort)," "Risk Management (crime prevention and disaster prevention)," "Community (regional and landscape)" and "Partnership (stakeholder collaboration)." Each is represented by five stars (one of the highest domestic excellence), four stars (extremely excellent), three stars (very excellent), two stars (excellent), and one star (sufficient). Although this is not an evaluation specializing in environmental performance, it is highly recognized in Japan, and it also has certain evaluation items regarding environmental performance. As a result, JCR also evaluates this certification as equivalent to "standards and certifications recognized regionally, nationally or internationally" in the green project classification defined in the Green Bond Principles. However, since the certification is not limited to the environmental performance, it is considered desirable to confirm the evaluation for the environmental performance individually.

DBJ Green Building certification is based not only on the environmental performance of the property being evaluated, but also on a comprehensive assessment that includes the comfort of tenant users, risk management such as disaster prevention and crime prevention, consideration for the surrounding environment and community, and cooperation with stakeholders. There are many properties in the real estate market that do not reach the target of evaluation, and the scoring design is based on the aggregation of specific "excellent initiatives" for the environment and society. In order to be highly evaluated, it is necessary to be a building that is appropriately considered not only for the environment, but also for all stakeholders related to buildings.

The level of DBJ Green Building certification is assumed to be the top 20% of all domestic income-producing properties in "Environmental and Social Considerations." In addition, each evaluation up to three stars covers an aggregate of the top 10% (five stars), the top 30% (four stars) and the top 60% (three stars) of properties that exceed the certification level. Accordingly, JCR evaluates that the use of proceeds by the Investment Corporation is narrowed down to properties with high environmental performance among buildings aiming to acquire certification.<sup>5</sup>

### **CASBEE (Comprehensive Building Environmental Performance Assessment System)**

CASBEE is the acronym for the English name (Comprehensive Assessment System for Built Environment Efficiency) of the Building Environmental Comprehensive Performance Assessment System. It is a method for evaluating and rating the environmental performance of buildings. In April 2001, with the support of the Housing Bureau of the Ministry of Land, Infrastructure, Transport and Tourism, the Comprehensive Environmental Evaluation Research Committee for Buildings was established as a joint project between industry, government, and academia, and since then development and maintenance have been continuously conducted. Evaluation tools include CASBEE-buildings and CASBEE-districts, as well as CASBEE-properties developed with the purpose of showing environmental performance in an easy-to-understand manner for the real estate market.

CASBEE is evaluated by the value of BEE (eco-efficiency of buildings) with L as the denominator and Q as the numerator, reconfiguring from the viewpoint of environmental quality of buildings (Q = Quality) and environmental impact of buildings (L = Load) on the evaluation items in the four fields of energy consumption, resource circulation, regional environment, and indoor environment. The assessment results are divided into five grades: S rank (excellent), A rank (excellent), B+ rank (good), B-rank (slightly inferior), and C-rank (inferior). CASBEE-real estate is classified into four grades: S rank (excellent), A rank (excellent), B+ rank (good), and B rank (satisfying essential items). In order to obtain a high evaluation, in addition to environmental considerations such as energy saving and the use of materials and equipment with low environmental impact,

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<sup>5</sup> Revision and Release of DBJ Green Building Certification Assessment Items (February 2019 DBJ Green Building Certification Website)

consideration of indoor comfort and landscape, etc. are also required, and the overall quality of buildings is required to be high.

Buildings with BEE of at least B+, which the Investment Corporation has defined as qualifying criteria, have BEE of at least 1.0 for CASBEE-buildings, which clearly outweighs environmental impact. In CASBEE-real estate, although the criteria for measurement are not BEE, they are equivalent to B+ for conventional CASBEE-buildings, etc. JCR evaluated as having an environmental improvement effect.

### **BELS (Energy Conservation Performance Indication System for Buildings)**

BELS is the acronym for the English name (Building-Housing Energy-efficiency Labeling System) of the building energy conservation performance labeling system. It is a system in which energy conservation performance is evaluated and certified by a third-party evaluation organization for new and existing buildings. External performance and primary energy consumption are subject to evaluation, and for high evaluation, it is required to have excellent energy-saving performance. The rating is expressed as the number of stars and ranked from one to five according to BEIs (Building Energy Index). BEI is a measure of energy conservation performance relative to the standard value, with the design primary energy consumption as the numerator and the standard primary energy consumption as the denominator. One star satisfies the existing energy saving standards, two stars satisfy the energy saving standards, and three stars satisfy the guidance standards.

