

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

Japan Credit Rating Agency, Ltd. (JCR) announces its evaluation of Social Finance Framework as follows.

JCR Assigns Social 1 (F) to Social Finance Framework of AIFUL Corporation

Issuer/Borrower : AIFUL Corporation (Securities code: 8515)

Subject : AIFUL GROUP Social Finance Framework

< Evaluation Results of Social Finance Framework >

Overall Evaluation	Social 1 (F)
Socialness evaluation (Use of Proceeds)	s1 (F)
Management, Operation and Transparency Evaluation	m1 (F)

Chapter 1: Overview of Evaluation

AIFUL Corporation (hereinafter referred to as “AIFUL” or “the Company”) is one of the leading consumer finance companies and manages mainly a loan business as well as credit, guarantee and overseas businesses. AIFUL has LIFE CARD or others under its umbrella and expands its businesses in Thailand and Indonesia through its overseas subsidiaries.

The Company has not affiliated with any megabanks, has managed its own unique management and has diversified its businesses since the former president, Yoshitaka Fukuda founded its company in 1967. In July, 2011, AIFUL reorganized its group; e.g., a new company, LIFECARD took over the credit card business in its subsidiary, LIFE. Although its business temporarily slided down due in part to the impacts of revisions to the Money Lending Business Act, the trade receivables have steadily increased and the operations have also expanded since the year ended March 31, 2016.

AIFUL calls oneself an IT finance group and focuses on design, digital promotion and data analyses. The Company also emphasizes to diversify its business portfolio through diversifying its business and strengthening its overseas operations. AIFUL sets its management indicators as follows: equity ratio – 20%, ROE – more than 10%, ROA – more than 2% and operating assets – 10 percent growth. In the intermediate two-year plan announced in June 2022, AIFUL goes forward with the initiatives for the IT finance group, and sets its targets for the year ending March 31, 2024, the final fiscal year, as follows: operating receivables – JPY 1,120.0 billion (JPY 887.4 billion for the year ended March 31, 2022), operating revenue – JPY 157.0 billion (JPY 132.0 billion for the year ended March 31, 2022), ordinary profit – JPY 28.0 billion (JPY 12.2 billion for the year ended March 31, 2022), ROA – 2.4% (1.4% for the year ended March 31, 2022) and ROE – 12.4% (8.2% for the year ended March 31, 2022.)

This evaluation target is a framework mapped out by AIFUL (hereinafter referred to as “the Framework”) for new expenditures or refinancing to support small- and medium-sized enterprises (SMEs) and medical/nursing facilities and to provide financial services for individuals in emerging countries. JCR will evaluate whether the Framework complies with Social Bond Principles (2021 edition),¹ Social Loan Principles (2023 edition),² Social Bond Guidelines³ and SDGs goals. These principles or others are not regulations but principles or guidelines voluntarily published by International Capital Markets Association (“ICMA”), Loan Market Association (“LMA”) and the Financial Services Agency, respectively, and these are not binding. However, JCR evaluates the Company by referring to these principles and guidelines concerned as domestic and international uniform standards at this time.

The use of proceeds is beneficial to SMEs who needs proceeds to grow/continue their businesses as support for SMEs, companies who need business proceeds to maintain/continue medical/nursing care services as support for medical/nursing care facilities and individuals who find it difficult to do financing in countries where financial services are immature as provision of financial services for individuals in emerging countries. JCR evaluates that these uses of proceeds contribute to resolve social issues such as financial inclusion and are categorized as “access to essential services (finance)” in Social Bond Principles. JCR also evaluates that selection processes in projects, cash management systems and reporting are appropriately in place and are highly transparent as well.

Based on the aforementioned, JCR assigned “s1(F)” for “Social Evaluation (Use of Proceeds),” “m1(F)” for “Management/Operation/Transparency Evaluation” and “Social 1(F)” for “JCR Social Finance Evaluation” for the Framework based on JCR Social Finance Evaluation Methodologies. The Framework fully meets the standards for items required by Social Bond Principles, Social Loan Principles and Social Bond Guidelines and is also consistent with specific measures for SDGs goals and the government’s SDGs goals.

¹ Social Bond Principles 2021 Edition by ICMA (International Capital Market Association)

² Social Loan Principles 2023 <https://www.lsta.org/content/social-loan-principles-slp/>
Confirm conformity with Social Loan Principles since these are widely referenced globally at the present although these are not regulations thus not binding and are only "principles" voluntarily published by Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications and Trading Association.

³ Social Bond Guideline established by the Financial Services Agency in October, 2021.

Chapter 2: Current Status of Target Project in Each Evaluation Factor and JCR's Evaluation

Evaluation Phase 1: Socialness Evaluation

JCR evaluated that 100% of the proceeds were used for social projects and assigned the highest rank of “s1 (F)” for Phase 1: Socialness Evaluation based on the current status described below and JCR's evaluation on the subject.

(1) JCR's Key Consideration in This Factor

In this section, JCR first confirms whether the proceeds are used for social projects that bring about clear social benefits. Then, in cases where the use of proceeds is expected to have negative impacts on society and the environment, JCR confirms whether the impacts are fully examined by an internal specialized department or an external third party, and whether necessary measures are taken for its avoidance and mitigation. Finally, JCR confirms the consistency with Sustainable Development Goals (SDGs.)

