

Green Bond Evaluation by Japan Credit Rating Agency, Ltd.

Japan Credit Rating Agency, Ltd. (JCR) announces the Post-issuance Review of its Green Bond Evaluation .

JCR Reviewed Green Bond Evaluation on Bonds of ORIX JREIT Inc.

| | | |
|---------------------|---|--|
| Subject | : | ORIX JREIT Inc. 13th Unsecured Bonds |
| Type | : | Specified Investment Corporation Bonds |
| Issue Amount | : | JPY 7 billion |
| Interest Rate | : | 0.220% |
| Issue Date | : | July 18, 2019 |
| Redemption Date | : | July 18, 2024 |
| Method of Repayment | : | Bullet |
| Use of proceeds | : | Refinancing of funds to acquire an asset |

<Green Bond Review Results>

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

1. Overview

On July 11, 2019, JCR announced its "Green 1" overall evaluation of 13th Unsecured Bonds issued by ORIX JREIT Inc. The summary is as follows.

(Excerpted from the evaluation report on July 11, 2019)

ORIX JREIT Inc.(OJR) is Japan's first diversified Real Estate Investment Trust (J-REIT) established on September 10, 2001 and listed on the Tokyo Stock Exchange (Real Estate Investment Trust Securities Market) on June 12, 2002. OJR invests in logistics facilities, commercial facilities, housing, and hotels, with office buildings in the Tokyo metropolitan area at its core. As of the end of March 2019, OJR's assets were worth JPY 663.5 billion¹ on an acquisition price basis.

¹ JPY 679.7 billion as of the end of October 2020.

ORIX Asset Management Co., Ltd. (OAM), the asset management company of the Investment Corporation, is a wholly-owned subsidiary of ORIX Corporation (ORIX). ORIX was founded in 1964 as Orient Leasing Co., Ltd., and has been working to capture revenue opportunities while expanding the scope of its operations. ORIX and its group companies (ORIX Group) currently consist of six business segments: Corporate Financial Services, Maintenance Leasing, Real Estate, Investment, Retail and Overseas. For Real Estate, one of its business segments, in 1986, the company entered the single-person dormitory rental business. Following this, it now invests in office buildings, rental condominiums, commercial facilities, and logistics facilities. It also operates hotels, inns, aquariums, and residential properties for the elderly. It also manages the assets of real estate investment trust (REIT), and provides real estate investment advisory services, expanding its business scope to asset management.

Since OAM's main officers and employees are seconded from ORIX, ORIX Group's experience and know-how, including its real estate business, are passed on to OAM. In addition, OJR acquired approximately 90% (JPY 312.1 billion) of properties acquired during the past five and a half years from properties owned by the ORIX Group, and invests from a wealth of pipelines leveraging its strong relationship with the sponsor.

Utilizing the support from the ORIX Group, OJR is achieving both external and internal growth while leveraging its strengths as a diversified J-REIT.

The bonds to be evaluated are 13th unsecured bond issued by ORIX JREIT Inc. The full amount of the proceeds will be allocated for refinancing the acquisition of properties that meet the eligibility criteria of the Green Finance Framework established by OJR.

OJR defines green buildings as "Green Eligible Assets" that are applicable to Green Bonds under the Green Finance Framework. Properties that have obtained or expected to obtain either three stars or more in DBJ Green Building Certification, B+ or higher in CASBEE Certification, three stars or more in BELS Certification, or LEED assessment Silver or more. JCR has evaluated that the definition of "Green Eligible Assets" established by OJR covers buildings with environmental improvement effects.

JCR confirmed that an office buildings and a logistics facility subject to refinancing through the issuance of bonds belong to "Green Eligible Assets" as defined in the OJR's Green Finance Framework. JCR has also confirmed through the application documents and hearings concerning the properties that there are few possibilities of serious negative impact on the environment that outweigh the environmental improvement effect. Based on the above, JCR has evaluated that the use of proceeds of the bonds will have environmental improvement effects, including the effects of reducing CO₂ emissions.

In March 2018, OAM, the Asset Management Company of OJR, established the "Sustainability Committee" to discuss ESG-related issues under the leadership of management. In addition, active discussions related to ESG were held at the working level below the general manager. OJR also conducts environmental evaluation and acquires various certifications for acquired properties, and the number of properties that it acquires is on the rise. Moreover, JCR confirmed a robust management and operation system and high transparency for OJR. For example, OJR has in-house experts on properties and the environment, and has established checkpoints on the environment when acquiring properties. OJR also conducts internal and external audits on a regular basis.