Buildings with three stars or more in BELS eligible by the Investment Corporation will have energy-saving performance (non-residential: BEI value 0.8 or less) above the guidance standard, which JCR considers is appropriate as a use of proceeds.

- ii. **The use of proceeds falls under the "Green Building Project" and "Energy Conservation Project" among the uses of funds exemplified in the "Green Bond Principles" and "Green Loan Principles" and "Green Building Standards and Certification Green Building" and "Green Bond Guidelines" and "Green Loan and Sustainability Link Loan Guidelines" in the "Green Loan Principles."**<sup>6</sup>

In the Sixth Energy Basic Plan approved by the Cabinet in October 2021, it was mentioned that revision of the Building Energy Conservation Law, raising of guidance standards and housing top runner standards, and the implementation of a step-by-step increase in the level of energy conservation standards were implemented in order to "aim to ensure the level of energy conservation performance of the ZEH and ZEB standards for new houses and buildings to be constructed in and after fiscal 2030." In addition, in the "Green Growth Strategy Associated with Carbon Neutral 2050" announced in December 2020, the growth strategy schedule for the housing and building industries is to promote energy-saving renovations and expand the popularization of ZEB and ZEH in order to achieve the above goals for 2030. Since this, investment and financing for green building has a high environmental improvement effect. Therefore, it is consistent with the Government's energy conservation policy that the Investment Corporation develops and maintains buildings with a high level of environmental certification

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<sup>6</sup> It is defined as "a project to acquire environmental certification that conforms to domestic standards or demonstrates high performance in environmental certification systems, such as CASBEE certification and LEED certification, for new construction or renovation of green buildings, which are broadly compliant with considerations such as water consumption and waste management, in addition to energy-saving performance."

## b. Negative Impacts on the Environment

When acquiring properties, the Asset Management Company cites "deficiencies and defects in properties" and "problems with neighboring residents" as events that are considered to be risks.

The Asset Management Company obtains engineering reports to confirm building diagnostics and environmental risks. In addition, the Asset Management Company uses internally established checklists to check whether there are any problems with the surrounding residents, and conducts property inspections to avoid and mitigation risks.

Based on the above, JCR confirmed that the Investment Corporation appropriately considered the negative impact on the environment through interviews with the Asset Management Company.

## c. Consistency with SDGs

JCR evaluated the use of proceeds set out in the Framework contributes to the following SDGs goals and targets in reference to ICMA's SDGs mapping.



### Goal7 : Affordable and clean energy

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**Target7.3** By 2030, substantially increase the share of renewable energy in the global energy mix



### Goal9 : Industry, innovation and infrastructure

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**Target9.4** 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



### Goal11 : Sustainable cities and communities

**Target11.3** By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries

**Target11.6** 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

## Chapter 3: Current status of the target project and JCR's assessment of the project in each assessment category

### Evaluation Phase 2: Management, Operation and Transparency Evaluation

Based on the current situation described below and JCR's evaluation of the subject, JCR evaluated that the management and operational systems have been well developed, that transparency is very high and that it can be fully expected for the project to be implemented as planned and for the proceeds to be adequately allocated. In Phase 2, JCR evaluated the management, operation and transparency to be the highest level of "m1(F)".

## 1. Appropriateness and Transparency Concerning Selection Standards and Processes for Use of Proceeds

### (1) JCR's Key Consideration in This Factor

In this section, JCR confirms the objectives to be achieved through green financing, the appropriateness of green project selection standards and processes, and whether or not a series of processes are properly disclosed to investors and others.

### (2) Current Status of Evaluation Targets and JCR's Evaluation

#### a. Goals

The Asset Management Company considers the best interests of the Investment Corporation's medium-to long-term unitholders to be its mission, and in order to achieve this mission, in addition to pursuing profitability, which is its primary goal, the promotion of sustainability through consideration for the environment, society, and governance (ESG) is also indispensable. The Asset Management Company established a sustainability policy in January 2018 as a concrete implementation policy for this concept.

