News Release

Japan Credit Rating Agency, Ltd.

22-D-1002
November 16, 2022

Commencement of Blue Finance Evaluation and Revision of Green Finance Evaluation Methodology

Japan Credit Rating Agency, Ltd. (JCR) hereby announces that it has revised and implemented its Green Finance Evaluation Methodology in order to start Blue Finance evaluation. The evaluation of blue finance is currently being developed for globally unified principles by international organizations, etc. Therefore, the following existing principles and guidance are used for the evaluation until the establishment of the principles.

- United Nations Ocean Conference (Draft Declaration)
- United Nations Environment Programme, Finance Initiative, Sustainable Blue Economy Finance Principles, and Practical Guidance based on the above principles
- International Development Finance Corporation, and Blue Finance Guidelines

For JCR's blue finance evaluation, please refer to JCR Green Finance Evaluation Methodology (revised as of today.)

■ Point to Consider

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■ Glossary

JCR Green Finance Framework Evaluation: The extent to which the funds procured through green finance framework are appropriated for green projects as defined by JCR, and the degree to which the management, operation and transparency on the use of proceeds of the green finance are ensured. Evaluations are performed on a 5-point, 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 Sustainability 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)
- UNEP FI Positive Impact Finance Principles, Working Group members
- Climate Bonds Initiative Approved Verifier

■ 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 registered with the following four of the five credit rating classes of the U.S. Securities and Exchange Commission's Nationally Recognized Statistical Rating Organization (NRSRO): (1) financial institutions, brokers/dealers, (2) insurance companies, (3) general business corporations and (4) governments and municipalities. If the disclosure is subject to Section 17g-7 (a) of the Securities and Exchange Commission Rule, such disclosures are attached to the news releases appearing on the JCR website (https://www.jcr.co.jp/en/).

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JCR Green Finance Evaluation

Last Updated: November 16, 2022

Preface

Green Bonds are debts whose use of proceeds are limited to the activities which have beneficial effects on environment; e.g. contribute to prevent the climate change, protect water resources and/or biodiversity, etc. To be more specific, green bonds are those issued by organizations including corporations and local governments, and are ensured to limit its Use of Proceeds to green projects, to track the management of proceeds and to be keep transparency in the reporting after the issuance[1].

In Japan, Ministry of Environment of Japan ("MOE") published the Green Bond Guidelines 2017 (hereinafter referred to as "Guidelines")[2] and seeks to further encourage the issuance of green bonds and investments to them by securing the credibility of Green bonds for environmental improvement effects as well as to preventing "green-wash" (Not only green bonds, but also other financial products labeled sustainable finance even though they do not actually provide benefits to the overall social environment) from being placed in the market.

In the global green bond principles by ICMA[3] (hereinafter, "GBP") and the Guidelines by MOE, it is recommended that issuers use an external review to confirm the alignment of their green bonds with the key features of the GBP.

In 2018, Loan Market Association (hereinafter, "LMA"), Asia Pacific Loan Market Association (hereinafter, "APLMA") announced the Green Loan Principles (hereinafter, "GLP") for loans to the same effect as the GBP, and presentations were made at the ICMA annual meeting in the same year to promote the spread of green bonds and green loans, etc. In March 2020, MOE published "Green Loan and Sustainability Linked Loan Guideline 2020", reflecting the spread of green loans in the markets. MOE subsequently revised it again in 2022, strongly recommending the acquisition of external certification as required by the latest Green Bond Principles, creating a framework by issuers, and subdividing the green project categories in the Appendix.

JCR initially included long-term borrowings in the evaluation of the Green Bond Evaluation Methodology. Reflecting this international movements, JCR renames the evaluation methodology into "Green Finance Evaluation Methodology," while JCR's Green Bond Evaluation will be implemented in accordance with the GBP for green bonds and the JCR Green Loan Evaluation will be implemented in accordance with the GLP for green loans. (Hereinafter, the JCR Green Bond Evaluation and the JCR Green Loan Evaluation are collectively referred to as the "JCR Green Finance Evaluation").

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[1] Source of the definition: Ministry of Environment, "Green Bond Guidelines 2022.
[2] Green Bond Principles 2018 established by ICMA(International Capital Market Association)

Green bonds must not only bring environmental improvement benefits, but also contribute to enhancing the long-term corporate value of the issuer and solving global issues. At the 2018 revision of ICMA's GBP, mapping the use of proceeds of green bonds to the ones that green bonds can contribute out of 17 Sustainable Development Goals ("SDGs"[4]) and 169 targets was implemented. JCR considers the contributions to SDGs based on the ICMA's Guidelines for SDGs mappings when implementing green finance assessments.

JCR provides "JCR Green Finance Evaluation" as an external review to green bonds and to green loans, reflecting the concept of GBP, GLP and Guidelines. JCR applies a transparent evaluation system based on scoring the evaluation items defined in JCR Green Finance Evaluation. JCR believes that this evaluation system will indicate issuers or borrowers (hereinafter, "Issuers")[5] what they need to do for preparing the issuance of green bonds or borrowing green loans more precisely and it will also help investors to decide its investment policy regarding green finance more appropriately.

In September 2019, JCR has become the first approved verifier of Climate Bonds Initiative ("CBI") in Japan, and provides verification report to get a certification of climate bonds from CBI. This is the independent services for green loans and green bonds from JCR's original Green Finance Evaluation. In the verification report, JCR verifies the eligibility of the bonds in accordance with Climate Bond Standard, Taxonomy, Sector Criteria and Climate Resilience Principles stipulated by CBI.

In "JCR Green Finance Evaluation", JCR refers these criteria as an approved verifier of CBI, but JCR may show different opinions on certain eligible assets due to the necessity for considering Japan's specific environmental backgrounds, industrial structures, energy mix, etc. Through the provision of this green finance evaluation, JCR aims to contribute to spread the knowledge about green finance to the market, to develop a sound green finance market and to improve global environmental issues.