(Excerpt ended)

JCR confirmed that the two buildings which consist of an office building and a logistic facility have valid environmental certification at the time of evaluation through the reviewing of the use of proceeds of the bonds. JCR also confirmed that management and operational systems and disclosures to investors are appropriate.

As a result, JCR maintains "g1" for "Greenness Evaluation (Use of Proceeds)" and "m1" for "Management, Operation and Transparency Evaluation." Consequently, JCR maintains "Green 1" as overall evaluation results of the bonds. Detailed

evaluation is discussed in the next chapter. The bonds are considered to meet the standards for items required by the Green Bond Principles and the Green Bond Guidelines of the Ministry of the Environment of Japan.²³

² ICMA(International Capital Market Association) Green Bond Principles 2018
<https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

³ Ministry of the Environment Green Bond Guidelines 2017 http://greenbondplatform.env.go.jp/pdf/greenbond_guideline2017.pdf

2. Post-issuance review items

In this section, JCR describes the items to be confirmed in the post-issuance review. The review focuses on items whose content has changed compared with the previous evaluation periods.

(1) Use of Proceeds (Status of Appropriation)

JCR evaluates if the management of funds procured by the Bonds and the appropriation of funds procured for green projects has been properly carried out in a manner specified by the issuer at the time of assigning the Green Bond Evaluation.

(2) Appropriateness and Transparency Concerning Selection Standard and Processes of the Use of Proceeds

JCR evaluates if there are any changes to the objectives to be achieved through the Bonds, the criteria for selecting green projects, the adequacy of the proceeds, and the series of processes to be implemented.

(3) Appropriateness and Transparency of Management of the Proceeds

JCR evaluates whether the proceeds have been certainly allocated for green projects or not. JCR also evaluates if there is a system and internal system in which the allocation status can be easily tracked and managed.

(4) Reporting

JCR evaluates if the environmental improvement effects resulting from the green project financed by the funds procured by the Bonds are appropriately calculated according to the method stipulated by the issuer at the time of assigning the Green Bond Evaluation.

(5) Organization's Environmental Activities

JCR evaluates if the issuer's management is continuing to regard environmental issues as a high priority issue.

3. Contents of Review

(1) Use of Proceeds (Status of Appropriation)

OJR immediately appropriated the funds raised by the Investment Corporation Bonds in full for the refinancing of two buildings. The appropriation status are shown on OJR's website. JCR has also confirmed that the properties subject to the use of funds have no negative impact on the environment.

Based on the above, JCR evaluated that the proceeds of the bonds appropriately allocated.

<Target projects>

| | |
|--|--|
| Property Name | Lunar Sendai |
| Location | 2-15-1 Hommachi, Aoba-ku, Sendai, Miyagi |
| Principal Uses | Office |
| Site Area | 1,990.35 m ² |
| Total Floor Area | 13,924.19 m ² |
| Number of Stories | 2 stories below ground and 14 stories above ground |
| Completion | February 1998 |
| Environmental Certification | Five stars of BELS certification |
| Features and Environmental Performance | - It is located on Higashi Nibancho Street in the center of Sendai. In February 2015, it renewed its air conditioning equipment and switched to LED lighting for exclusive and common use spaces, thereby saving energy. |

| | |
|--|--|
| Property Name | Toda Logistics Center |
| Location | 7-35, Sasame-minami-cho, Toda, Saitama |
| Principal Uses | Distribution Facility |
| Site Area | 19,473.82 m ² |
| Total Floor Area | 36,158.60 m ² |
| Number of Stories | 5 stories |
| Completion | March 2005 |
| Environmental Certification | Four stars of BELS Certification |
| Features and Environmental Performance | - It is located in Toda City, which is highly convenient for delivery to the center of Tokyo and where logistics facilities are concentrated. - Efforts are made to conserve energy by using high-efficiency lighting fixtures. |

(2) Appropriateness and Transparency Concerning Selection Standard and Processes of the Use of Proceeds

JCR evaluated the criteria for selecting the use of funds and the process as appropriate at the time of the previous evaluation. JCR confirmed that the criteria and process for selecting the use of funds are appropriate, as JCR has recently conducted hearings with OAM and confirmed that there have been no special changes up to the time of the review.