#### Fukuoka Realty Sustainability Policy, Inc.

##### 1. Promoting Energy Saving in the Portfolio

We will grasp the energy consumption of the real estate under management and strive to improve its operation in order to reduce it over the medium to long term. We will improve the energy use efficiency of buildings through renovation opportunities for buildings and their facilities, and reduce operating costs while at the same time improving property values and reducing environmental-related risks.

##### 2. Response to Climate Change Risks

We will strive to reduce greenhouse gas emissions from operating real estates through energy conservation efforts and the use of renewable energy, thereby reducing the risk of climate change.

##### 3. Contribution to a recycling-based society

We will ascertain water consumption and waste management conditions at our operating properties, promote water conservation and recycling by improving operations, and strive for efficient use of limited resources. We will consider introducing water-saving equipment and water-reusing equipment, etc. on the opportunity of renovation of buildings.

##### 4. Pursuit of comfort and safety

We will strive to provide healthy and comfortable indoor spaces in our operating real estates to improve tenant satisfaction and property competitiveness.

We will provide safe and secure buildings by promoting disaster prevention and mitigation efforts such as ensuring earthquake resistance and enhancing emergency facilities at operating properties.

### **5. Utilization of Green Building Certification**

We will consider acquiring Green Building certification and other certification in order to visualize the results of environmental and social initiatives in the management real estates and improve the competitiveness of the properties.

### **6. To raise employee awareness**

In order to implement this policy, we will conduct training and education for employees on ESG considerations in real estate investment management to raise their awareness and enhance their expertise.

### **7. Collaboration with tenants and business partners**

In implementing this policy, we will endeavor to build good relationships with each property tenant and build a cooperative system based on the premise that understanding and cooperation from our main business partners, including property management companies, are essential.

### **8. Establish the necessary internal systems**

In order to manage the implementation of the content stipulated in this policy, we will organize an in-house Sustainability Promotion Committee.

Specific targets for each initiative are set and reviewed regularly.

### **9. Understanding and disclosure of environmental and social performance**

We will continuously monitor the status of implementation based on this policy and the results. At the same time, we will use external evaluations and surveys such as GRESB to monitor the status of our ESG efforts. We will disclose ESG data and achievements to investors and other stakeholders in a timely and appropriate manner.

JCR assesses that the implementation of Green Finance based on these sustainability policies is also consistent with the goals of the Investment Corporation.

## **b. Selection criteria**

JCR has assessed that the qualifying criteria in the Framework have environmental improvement effects, as confirmed in Phase 1 of the assessment.

## **c. Processes**

<The Framework for Processes >

### **1. Project selection participants**

Projects to be used for the proceeds are evaluated and selected by the person in charge of the Finance Department of the Investment Corporation for conformance to the qualification criteria.

### **2. Project selection process**

Green Assets are approved by the Board of directors Committee (Sustainability Promotion Committee) consisting of Directors, Executive Officers, General Manager of Operation Department, General Manager of Finance Department, General Manager of Planning Department, and General Manager of Compliance Department in accordance with the Eligibility Criteria.

### **3. Process of selecting qualified criteria**

Eligibility Criteria are approved by the Board of Directors Committee (Sustainability Promotion Committee), which is composed of directors, executive officers, management manager, finance manager, planning manager, and compliance manager.

## <JCR's Evaluation for the Framework>

Projects to be used for Green Finance are reviewed by the Financial Officer of the Investment Corporation for conformance to the Eligibility Criteria and approved based on the Eligibility Criteria by the Board of Directors Committee, which is composed of Directors, Executive Officers and General Managers. Eligibility Criteria are decided by the Board of directors Committee, which is composed of directors, executive officers, and general managers.

The selection criteria and the selection process for projects stipulated in the Framework will be disclosed through the press release of the Investment Corporation or the JCR Green Finance Evaluation report, etc.

Based on this, JCR considered that the Investment Corporation has appropriately established selection criteria and selection processes, and that transparency to investors, etc. is also ensured

## 2. Appropriateness and Transparency of Management of the Proceeds

### (1) JCR's Key Consideration in This Factor

It is usually assumed that the management of the proceeds varies widely depending on issuers/borrowers. JCR confirms whether the proceeds are surely appropriated to the green project and whether a mechanism and internal system are in place to enable easy tracking and management of the appropriation of funds.

JCR also attaches importance to whether the proceeds are scheduled to be used for a green project at an early stage and to the management and operation methods for unallocated funds.