I Subject of Evaluation

JCR green finance evaluation is applicable to various financing tools, such as bonds, loans, etc. whose use of proceeds are green projects, whose examples are raised in GBP, GLP or Guidelines. The followings are the sector or product classification of those financing tools:

(1) Corporation, Financial Institutions, Governments, Local Governments, Multilateral Financial Institutions, Public entities

(2) Project Finance

(3) Investment Funds

(4) Asset Backed Securities

If, in case a of an investment corporation, all of its assets fall under the GBP and the green projects, etc. exemplified in the Guidelines, the investment units may also be evaluated based on this evaluation method by

4 Sustainable Development Goals (SDGs) are universal development goals adopted at the UN Summit in 2015 to "leave no one behind" in both developed and developing countries

5 In the evaluation of green finance for SPC and Project Company financing, the issuers include the sponsor, asset management company, and other parties who are integrally involved in the actual business operations.

applying the GBP mutatis mutandis. Points to be noted in such cases are set forth in "V. Description of How JCR Considers Each Evaluation Factor".

II Basic Framework of JCR Green Finance Evaluation

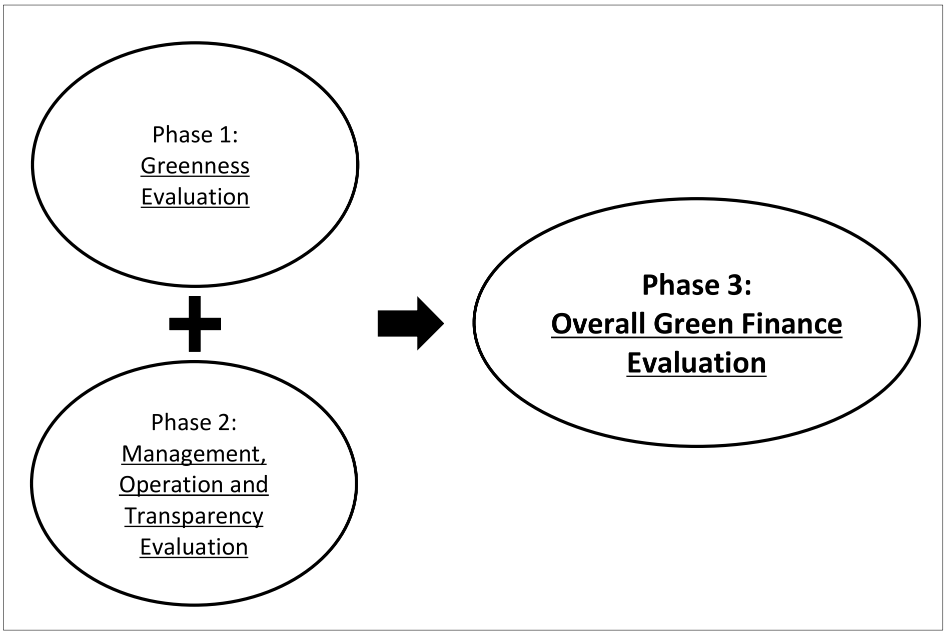
JCR implements three steps to evaluate green finance.

In “Evaluation Phase 1”, JCR conducts “Greenness Evaluation” of the bonds, etc. First, JCR assesses whether the projects which are financed by the bonds, etc. are green projects or not. If it is judged as a green project, JCR assesses how much the proceeds are allocated to green projects.

In “Evaluation Phase 2”, JCR conducts “Management, Operation and Transparency Evaluation”. JCR evaluates issuers’ management and operation system and transparency. JCR considers if the management and operation system is well developed, it will improve the certainty of implementing the planned use of proceeds and the green projects. In addition, JCR evaluates the degree of disclosures related to the use of proceeds, management of proceeds, selection policy, criteria and processes. (JCR call this as “certainty of realizing the greenness evaluation at the phase 1”).

In “Evaluation Phase 3”, JCR determines the overall evaluation results by comprehensively considering “Greenness Evaluation” result and “Management, Operation and Transparency Evaluation” result.

JCR Green Finance Evaluation flow:



III Evaluation Framework by Each Evaluation Phase

1. Evaluation Phase 1: Greenness Evaluation

In this evaluation phase, JCR assesses how much the use of proceeds is allocated to green projects, if the projects are considered as green projects. Evaluation results shall be classified into 5 grades from "g1" to "g5" as follows.

Greenness Evaluation (how much the use of proceeds is allocated to green projects)	Evaluation Grade
100% to >= 90% (Almost all the proceeds are allocated to green projects)	g1
>90% to >= 70% (Most of the proceeds are allocated to green projects)	g2
>70% to >= 50% (More than half of the proceeds are allocated to green projects)	g3
>50% to >= 30% (Less than half of the proceeds are allocated to green projects)	g4
>30% to >=10% (Very low amount of the proceeds are allocated to green projects)	g5
>10％	Not qualified

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

In this phase, JCR evaluates issuers' management and operation system and the degree of transparency based on the four evaluation items, which is followed GBP, GLP and the Guidelines. The evaluation results are classified into five grades, from "m1" to "m5".

Evaluation Scores by Grade	Evaluation Grade
100 to >= 80 (AM system is well developed and the degree of transparency is very high. The project implementation and allocation of the proceeds are highly likely to be made as were planned.)	m1
>80 to >= 60 (AM system is developed and the degree of transparency is high. The project implementation and allocation of proceeds are expected to be made as were planned.)	m2
>60 to >= 40 (AM system and the degree of transparency have some problems and there are little concerns that the plan and the fund allocation will not be processed as were planned.)	m3
>39 to >= 20 (AM system and the degree of transparency have problem and there is a concern that the plan and the fund allocation will not be processed as were planned.)	m4
> 20 (AM system and the degree of transparency have serious problems and it is difficult to expect the plan and the fund allocation will not be processed as were planned.)	m5

3. Evaluation Phase 3: Overall Evaluation

In phase 3, JCR determines an overall evaluation from Green 1 to Green 5, based on Greenness Evaluation (g1 to g5), adding up Management, Operation and Transparency Evaluation (m1 to m5).

JCR uses JCR Green Finance Evaluation Matrix for determining the overall evaluation, shown below:

Green 1 is the highest green finance evaluation in JCR green finance evaluation. This is assigned to those which get the highest evaluation in both "Greenness Evaluation" and "Management, Operation and Transparency Evaluation".

[JCR Green Finance 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

4. Evaluation Symbols

JCR's green finance evaluation symbols are expressed by the combination of "Greenness Evaluation as g1 to g5", "Management, Operation and Transparency Evaluation as m1 to m5" and "Overall Evaluation as Green 1 to Green 5".

[JCR Green Finance Evaluation Results]

Overall Evaluation	Green 1 ~ Green 5
Greenness Evaluation (Use of Proceeds)	g1 ~ g5
Management, Operation and Transparency Evaluation	m1 ~ m5

IV Evaluation Methodology (Evaluation factors and scoring)

1. Phase 1: Greenness Evaluation Factors

When evaluating greenness, JCR assesses the following factors.