(3) Appropriateness and Transparency of Management of the Proceeds

JCR evaluated the management of proceeds of the OJR as appropriate at the time of the previous evaluation.

As mentioned above, at the time of this review, OJR has fully allocated the 7 billion yen raised through the issuance of the Investment Corporation Bonds to two buildings subject to fund appropriation. OJR manages its portfolio for cash management by calculating the amount of Green Eligible Liabilities from the total amount of Green Eligible Assets acquired, and the amount of Green Eligible Liabilities is limited to the maximum amount procured. Both Green Eligible Assets and Green Eligible Liabilities are published on the website. Based on the above, JCR evaluated that fund management continues to be conducted appropriately.

(4) Reporting

a. Reporting on the proceeds allocation

The appropriation of funds at the time of the evaluation is disclosed on the OJR's website. The disclosures are consistent with those set forth in the framework of OJR. As a result, JCR has determined that the disclosure of the allocation of funds is appropriate.

b. Reporting on environmental improvement effects

OJR stated in the Green Finance Framework that the following items shall be disclosed as reporting items regarding to environmental improvement effects.

- As long as Green Bonds or Green Loans exist, the status of certification for each Green Eligible Asset allocated from the proceeds, and the evaluation of certification
- Total energy consumption, CO₂ emissions and water usage of the Green Eligible Assets

In the review, JCR checked the OJR's website and ESG reports and confirmed that the aforementioned reporting items are properly disclosed.

(5) Organization's Environmental Activities

In order to achieve stable growth in unitholder value, OAM, the asset management company of the Investment Corporation, has formulated the ESG Policy in order to implement the ESG-conscious asset management policy.

In response to increasing awareness of ESG among overseas investors, OAM has adopted a management stance that considers ESG. OAM has been held the Sustainability Committee which is chaired by the President and CEO and comprised of executive officers in charge since March 2018. After the previous evaluation, thirteen committee has been held from September 2019 through November 2020. Even before setting the Sustainability Committee, in OEM, issues related to ESG were discussed at meetings where managers from relevant divisions and departments gathered. JCR evaluated that the high frequency of thirteen Sustainability Committee meetings in fifteen months as an indication that sustainability discussions in OAM have been active, ranging from management to the practical level. JCR confirmed through the hearing that the Sustainability Committee had concrete discussions included annual action plans and considerations related to the issuance of second Green Bond.

As part of its efforts, OJR has obtained GRESB Real Estate Assessment and acquiring various certifications, such as DBJ Green Building, CASBEE and BELS, for acquired properties, all of which are announced on its own website. In GRESB Real Estate Assessment in fiscal year 2020, OJR awarded 4 stars in GRESB Real Estate Assessment for three consecutive years from fiscal year 2018, and obtained Green Star, which is given to

companies that excel in both the Management Component and Performance Component⁴ aspects in ESG assessment, for the sixth year straight. JCR has evaluated these as indication that OJR's sustainability efforts are also highly evaluated by third parties. The number of certified properties is also increasing in various certifications, which indicates OJR's stance on the environment in JCR's evaluation.

Furthermore, since August 2018, OJR has been a corporate member of Green Building Japan, a LEED public organization in Japan. OJR intends to collaborate with people who aim to create a sustainable society through its activities. In October 2019, OJR has endorsed the Task Force on Climate-related Financial Disclosures (TCFD) and in February 2020, OJR signed the United Nations Environment Programme Finance Initiative (UNEP FI). In UNEP FI, OJR participates in working groups on real estate and actively exchanges views with domestic and overseas participating organizations.

OAM has two first class architects in the Business Promotion Department, one CASBEE Assessor, and one first class architect in the Investment Management Department. In addition, OAM has departments and human resources with specialized knowledge of properties and the environment. For example, it has employees with qualifications related to the environment qualified as Energy Manager, and the supervisor of the Risk Management & Compliance Department has been active as an expert on environmental issues in Japan for many years. In addition, environmental consulting is carried out in cooperation with internal and external specialists, such as by requesting external specialists.

JCR evaluates that OAM management is positioning environmental issues as a high priority for the organizations, and that departments with expert knowledge are clearly involved as organizations in the selection of green finance procurement policies and processes and green projects.