### (2) Current Status of Evaluation Targets and JCR's Evaluation

<The Framework for Management of the Proceeds>

#### 1. Plan for appropriation of funds

Funds raised through green financing will be used to fund the acquisition of green-eligible assets, or to refinance loans required to acquire green-eligible assets, or to fund the redemption of investment corporation bonds, on the procurement date or the next day.

#### 2. Method of linking financing and assets

After funds procured through green finance are deposited into a dedicated account, the person in charge in the Planning Department gives remittance instructions from the deposit account for repayment of loans, etc. at the timing of refinancing of loans, etc. procured for property acquisition. Alternatively, at the timing of the acquisition of the property, the person in charge of the Planning Department will issue a remittance order for the settlement of funds to the settlement account.

In addition, prior approval to the general manager of the Planning Department is required for remittance instructions.

#### 3. How to track and manage financing

After procurement by green finance, it is immediately used for refinancing or green-eligible assets, and therefore tracking management is not required.

<Define of Green Qualified Assets>

Green Eligible Assets are specified assets held by the Investment Corporation that have already or will be certified by a third-party certification organization i-iii below at the time of procurement and reporting of green financing.

- i. 5-star, 4-star or 3-star ratings in DBJ Green Building certification
- ii. S, A or B+ ratings in CASBEE real estate appraisal certification
- iii. 5-star, 4-star, or 3-star BELS

<Define of Green Qualified Liabilities>

The amount of the liability calculated by multiplying the total acquisition price of the Green Qualified Assets by the total assets LTV (Loan To Value) as of the end of the most recent fiscal year shall be Green Qualified Liabilities.

<How to verify that individual financing is feasible>

Make sure that the amount of Green Eligible Debt is the maximum amount of individual Green Finance and that the amount of individual Green Finance is within that maximum amount.

<Frequency of checking the balance of green-eligible assets and green-eligible liabilities>

Confirm Green Eligible Assets and Green Eligible Debt (maximum amount of Green Finance Procurement) at the end of each accounting period.

#### 4. Internal Control over Tracking Management and External Surveys

The procedures described in 2 "Method of Linking Financing and Assets" above for remittance instructions are

subject to internal self-audits and external audits, and necessary third-party checks are conducted.

The fund remittance and other operations are conducted by Mitsubishi UFJ Trust and Banking Corporation, which is the general administrative outsourcer, and it is confirmed that the operations are being conducted according to our instructions.

#### **5. Management method of unallocated funds**

Until the funding is determined to be allocated, the proceeds will be managed in cash or cash equivalents. After the full allocation, if the property subject to the use of proceeds is removed from the scope of the use of proceeds, we confirm that the eligible green debt exceeds the green finance procurement balance.

#### <JCR's Evaluation for the Framework>

Proceeds from Green Finance will be used for green eligible assets or refinancing as soon as possible after procurement, and will not be used for any other purposes.

A framework is in place for obtaining advance approval from the general manager of the Planning Department for fund settlements related to Green Finance. Operations are conducted by an external organization, which is a general administrative outsourcer, and JCR confirmed that operations are being conducted according to the instructions of the Investment Corporation. The procedures for remittance instructions are subject to voluntary audits and external audits, and a mechanism is in place for appropriate control. Materials for timely disclosure, documents for approval and approval, and documents related to contracts that remain in full force and effect are required to be retained permanently, and a system for preserving paper documents and electronic documents is in place.

As the proceeds from Green Finance will be used for the use of proceeds promptly after procurement, as a general rule, there will be no unallocated funds. On the other hand, if, prior to the redemption/repayment of Green Finance, unallocated funds arise due to various circumstances occurring on the properties subject to the use of proceeds, the Investment Corporation plans to apply portfolio management and manage the unallocated funds. Specifically, because green eligible debt is managed to not exceed the Green Finance balance, there would be no unallocated funds under the Framework.

Based on the above, JCR evaluated the appropriateness and transparency of the Investment Corporation's fund management as high.

### 3. Reporting

#### (1) JCR's Key Consideration in This Factor

In this section, JCR evaluates whether the disclosure system for investors before and after the issuance of green finance, which is implemented with reference to the Framework, is planned in detail and in an effective manner.

#### (2) Current Status of Evaluation Targets and JCR's Evaluation

<The Framework for Reporting>

##### 1. Disclosure Status of Appropriation of Funds

Unallocated funds, if any, at the time of procurement of green finance, the plan for appropriation of such unallocated funds.