(i) Assessing whether the project has environment impacts or not.

Use of Proceeds (how much the proceeds are allocated to green projects)	
(1)	The proceeds are allocated to green projects that satisfy the conditions below (including, but not limited to, green projects listed in GBP, GLP and Guidelines).
(2)	The project clearly has positive impacts on environment. It is clear that the green projects contribute to global objectives, such as SDGs, through ICMA's mapping table.

Use of Proceeds (how much the proceeds are allocated to green projects)
(3) Positive impacts obviously surpass the negative impacts (It is preferable that such impacts are assessed quantitatively and are comparable.) The projects do not have significant harm impacts on other green assets (Do No Significant Harm Assessment)
(4) For climate change adaptation projects, JCR implements six steps stipulated in CBI's Climate Resilience Principles[6]. For climate change mitigation projects, JCR shall refer the check items related to the resilience of the projects/assets in CBI's sector criteria[7].

* If the negative impacts on environment are larger than the positive impacts, such use of proceeds may be out of evaluation, even if other evaluation factors' scores are high.

(ii) To confirm the Use of Proceeds (how much the proceeds are allocated to social bonds, if the project is regarded as a green l project.

2. Phase 2: Management, Operation and Transparency Evaluation Factors

(i) Four major factors of phase 2 and the score weight are as follows.

Major Evaluation Factors	Weight
1. Appropriateness and Transparency concerning selection criteria and processes of the use of proceeds	25%
2. Appropriateness and Transparency of management of the Proceeds	25%
3. Reporting	25%
4. Efforts taken by the organization	25%

(ii) Breakdown of each evaluation factor

Evaluation items by each factor
1. Appropriateness and Transparency Concerning Selection Criteria and Processes of the Use of Proceeds
(1) Greenness of the each project is assessed and affirmed by an issuer.
(2) In case that the green project has both positive and negative impacts, issuer takes any measures to avoid or mitigate such negative impacts.
(3) (a)The environmental objectives that issuers try to realize through the green finance, (b) the criteria to select a green project which satisfies the objective and (c) the process to determine the project, are appropriate.
(4) The objective, the criteria and the process are well explained to investors.
2. Appropriateness and Transparency of Management of the Proceeds
(1) Funding plan is appropriate. (The ratio of new investment and refinancing is clear. Look-back periods for refinancing projects are clearly defined.)

[6] Source: CBI Website: https://www.climatebonds.net/climate-resilience-principles
[7] Source: CBI Website: https://www.climatebonds.net/standard/sector-criteria

Evaluation items by each factor	
(2)	Issuers have a system to track all the proceeds in proper way.
(3)	There is an internal control system to check the above tracking systems by taking internal audit or external audit, etc. In case of evaluating credit lines, a tracking management system is in place to identify which tranches are eligible for green investment and to ensure that the proceeds of these tranches are allocated for green projects.
(4)	Documentary evidence to track the proceeds is retained.
(5)	If there is unallocated proceeds, the issuer explains how to manipulate these proceeds to investors in advance. There is a plan to manipulate these unallocated proceeds with safe and liquid asset.
3. Reporting	
(1)	The use of proceeds are explained to investors by prospectus or other legal documents, etc.
(2)	Issuers plan to disclose the most updated information about the use of proceeds after the issuance.
(3)	Information disclosure is planned to be made at least once a year. After allocating all the proceeds, issuers plan to disclose any significant changes after allocating all the proceeds, if necessary.
(4)	Disclosures includes the following; ➢ List of green project where the proceeds are allocated ➢ Outline of each green project, including its progress ➢ Amount allocated to each green project ➢ Positive impacts brought by each green project ➢ Positive impacts brought by each green project ➢ Unallocated funds, plan to allocate, and how to manipulate the unallocated funds.
(5)	When disclosing the positive impacts, issuers use appropriate key performance indicator considering the nature of each green project. It is preferable that such impacts are quantitative and that issuers prepare to disclose the calculation formula and assumptions.
4. Efforts Taken by the Organization	
(1)	Management identifies the environmental issues as one of the important and prioritized issues for their management strategy. Policies and plans for sustainability, including environmental issues, are in place, and key sustainability issues are recognized and identified.
(2)	An internal department/division which has expertise in environment issues or external institutions is involved in the process.
(3)	Issuers have clear policy and procedures for green finance and criteria to determine the green projects where the proceeds are allocated.
(4)	Issuers verify their green projects and environmental policy by asking the opinions from external environmental experts.

V Description of How JCR Considers Each Evaluation Factor

1. Greenness Evaluation (Phase 1)

When identifying the greenness of the bond or the loan, it is important that the proceeds are allocated to green projects which clearly have a positive impact on the environment. In order to encourage the development of sound green bond market and green loan market, it is also important to ensure the credibility of green bonds or green loans by excluding the so called "green wash bonds" or “green wash loans”, which appeal as a green bond or a green loan, but actually there is no clear positive impacts on environment or the proceeds are appropriately allocated to green projects, from the green bond market or the green loan market.

Considering these factors, JCR shall assess the greenness of the use of proceeds carefully, referring the green project list in GBP, GLP and Guidelines (Please refer to the attachment for these project lists). These project lists are examples and JCR may find other cases as a green project by its own judgment.

Green finance can include not only new investment but also refinancing. When refinancing is included, Issuers should identify each proportion of new investment and refinancing and which investment or project portfolio is subject to refinancing. It is also desirable to indicate the period covered by the green project (lookback period) to be refinanced.

When evaluating environmental improvement effects, JCR shall confirm whether or not the effects are consistent with the international targets. According to ICMA, developments in international policy over the last few years have brought about a momentum within the global capital markets to establish a link between investments and achieving the SDGS. JCR looks at the mapping[8] of green, social and sustainable bonds and SDGs targets announced by ICMA in June 2018 to determine which environmental improvement effects of the projects being evaluated contribute to which SDG's objectives or the targets.

Even if the use of proceeds is green, some projects may bring negative impacts on environment at the same time. Therefore, JCR assesses whether the negative impacts are well assessed by the internal department/division or external experts to take necessary measures to avoid or mitigate such impacts. As a result, if the negative impacts are larger than the positive impact on environment, JCR may not provide green finance evaluation in principle.

Types and positive impacts of green projects may change day after day by technological innovation. JCR will implement its evaluation referring to the most updated green project types and calculation formula of environmental impacts that are effective at the time of evaluation.