(Reference) GRESB Real Estate Assessment

GRESB is a benchmark established in 2009 that measures and evaluates the degree of consideration given to ESG by companies that holding and manages real estate and infrastructure. GRESB is an acronym for Global Real Estate Sustainability Benchmark. From 2016, the evaluation results are shown on a five-star scale (five stars, four stars, three stars, two stars, and one star). Companies that have made excellent initiatives are given Green Star separately from the five-point rating. From J-REIT, 46 investment corporations have participated in the evaluation as of 2020.

⁴ From 2020, GRESB has changed its assessment item from the previous Management and Policies and Implementation and Measurement

4. Conclusion

As a result of verification of the matters described in the previous section, JCR confirmed that the full amount of proceeds from the Investment Corporation Bonds have been allocated to the Green Project, which was originally assumed to be used for funding, and that the assets subject to fund appropriation sufficiently realized the initially assumed environmental improvement effects.

[JCR Green Bond Evaluation Matrix]

| | | Management, Operation and Transparency Evaluation | | | | |
|----------------------|----|---|---------|---------------|---------------|---------------|
| | | 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 |

■ Subject

Issuer: ORIX JREIT Inc. (Security Code: 8954)

[Review]

| Subject | Issue Amount | Issue Date | Redemption Date | Interest Rate | Evaluation |
|---|---------------|---------------|-----------------|---------------|---|
| 13th Unsecured Bonds (Special pari passu conditions among specified investment corporation bonds) (Green Bonds) | JPY 7 billion | July 18, 2019 | July 18, 2024 | 0.220% | JCR Green Bond Evaluation :Green1 Greenness Evaluation :g1 Management, Operation and Transparency Evaluation :m1 |

(Responsible Analysts for this evaluation) Rieko Kikuchi and Kosuke Kajiwara

Important explanation of this Green Bond Evaluation

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

JCR Green Bond 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 bonds, which are subject to evaluation, are allocated to green projects defined by JCR and the extent to which the management, operation system, and transparency of the use of green bonds are ensured. JCR Green Bond Evaluation does not fully indicate the extent to which the funds procured from such green bonds are allocated and the management, operation, and transparency of the use of the funds are ensured.

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

2. Method used to conduct this evaluation

The methods used in this evaluation are listed on JCR's website (Sustainable Finance & ESG in <https://www.jcr.co.jp/en/>) as JCR Green Finance Evaluation Methodology.

3. Relationship with Acts Concerning Credit Rating Business

JCR Green Bond 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 evaluation differs 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 Bond

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

■Disclaimers

The information contained in this document has been obtained by JCR from the Issuer and from accurate and reliable sources. Provided, however, that such information may be erroneous due to human, mechanical or other reasons. Accordingly, JCR makes no representation or warranty, express or implied, as to the accuracy, results, accuracy, timeliness, completeness, marketability, or fitness for a particular purpose of such information, and JCR assumes no responsibility for any error, omission, or result of using such information. In no event shall JCR be liable for any special, indirect, incidental or consequential damages of any kind, including opportunity loss, monetary loss, which may arise from any use of such information, whether contractual, tort, negligence or other cause of liability, and whether or not such damages are foreseeable or unforeseeable. The JCR Green Bond Evaluation does not express any opinion on the various risks (credit risk, price fluctuation risk, market liquidity risk, price fluctuation risk, etc.) associated with the green bond subject to the assessment. The JCR Green Bond Evaluation is a comprehensive statement of opinion at the present time of the JCR and is not a statement of fact and does not make any recommendations regarding risk judgment or the decision to purchase, sell or hold individual bonds, commercial paper, etc. JCR Green Bond Evaluations may be changed, suspended, or withdrawn due to changes in information, lack of information, or other reasons. All rights to this document, including data from the JCR Green Bond Assessment, are held by JCR. Reproduction, adaptation, modification or alteration of this document, in whole or in part, including data from the JCR Green Bond Assessment, without the permission of JCR is prohibited.

■Glossary

JCR Green Bond Evaluation: JCR Green Bond Evaluation evaluates the extent to which the funds procured from the Green bond are allocated to the Green Project as defined by JCR, and the extent to which the management, operation, and transparency of the Green Bond 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)
- Members of UNEP FI Positive Impact Financial Principles Working Group
- Climate Bonds Initiative Approved Verifier (Climate Change Initiative Accreditation Verification Organization)

■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 the JCR website (<https://www.jcr.co.jp/en/>).

■For further information, contact

Information Service Dept. TEL: 03-3544-7013 FAX: 03-3544-7026

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

Copyright © Japan Credit Rating Agency, Ltd. All rights reserved.