If assets subject to use of proceeds are sold by the redemption period, whether they will acquire new green buildings and the qualifying green debt exceeds the green financing procurement balance.

<Disclosures on Portfolio Management>

- ① Green Finance Procurement Balance
- ② Total amount of green-eligible assets
- ③ Amount of green-grade debt

##### 2. Impact Reporting Disclosure Methods and Frequency

<Green Bonds>

Scheduled to be disclosed on the Investment Corporation's website at the end of each fiscal year (February and August each year)

<Green Loans>

Scheduled to be reported to the target lender at the end of each fiscal year (February and August each year) by the agent of the loan

##### 3. KPIs (Key Performance Indicator) in Impact Reporting

Number and type of environmental certification of acquisition assets

#### a. Reporting on the allocation status of the proceeds

Funds procured through Green Finance will be allocated for the purpose of funds immediately after procurement, so in principle, there are no plans to accrue unallocated funds. However, if there are unallocated funds, such allocation plan will be announced on the Investment Corporation's website at the end of each fiscal year or at the time of each numerical update. In addition, in the case of procuring loans, the agent of the loan is scheduled to report to the target lender at the end of each fiscal year.

#### b. Reporting on environmental improvement effects

The Investment Corporation plans to disclose the number and type of environmental certification of buildings subject to the use of proceeds on its website as a report of environmental improvement effects. The Investment Corporation also plan to disclose information on CO<sub>2</sub> emissions.

JCR has evaluated the reporting system of the Investment Corporation as a plan to appropriately disclose both the appropriation of funds and the effects of environmental improvement to investors, etc.

## 4. Organization's Environmental Initiatives

### (1) JCR's Key Consideration in This Factor

In this section, JCR evaluates whether the management of the issuer/borrower regards environmental issues as a matter of high priority for management and whether the green finance policy, process and selection criteria for green projects are clearly positioned through the establishment of a department specializing in environmental issues or in collaboration with external organizations.

### (2) Current Status of Evaluation Targets and JCR's Evaluation

The Investment Corporation considers the best interests of its unitholders in the medium to long term to be its mission. In addition to pursuing profitability, which is its primary goal, the Investment Corporation believes it is essential to promote sustainability through consideration of the environment, society and governance (ESG). As a concrete implementation policy for this idea, the Asset Management Company formulated a sustainability policy in 2018. The Sustainability Promotion Committee, chaired by the representative director and comprised of senior managing directors, executive officers, the Investment Department, the Finance Department, the Planning Department, and the Compliance Department heads, meets once a quarter to discuss sustainability policies, concrete measures, progress management, methods of disclosing results, and considers on disclosure content. The content of these deliberations is reported to the Board of Directors and the Board of Directors to strengthen the internal system. The targets and published figures are being advanced with the advice of highly specialized external experts.

In 2019, the Investment Corporation identified seven "materiality" and established policies and targets for initiatives from the viewpoints of "events that are important to stakeholders" and "major management issues for the Investment Corporation." As of the end of February 2022, 78.8% (68.7% as of the end of March 2019) of the total floor area of the properties with the environmental certification has been improved, and in addition, since 2022, goals such as reducing CO<sub>2</sub> emissions and improving the waste recycling rate have been announced, and management has reaffirmed that ESG initiatives will be promoted. In addition, in order to contribute to enhancing and revitalizing the attractiveness of Fukuoka and Kyushu, the Bank actively exchanges opinions with survey and research institutes on regional economic industries in Kyushu, Okinawa and Yamaguchi, and regularly holds dialogues with local companies that are sponsors of the Asset Management Company to promote attractive urban development in collaboration with local communities. With sustainability becoming increasingly important, events that may affect the Corporation's managements are constantly changing, so it is reviewing materiality and discussing KPIs and TCFD or equivalent climate-change disclosures.