2. Management, Operation and Transparency Evaluation (Phase 2)

(1) Appropriateness and Transparency Concerning Selection Criteria and Processes of the Use of Proceeds

JCR assesses whether the following factors are internally well considered and planned to make them properly or not. In addition, JCR also assesses whether the following factors are sufficiently explained to the investors in advance.

i. The objectives that will be realized by the green finance (for example, prevention of climate changes, energy saving, etc.)
ii. Criteria for selecting green projects (how to assess and select a green project which has a positive impact on the environment in terms of the objective Issuers plan to achieve).
iii. Outlines of the process to determine the project ((a) Is it appropriate as the use of proceeds

[8] https://www.icmagroup.org/green-social-and-sustainability-bonds/mapping-to-the-sustainable-development-goals/

considering issuers' planned objectives and criteria? (b) Who judges whether the selected green projects match the environmental objectives based on which criteria?)

JCR also considers that it is preferable to have an internal specific department/division or get opinions from external institutions when determining these factors.
In the case of investment units, the entire selection criteria and process at the time of acquisition of the corporation's assets shall be subject to evaluation, as the selection criteria and process for the use of proceeds includes the means of financing all green eligible assets.

(2) Appropriateness and Transparency Concerning Management of the Proceeds

It is expected that there are various ways to manage the proceeds depending on each issuer or borrower. JCR assesses whether the proceeds funded by green bond issuance, green loan borrowings or investment unit issuance are ensured to allocate to green projects or not. In addition, JCR also checks whether there is a tracking system to grasp how much the proceeds are allocated to the green project easily and internal control are effectively developed or not. Guidelines show some example of tracking the proceeds system. As such, the tracking system should be explained to investors.

If there is unallocated funds, JCR also assesses whether such unallocated funds will be allocated to the green project promptly and also assesses how to manage and manipulate the unallocated funds.

(3) Reporting

According to GBP and GLP, issuers should report the most updated information about the use of proceeds periodically until all the proceeds will be allocated, if necessary. In such report, the outline of the green project where the proceeds are allocated, allocated amount, expected environmental positive impacts (it is preferable to use both quantitative and qualitative performance indicators.) should be included.
JCR evaluates whether issuers plan periodical reporting after issuing green bonds or borrowing the loans precisely and effectively at the time of issuing green bonds or borrowing the green loans, based on GBP, GLP and Guidelines.
In the case of investment units, impact reporting should cover all green-eligible assets of the investment corporation, as they would be commingled as part of the capital stock. Due to the nature of investment units, no time limit can be set for reporting. As long as the investment corporation remains in existence, the reporting should include a predetermined environmental improvement effect (impact) around once a year, and in the event of a partial sale or loss of green eligible assets, the event and subsequent response measures.

(4) Efforts taken by the Organization

It is important that the senior management of issuers identify the environmental issues as one of the highly prioritized issues in its management strategy. Under this strategy, it is also important that they establishes policy, procedures of issuing green bonds or borrowing green loans and selecting criteria of green projects with the involvement of internal department/division, which specifically deal with environmental issues or in cooperation with external institutions.
The department is not necessarily specializes only on environmental issues, however, it is preferable that issuers ensure some staff who are responsible for green finance and environmental issues.

VI. Evaluating Climate Transition Finance

1. Definition and Significance of Climate Transition Finance

Transition Finance to decarbonized society for climate change mitigation (Climate Transition Finance) is a sustainable finance framework that supports CO_2 emitting industries, which have not had much access to financing in the sustainable finance market, in their efforts to reduce CO_2 emissions in accordance with their long-term strategies.

Compared to the rest of the world, Japan's CO_2 emissions are among the top 10 and have a significant impact on the global environment as a whole. On the other hand, discussions on decarbonization are rapidly progressing in Japan, with Prime Minister Suga declaring virtually zero emissions by 2050 in his policy statement on October 26, 2020, and the announcement of the Green Growth Strategy toward carbon neutrality in December 2020.

It is said that huge investment is required to achieve the goals of the Paris Agreement (to limit the temperature increase to less than 2°C above pre-industrial levels by 2030, or even 1.5°C below pre-industrial levels), and some estimates suggest that Asia as a whole will need to invest approximately 1,300 trillion yen over the next 10 years to combat global warming. Under these circumstances, it is difficult to cover all the investment demand needed to realize a carbon-neutral society only with green finance for green projects that have already been established as clean technologies, etc. It is an urgent task to accelerate finance for the development, implementation, and diffusion of low-carbon technologies on the path to decarbonization.

Capital markets play an important role in enabling climate transitions by encouraging efficient financing from investors for issuers and others seeking to address climate change risks. In response, ICMA established a working group on Climate Transition in February 2020, with over 80 financial institutions, investors, and evaluation agencies as members, and on December 10, 2020, ICMA's Climate Transition Finance Handbook was submitted.

Prior to this in Japan, the "Study Group on Financing for Environmental Innovation" (Chairperson: Kunio Ito, Project Professor, Graduate School of Business Administration, Hitotsubashi University), organized by the Ministry of Economy, Trade and Industry, published the "Concept of Climate Transition Finance". In January 2021. The "Transition Finance Environment Improvement Study Group" is scheduled to meet to formulate domestic basic guidelines for financing through transition bonds, loans, etc., based on the contents of the handbook as well.

In light of this domestic and international situation, JCR provides Climate Transition Finance Evaluation in accordance with the Green Finance Evaluation Methodology for financings where the use of the funds is specified as necessary for the transition to a decarbonized society.

2. Valuation System for Climate Transition Finance

As for the evaluation mechanism, similar to Green Finance, three evaluation phases will be used. When the use of proceeds includes both those applicable to green projects and those applicable to transition projects, or when the use of proceeds is only for climate transition projects (transition projects), the evaluation will be conducted as Climate Transition Finance.

2-1. Evaluation Phase 1: Climate Transition Evaluation

In Evaluation Phase 1, Climate Transition Evaluation, when the subject project is a green project and/or a transition project, the use of proceeds (percentage of proceeds allocated to the green/transition project) will be confirmed and the eligibility of the use of proceeds for the transition finance will be evaluated in 5 levels from gt1 to gt5 according to the following concept.

Greenness/Transitionality Evaluation (how much the use of proceeds is allocated to green /transition projects)	Evaluation Grade
100-90% (almost all of the funds will be used for green/transition project)	gt1
89-70% (majority of the funds will be used for green/transition project)	gt2
69-50% (more than half of the funds will be used for green/transition project)	gt3
49-30% (allocation ratio to green/transition project is low)	gt4
29-10% (allocation ratio to green/transition project is very low)	gt5
Less than 10%	Not qualified

2-2. Evaluation Phase 2: Management, Operation, and Transparency Evaluation

In Evaluation Phase 2, the management, operation, and transparency of the issuer, etc. will be evaluated on a 5-point scale from m1 to m5 as follows, based on the four evaluation items regarding management and operation systems and transparency as indicated by the GBP, GLP, and the Guideline. (See IV. Evaluation Methodology. In the "Evaluation Subdivisions," "Green" shall be replaced by "Green/Transition.") The same symbols shall be used for both Green Finance and Climate Transition Finance in the second phase of the evaluation.

Score of Management, Operation, and Transparency Evaluation	Management, Operation, and Transparency Evaluation
100-80 (The management and operational structure is well established and very transparent. The implementation of the project and the appropriation of the procured funds in accordance with the plan are fully expected.)	m1
79-60 (The management and operational structure is in place and highly transparent. The implementation of the project and the appropriation of the procured funds in accordance with the plan are generally expected.)	m2
59-40 (There are some problems with the management and operation structure and transparency, and some concerns about the implementation of the project and the appropriation of procured funds in accordance with the plan.)	m3

Score of Management, Operation, and Transparency Evaluation	Management, Operation, and Transparency Evaluation
39-20 (There are problems with the management and operation structure and transparency, and concerns about the implementation of the project and the appropriation of procured funds in accordance with the plan.)	m4
Less than 20 (There are serious problems with the management and operation structure and transparency, and the implementation of the project and the appropriation of procured funds in accordance with the plan cannot be expected.)	m5

2-3. Evaluation Phase 3: Overall Evaluation

In Evaluation Phase 3, the overall evaluation (JCR Climate Transition Finance Evaluation) is determined based on the Climate Transition Evaluation (gt1-gt5) and taking into consideration the Management, Operation and Transparency Evaluation (m1-m5).

Specifically, JCR Climate Transition Finance Evaluation (Green 1 to Green 5) shall be determined in accordance with the "JCR Climate Transition Finance Evaluation Matrix" below.

Green 1 (T)" is the highest level of the "JCR Climate Transition Finance Evaluation". Green 1(T)" is awarded to the Climate Transition Finance that has obtained the highest evaluation (gt1+m1) in both Climate Transition Evaluation and Management, Operation and Transparency Evaluation.

[JCR Climate Transition Finance Evaluation Matrix]

		Management, Operation and Transparency Evaluation				
		m1	m2	m3	m4	m5
Greenness/Transitionality Evaluation	gt1	Green 1(T)	Green 2(T)	Green 3(T)	Green 4(T)	Green 5(T)
	gt2	Green 2(T)	Green 2(T)	Green 3(T)	Green 4(T)	Green 5(T)
	gt3	Green 3(T)	Green 3(T)	Green 4(T)	Green 5(T)	Not qualified
	gt4	Green 4(T)	Green 4(T)	Green 5(T)	Not qualified	Not qualified
	gt5	Green 5(T)	Green 5(T)	Not qualified	Not qualified	Not qualified

2-4. Evaluation Symbols

JCR's evaluation on Climate Transition Finance is indicated by focusing on the JCR Climate Transition Finance Evaluation (Green 1(T) to Green 5(T)), which is the overall evaluation, together with the Green/Transitionality Evaluation (gt1 to gt5) and the Management, Operation and Transparency Evaluation (m1 to m5).

[JCR Climate Transition Finance Evaluation Results]

Overall Evaluation	Green 1(T) ~ Green 5(T)
Greenness / Transitionality Evaluation (Use of Proceeds)	**gt1 ~ gt5**
Management, Operation and Transparency Evaluation	**m1 ~ m5**

3. Differences from Green Finance Evaluation in Climate Transition Finance

The main difference between Climate Transition Finance Evaluation and Green Finance Evaluation is in Evaluation Phase 1. For Evaluation Phase 2, basically "green project" is replaced by "green/transition project". In Evaluation Phase 1, the same screening items will be used, but eligibility will be determined by checking the following points regarding Greenness/Transitionality (environmental improvement benefits) of the use of the funds.

Screening to determine if the project qualifies as a green/transition project	
(1)	Funds raised by the bonds or borrowings to be evaluated will be used for green/transition projects (in addition to those exemplified in the GBP, GLP, and Guidelines, projects that meet the following requirements, projects that are not included above but contribute significantly to CO_2 reduction and are one of the main measures to realize the company's transition strategy).
(2)	The green/transition project has a clear environmental improvement effect. The green/transition project has a clear contribution to international goals such as the SDGs and the Paris Agreement.
(3)	The environmental improvement benefits clearly outweigh the negative impacts (preferably quantified and comparable). The project will not cause significant harm to other green projects. (Do No Significant Harm Assessment) It is not anchored in fossil fuel-based technologies. It aims to decarbonize or reduce carbon emissions over the long term. In the case of a transition project, if a "fair transition" is required, the measures that the issuer and others can take should be fully included in the plan.
(4)	When evaluating a Climate transition project, the following four factors as indicated in the Climate Transition Finance Handbook[9] should be checked.

For Climate Transition Financing, four factors to be checked in addition to the above

(1) Transition strategy and governance of issuers and others	Will the funds be used for projects and/or assets that contribute to the Issuer's or other entity's strategy for climate change mitigation transition? Is the use of the "Transition" label in financing intended to help issuers and others realize their corporate strategy to transition to a business model that effectively addresses climate change-related risks and contributes to achieving the goals of the Paris Agreement?

[9] https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and handbooks/climate-transition-finance-handbook

(2) Key issue in the environmental aspects of the company's business model	Given the impact of the current materiality identification, is the trajectory of the issuer's or other entity's climate transition strategy relevant to the key issues in the environmental aspects of the issuer's or other entity's business model?
(3) Based on scientific evidence.	Are science-based targets and trajectories referenced in the climate change strategies of the issuer and others? Does the migration roadmap meet the following? (i) Quantitatively measurable (ii) Consistent with generally recognized science-based goal setting (iii) Be publicly disclosed (including milestones at midpoints) (iv) Certification and verification from an independent third party.
(4) Ensured Transparency	Has the company disclosed (or will it disclose) its investment plans for the use of proceeds to the extent possible, including capital expenditures and working capital? *R&D expenses can be included. Does the expenditure go beyond Business as Usual? Can a clear explanation be provided as to how this expenditure will contribute to the implementation of the Climate Transition Strategy?