The Investment Corporation has continued to participate in GRESB Real Estate Assessment since 2018. In addition to obtaining the "Green Star" granted to companies that excel in both the two assessment axes of "management and policy" and "implementation and measurement," the Investment Corporation has also acquired four Stars for the second consecutive year in GRESB ratings. This indicates that the Investment Corporation's sustainability initiatives are highly regarded by third parties. In September 2018, the Asset Management Company signed the Principles for Responsible Investment (PRI), which advocates incorporating ESG issues into investment decisions. The Asset Management Company is also strengthening its efforts in the environment and ESG by, for example, signing the Principles for Financial Action for the 21st Century, which was drawn up in 2011 as a code of conduct for financial institutions that wish to fulfill the responsibilities and roles necessary for the formation of a sustainable society, with the Ministry of the Environment serving as the secretariat.

Based on the above, JCR evaluated that the Investment Corporation's management has positioned environmental issues as a high priority and has appropriately established a system for addressing environmental issues by utilizing the know-how of external experts with specialized knowledge.

(Reference) GRESB Real Estate Assessment

GRESB refers to a benchmark established in 2009 that measures and evaluates the level of consideration for ESGs of companies that holding and manage real assets (real estate and infrastructures) and the organization that operates it. The acronym for Global Real Estate Sustainability Benchmark. Since 2016, the evaluation results are shown in five grades (5-star, 4-star, 3-star, 2-star, and 1-star). Companies that engage in excellent initiatives are given a "Green Star" separate from the five-point rating. As of 2021, 55 investment corporations have participated in the evaluation from J-REIT.

■Evaluation result

Based on its JCR Green Finance Evaluation Methodology, JCR assigned "g1 (F)" for the "Greenness Evaluation (Uses of Proceeds)" and "m1 (F)" for the "Management, Operation and Transparency Evaluation." As a result, JCR assigned "Green 1 (F)" for the "JCR Green Finance Framework Evaluation". The Framework meets the standards for the items required in the Green Bond Principles, the Green Loan Guidelines, the Green Bond Guidelines and the Green Loan and Sustainability Linked Loan Guideline.

[JCR Green Finance Framework Evaluation Matrix]

		Management, Operation, and Transparency Evaluation				
		m1(F)	m2(F)	m3(F)	m4(F)	m5(F)
Greenness 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)	Not qualified
	g4(F)	Green 4(F)	Green 4(F)	Green 5(F)	Not qualified	Not qualified
	g5(F)	Green 5(F)	Green 5(F)	Not qualified	Not qualified	Not qualified

(Responsible analysts for this evaluation) Rieko Kikuchi and Chihiro Miyazawa

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

JCR Green Finance Framework Evaluation, which is determined and provided by Japan Credit Rating Agency, Ltd. (JCR), covers the policies set out in the Green Finance Framework, and expresses JCR's comprehensive opinion at this time regarding the appropriateness of the Green Project as defined by JCR and the extent of management, operation and transparency initiatives related to the use of proceeds and other matters. Therefore, it is not intended to evaluate the effects of specific environmental improvements and the management, operation and transparency of individual bonds and borrowings, etc. to be implemented based on these policies. In the event an individual bond or individual borrowing based on this Framework is subject to a green finance evaluation, it is necessary to conduct a separate evaluation. JCR Green Finance Framework Evaluation does not prove the environmental improvement effects of individual bonds or borrowings implemented under this Framework, and does not assume responsibility for their environmental improvement effects. JCR confirms the environmental improvement effects of funds procured under the Green Finance Framework measured quantitatively and qualitatively by the issuer or by a third party nominated by the issuer, but in principle it does not directly measure such effects.

2. Method used to conduct this evaluation

The methodologies used in this assessment are described in "JCR Green Finance Evaluation" on the "Sustainable Finance ESG" section of the JCR website (<https://www.jcr.co.jp/en>).

3. Relationship with Acts Concerning Credit Rating Business

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

4. Relationship with Credit Ratings

The Evaluation is different from the Credit Rating and does not promise to provide or make available for inspection a predetermined credit rating.

5. Third-Party Evaluation of JCR Green Finance Framework Evaluation

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■ Glossary

JCR Green Finance Framework Evaluation: This evaluates the extent to which the funds procured through green finance are appropriated for green projects as defined by JCR and the degree to which the management, operation and transparency of the green finance are ensured. Evaluations based on a 5-point scale are given from top to bottom using the Green1 (F), Green2 (F), Green3 (F), Green4 (F), and Green5 (F) symbols.

■ Status of Registration as an External Evaluator of Green Finance

- Registered as an External Reviewer of Green Bonds by the Ministry of the Environment
- ICMA (registered as an observer with the Institute of International Capital Markets)

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

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