VI. Evaluating Blue Finance

1. Definition and Significance of Blue Finance

“The oceans make up 70% of the Earth's surface and are the biosphere for 80% of the world's life. The oceans produce 50% of the oxygen needed by humans, absorb 25% of carbon dioxide, and absorb 90% of the additional heat from those emissions. The ocean is an important buffer against the impacts of climate change.

The ocean also has unimaginable biodiversity and provides many of the resources necessary for life, including food, jobs, minerals, and energy. However, as a result of human activities, the oceans are under unprecedented threat. If we are to solve critical challenges such as climate change, food security crises, disease pandemics, biodiversity loss due to ocean pollution, economic disparity, and conflict, we must act now to protect our oceans." (Excerpt from Ocean Conference Draft Declaration)

The Sustainable Blue Economy Finance Principles[10] were developed in 2018 as the world's first international guiding framework for banks, insurance companies, and investors to finance sustainable ocean economies. The Principles consist of 14 ocean-specific criteria that are intended to encourage financing from the financial industry to promote the implementation of SDG Target 14 (Let's protect the ocean's abundance) and the sustainability of ocean-based industries.

The Principles were developed by the European Commission, WWF, the World Resources Institute (WRI), and the European Investment Bank (EIB) and subsequently transformed into the Sustainable Bleu Economy Finance Principles (SBEFP) by the United Nations Environment Programme Finance Initiative (UNEP FI). In March 2022, UNEP FI, with funding from the European Commission, published a practical guide on sustainable finance (Diving Deep: Finance, Ocean Pollution and Coastal Resilience).

[10] Case studies of blue finance are on UNEP FI Website https://www.unepfi.org/blue-finance/resources/case-studies/

The United Nations further agreed at the UN Ocean Conference in Lisbon in June 2022 to declare the implementation of a scientifically based and innovative action plan on sustainable development among participating countries to support the implementation of SDG 14, a draft of which has been published[11].

The United Nations Global Compact has developed the Sustainable Ocean Principles, which set forth principles for actions that business corporations should take to address ocean issues. International financial institutions are also increasingly defining blue economy and blue finance, and developing finance frameworks. In January 2022, the International Finance Corporation (IFC) established the Blue Finance Guidelines, which specify the use of proceeds categories that contribute to SDG Goals 6 and 14, with the aim of promoting blue finance in IFC's investments and loans, as well as the spread of blue finance globally.

IFC's guidelines require compliance with GBP or GLP as a prerequisite. In addition, three steps are required to be confirmed in order to be considered blue-eligible. The first step is to confirm compliance with GBP and GLP and contribution to SDGs 6 and 4, the second step is to confirm that the implementation of the subject project does not pose a significant risk to SDGs 2, 7, 12, and 13, and the third step is to clarify the sustainability criteria to which the subject project complies.

While the principles and guidelines published by various international organizations are largely consistent with the idea of supporting financing for projects that promote sustainable economic growth through the sustainable use of ocean resources and that contribute to SDG Goal 14, the definition and the concept of eligible projects that may be financed vary. In addition, IFC includes projects that solve non-ocean-related water issues, such as water supply and sewage, and that contribute to SDG target 6. In response, IFC, ICMA, the UN Global Compact (UNGC), UNEP FI, and the Asian Development Bank (ADB) announced in October 2022 that they will jointly develop a unified international practitioners' guide to align definitions of blue finance in the market and to improve transparency.

Until the publication of the internationally unified guide mentioned above, JCR will comprehensively consider the currently published principles and guidance, and define the definition of blue finance for this evaluation as follows

Blue finance is "finance for projects that contribute to sustainable economic growth, improved livelihoods and job creation for ocean stakeholders, conservation of marine resources including ocean life and/or safe and hygienic water environment and efficient use of limited water resources, and that comply with the four principles set forth in the ICMA GBP/LMA GLP".

2. Evaluation System for Blue Finance

As for the evaluation mechanism, similar to Green Finance, three evaluation phases are used. The eligibility of the use of proceeds take into account the Green Project Classification established by ICMA

[11] 2022UN Ocean Conference (at Lisbon)
A/CONF.230/2022/12 2022 United Nations Conference to Support the Implementation of Sustainable Development Goal 14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development

and the principles, guidance and guidelines of IFC, UNEP FI SBEFI, and develop its own eligibility criteria.

2-1. Evaluation Phase 1:Blueness Evaluation

In Evaluation Phase 1, blueness evaluation, when the subject project is a blue project, the use of procured funds will be confirmed and the eligibility of the use of proceeds for Blue Finance will be evaluated in 5 levels from b1 to b5 according to the following concept.

Blueness Evaluation (how much the use of proceeds is allocated to blue projects)	Evaluation Grade
100-90% (almost all of the funds will be used for blue project)	b1
89-70% (majority of the funds will be used for blue project)	b2
69-50% (more than half of the funds will be used for blue project)	b3
49-30% (allocation ratio to blue project is low)	b4
29-10% (allocation ratio to blue project is very low)	b5
Less than 10%	Not qualified

2-2. Evaluation Phase 2: Management, Operation, and Transparency Evaluation

In Evaluation Phase 2, the management, operation, and transparency of the issuer, etc. will be evaluated on a 5-point scale from m1 to m5 as follows, based on the four evaluation items regarding management and operation systems and transparency as indicated by the GBP, GLP, and the Guideline. (See IV. Evaluation Methodology. In the "Evaluation Subdivisions," "Green" shall be replaced by "Blue.") The same symbols will be used for both Green Finance and Blue Finance in Evaluation Phase 2.

Score of Management, Operation, and Transparency Evaluation	Management, Operation, and Transparency Evaluation
100-80 (The management and operational structure is well established and very transparent. The implementation of the project and the appropriation of the procured funds in accordance with the plan are fully expected.)	m1
79-60 (The management and operational structure is in place and highly transparent. The implementation of the project and the appropriation of the procured funds in accordance with the plan are generally expected.)	m2
59-40 (There are some problems with the management and operation structure and transparency, and some concerns about the implementation of the project and the appropriation of procured funds in accordance with the plan.)	m3
39-20 (There are problems with the management and operation structure and transparency, and concerns about the implementation of the project and the appropriation of procured funds in accordance with the plan.)	m4
Less than 20 (There are serious problems with the management and operation structure and transparency, and the implementation of the project and the appropriation of procured funds in accordance with the plan cannot be expected.)	m5

2-3. Evaluation Phase 3: Overall Evaluation

In Evaluation Phase 3, the overall evaluation (JCR Blue Finance Evaluation) will be determined based on the Blueness Evaluation (b1-b5) and taking into consideration the Management, Operation and Transparency Evaluation (m1-m5).

Specifically, JCR Blue Finance Evaluation (Blue 1 to Blue 5) shall be determined in accordance with the "JCR Blue Finance Evaluation Matrix" below.

“Blue 1” is the highest level of the "JCR Blue Finance Evaluation". “Blue 1" is awarded to the Blue Finance that has obtained the highest evaluation (b1+m1) in both Blueness Evaluation and Management, Operation and Transparency Evaluation.

[JCR Blue Finance Evaluation Matrix]

		Management, Operation and Transparency Evaluation				
		m1	m2	m3	m4	m5
Blueness Evaluation	b1	Blue 1	Blue 2	Blue 3	Blue 4	Blue 5
	b2	Blue 2	Blue 2	Blue 3	Blue 4	Blue 5
	b3	Blue 3	Blue 3	Blue 4	Blue 5	Not qualified
	b4	Blue 4	Blue 4	Blue 5	Not qualified	Not qualified
	b5	Blue 5	Blue 5	Not qualified	Not qualified	Not qualified

2-4. Evaluation Symbols

JCR's evaluation on Blue Finance is indicated by focusing on the JCR Blue Finance Evaluation (Blue 1 to Blue 5), which is the overall evaluation, together with the Blueness Evaluation (b1 to b5) and the Management, Operation and Transparency Evaluation (m1 to m5).

[JCR Blue Finance Evaluation Results]

Overall Evaluation	**Blue 1 ~ Blue 5**
Blueness Evaluation (Use of Proceeds)	**b1 ~ b5**
Management, Operation and Transparency Evaluation	**m1 ~ m5**

3. Differences from Green Finance Evaluation in Blue Finance

The main difference between Blue Finance Evaluation and Green Finance Evaluation is in Evaluation Phase 1.. In Evaluation Phase 1, the same screening items will be used, but eligibility will be determined by checking the following points regarding Bluness (environmental improvement benefits) of the use of the funds.

Screening to determine if the project qualifies as a blue project	
(1)	Does the funds raised by the bonds or borrowings to be evaluated fall under the blue finance area as described in the IFC and/or UNEP FI SBEFI Practice Guide?
(2)	Does the blue project have a clear environmental improvement impact related to a sustainable marine economy or water infrastructure? Does the blue project have a clear contribution to the achievement of at least one of the targets related to SDG target 6 or 14?
(3)	Does the project fall under one of the project classifications indicated in GBP, GLP?
(4)	Will not the implementation of the project pose a serious risk to the achievement of other SDG targets (especially 2, 7, 12, and 13)?
(5)	Does the environmental improvement benefits clearly outweigh the negative impacts (preferably quantified and comparable)? Has it been confirmed that the project will not cause significant harm to other green/blue projects? Does the project operate in accordance with the IFC Performance Standard, World Bank EHS Guidelines, or equivalent ESG standards? Is the project not an exempted project (offshore oil and gas mining operations, deep sea mining operations and other sectors considered to have unsustainable practices in place)as defined by UNEP FISBEFI (Minimum Safeguard)?
(6)	For loans, do the financial institutions comply with UNEP FI's Sustainable Blue Finance Principles?

VII Evaluating Green Finance Framework

At the request of issuer, JCR may conduct a Green Finance Framework Evaluation of issuers' green bond issuance or green loan borrowing policy to confirm compliance with GBP, GLP, or Guidelines.

In such a case, this evaluation method shall apply, but the evaluation mark shall be indicated by (F) at the end of the evaluation mark. The same applies to Climate Transition Finance Evaluation and Blue Finance Evaluation.

Evaluation of the Green Finance Framework involves evaluation of the Green Finance Framework of the issuers, and does not include greenness evaluation, and management and operation, and transparency evaluation of the individual uses of proceeds implemented based on the green finance framework.

Therefore, it is necessary to separately evaluate individual bonds or individual loans for green finance.

And as the framework evaluation is to confirm the consistency with the GBP and Guidelines at the time of the evaluation, it is necessary to request JCR to review the framework evaluation and update the evaluation when there is a change in the framework, a major revision of the GBP or others.

If the framework is modified without an updated assessment by JCR, or if a revision of the GBP results in the framework not complying with the GBP, JCR assessment provided prior to such event will be invalid.

VI Assumptions and Limit of This Evaluation

JCR's green finance evaluation is to affirm the positive impacts on the environment at the time of planning issuing green bonds or borrowing green loans are calculated quantitatively or qualitatively by issuers, the borrower or the third parties. This evaluation will not guarantee such impacts will continue in the future.

Positive and negative impacts of green projects are calculated internally or by external institution by the request of issuers. JCR evaluates the impacts based on this calculated results and it will not calculate the impacts by itself.

VIII Periodical Review

JCR may implement periodical review, if it finds the necessity to follow up the unallocated proceeds and planned environmental impact reporting after the issuance or the borrowing.

In the event that an evaluation is made against a green finance framework such as green finance including investment units, in principle, a periodic review shall be conducted on the implementation and appropriation of financing based on such framework and the status of green-eligible assets.

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Green Project listed in Green Bond Principle by ICMA[i], Green Loan Principle by LMA, Green Bond Guidelines by Ministry of Environment and in Green loan Guidelines

ICMA GBP	MOE Guidelines
Renewable energy (including production, transmission, appliances and products);	1. Renewable energy (including production, transmission, appliances and products) 1-1 Renewable energy power generation projects, including solar power, wind power, water power, biomass (limited to confirmed sustainability or waste origin), geothermal power. 1-2 Projects to install transmission or energy storage battery, to maintain, coordinate the demand and supply and store the energy which are generated by renewable energy 1-3 Projects to produce appliances and products such as solar panels, transmission wires, energy storage batteries, which are used for the above projects 1-4 Projects which use renewable energy power such as solar, geothermal power, etc.
Energy efficiency (such as in new and refurbished buildings, energy storage, district heating, smart grids, appliances and products); Green buildings which meet regional, national or internationally recognized standards or certifications.	2. Energy efficiency (including construction and of energy efficiency buildings, renovations to energy efficient buildings, air conditioning of the energy storage area, smart grid and appliances) 2-1 Net Zero Energy House (ZEH), Net Zero Energy Building (ZEB) and other construction of energy efficiency buildings 2-2 Renovating the existing buildings such as office, factories and houses to acquire the environment authentication such as LEED CASBEE BELS 2-3 Projects to install appliances or facilities which are energy efficient to office, factories, houses, data centers etc. 2-4 Projects that install facilities related to the effective use of energy such as energy storage, district heating and cooling, smart grids, etc.
Pollution prevention and control (including reduction of air emissions, greenhouse gas control, soil remediation, waste prevention, waste reduction, waste recycling and energy/emission-efficient waste to energy)	3. Pollution prevention and management (including waste water treatment, reduction of greenhouse gas control, soil remediation, waste recycling and associated environmental monitoring) 3-1 Projects to realize circular economy (Designing and producing energy efficient and long-life products, inverse, manufacturing and advanced waste treatment (including recycling and energy collection) 3-2 Projects to control the emission of hazardous chemical by preventing leakage, volatilization and penetration. 3-3 Projects to install facilities of advanced treatment and reuse of waste water from factories. 3-4 Projects to treat soil contamination
Environmentally sustainable management of living natural resources and land use (including environmentally sustainable agriculture; environmentally sustainable animal husbandry; climate smart farm inputs such as biological crop protection or drip-irrigation; environmentally sustainable fishery and aquaculture; environmentally - sustainable forestry, including afforestation or reforestation, and preservation or restoration of natural landscapes);	4. Environmentally sustainable management of living natural resources and land use (including environmentally sustainable agriculture, fisheries and aqua culture, forestry; IPM (Integrated Pest Management) of pests, drip irrigation) 4-1. Projects to acquire the certifications for sustainability such as MSC, ASC for fisheries and aquaculture. 4-2 Projects to acquire the certification for sustainability such as FSC for forestry. 4-3 Afforestation projects

ICMA GBP	MOE Guidelines
Terrestrial and aquatic biodiversity conservation (including the protection of coastal, marine and watershed environments);	5. Terrestrial and aquatic biodiversity conservation (including the protection of coastal, marine and watershed environments) 5-1 Projects to conserve wetland and coral leaf. 5-2 Projects to control avian and invasive species to prevent ecological damage caused by birds and animals including deers and invasive species 5-3 Projects to regenerate river protected shore to near-natural.
Clean transportation (such as electric, hybrid, public, rail, non- motorized, multi-modal transportation, infrastructure for clean energy vehicles and reduction of harmful emissions);	6. Clean transportation (low pollution emission cars such as public transportation, railways, bicycles, multi-modal transportation, infrastructure for clean energy vehicles and reduction of harmful emissions) 6-1 Projects to develop and produce electric cars (electric and hybrid cars etc.) and railways and others ,and to develop its infrastructure6-2 Projects to improve efficiency in development of planned physical distribution base, intensive transportation network, modal shift, co-sharing of transportation and distribution 6-2 Projects to introduce equipment to support eco-driving (digital type operation recorders) 6-3 Projects for developing facilities of park and ride and car sharing
Sustainable water and wastewater management (including sustainable infrastructure for clean and/or drinking water, wastewater treatment, sustainable urban drainage systems and river training and other forms of flooding mitigation);	7. Sustainable water and wastewater management (including sustainable infrastructure for clean and/or drinking water, wastewater treatment, sustainable urban drainage systems and river training and other forms of flooding mitigation); 7-1 Projects to preserve hydrologic cycle such as water source cultivation or soil infiltration of rain water (including developing green infrastructure) 7-2 Projects to develop facilities for flood mitigations 7-3 Desalination projects
Climate change adaptation (including information support systems, such as climate observation and early warning systems);	8. Climate change adaptation (including information support systems, such as climate observation and early warning systems); 8-1 Agriculture, forestry, fishery: Projects to develop and introduce climate resilient crop varieties, projects related to introduction of low environmental impact agriculture, etc. 8-2 Water environment, water resources: Projects related to efficient use of water resources and introduction of drought countermeasures, etc. 8-3 Natural ecosystem: Projects to develop green infrastructure such as ecosystem-based adaptation, and disaster prevention and mitigation by utilizing ecosystem (ECODRR), etc. 8-4 Projects to strengthen disaster prevention of distribution, railways, harbor, airport, road and water related infrastructure, waste treatment facilities, traffic safety devices and private real estate
Eco-efficient and/or circular economy adapted products, production technologies and processes (such as development and introduction of environmentally friendlier products, with an eco-label or environmental certification, resource-efficient packaging and distribution);	9. Eco-efficient and/or circular economy adapted products, production technologies and processes (such as development and introduction of environmentally friendlier products, with an eco-label or environmental certification, resource-efficient packaging and distribution); 9-1 Projects to produce the products which could acquire environmental certifications and environmentally friendlier products 9-2 Projects to implement R&D and introduction of greenhouse emission reduction technologies and products.

Eligibility Evaluation Sheet for Blue Projects Using IFC Blue Finance Guidelines

IFC Blue Finance Field	Alignment with ICMA GBP, LMA GLP	Alignment with SDGs 6, 14
Water Supply		
Sewage Treatment		
Chemical and Plastic Business with Low Impact on the Ocean		
Sustainable Shipping and Ports		
Fisheries, Aquaculture, and Seafood Value Chain		
Marin Ecosystem Preservation		
Sustainable Tourism		
Offshore Renewable Energy		

Eligibility Evaluation Sheet for Blue Projects Using UNEP FI SBEFI Guidance

Major categories	Subcategories	Eligibility
Coastal Resilience. Solutions Relying on Infrastructure and Natural Resources	Gray Infrastructure (man-made structures)	Eligible if the guidance worksheet is used to ensure that serious negative impacts to the ocean are avoided
	Natural Infrastructure	Ibid
Prevention and Control of Pollution	Service Chain (Collection and transportation)	Ibid
	Reuse/Recycle Chain	Ibid

[i] According to ICMA's Green Bond Principles, the above list is intended to be indicative and captures the most commonly used types of projects supported or expected to be supported by the Green Bond market. Green Projects may relate to more than one category. The categories, listed in no specific order, include, but are not limited to those.