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

<The Framework for Use of Proceeds>

Funds raised through social bonds and social loans will be used for new expenditures or refinancing with respect to qualified social projects as described below through group companies. If the funds are to be used for refinancing, the expenditure must be executed within three years prior to the date of issuance of the social bond or the date of execution of the social loan.

<Eligible Social Projects>

Project Category	SBP Category	Eligible Social Project's Outline and Project	SDGs
Support for small and medium Enterprise	Financing for SMEs and employment generation	Support for business funding for SMEs in need of funds for business growth and continuity <Project> <ul style="list-style-type: none"> Business loans of AG BUSINESS SUPPORT, which provides business financing support to SMEs AG Capital's growth-oriented funding support for medium-sized companies and startups 【Targets】 SMEs in need of funds for business growth and continuity	
Support for medical and nursing care facilities	Access to essential services	Support for business funds for hospitals and nursing care facilities <Project> <ul style="list-style-type: none"> AG MEDICAL's business funding support for healthcare and nursing care providers such as hospitals and nursing care facilities 【Targets】 People in need of medical and nursing care services or businesses in need of business financing to continue medical and nursing care services	
Provision of financial services to individuals in emerging countries	Access to essential services	Improvement of financial literacy by providing individuals with access to financial services in emerging economies with immature financial services <Project> <ul style="list-style-type: none"> Provision of access to financial services for people in the Kingdom of Thailand by A&A (AIRA&AIFUL) 【Targets】 Individuals with difficulty in raising funds in countries with immature financial services	

<Evaluation by JCR to the Framework>

a. Social Benefits of the Project

Proceeds financed under the Framework will be used for businesses with the following social benefits:

- (1) Maintain and create employment through providing proceeds for SMEs**
- (2) Business financing support for hospitals/nursing facilities**
- (3) Improving financial literacy in emerging countries where financial services are immature through providing access to financial services**

Category 1 (Use of Proceeds): Support for SMEs

Category 1 (Use of Proceeds) refers to investments and loans for leading medium-sized firms/SMEs made by AG BUSINESS SUPPORT CORPORATION and AG Capital, subsidiaries of AIFUL. The use of proceeds are categorized as “financing for SMEs and employment generation” that covers “SMEs in need of proceeds for business growth and continuity” under the eligible social project category in the social bond principles/guidelines.

“Eligible Criteria”: Support for business funding for SMEs in need of funds for business growth and continuity

“Targets”: SMEs in need of proceeds to grow and continue their businesses

“Business Overview”

<Business loans provided by AG BUSINESS SUPPORT CORPORATION>

This loan is a lending instrument that uses business proceeds without collaterals/guarantors with a maximum loan amount of JPY 10 million for sole proprietorships or companies, which is a loan on deed with equal monthly payments with interests (with a maximum repayment period of five years) or lump sum repayments (with a maximum repayment period of one year.) This loan is used for bridge finance such as temporary interim finance when microenterprises/SMEs (80 percent or more of companies have annual revenue of JPY 100 million or less) need substantial financing when expanding their businesses or at the end of a fiscal year.

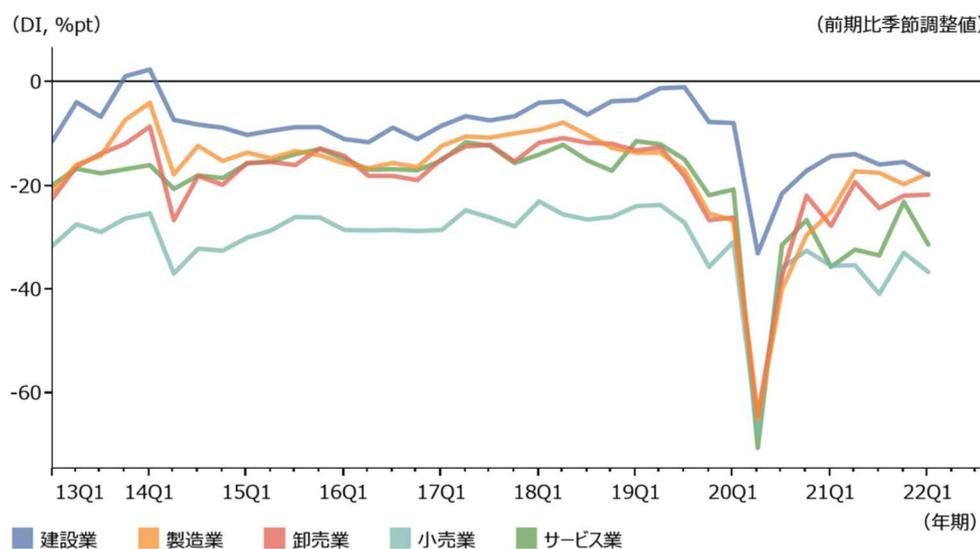
<AG Capital>

AG Capital established its first fund in 1986, aiming to provide opportunities to invest in medium-sized/ventures with high-growth potential. AG Capital also has established 21 funds to date with more than JPY 50 billion of a total amount of investments in capital. In particular, AG Capital mainly invests in leading medium-sized/start-up in information/communications, distribution/services and environmental/healthcare sectors as industrial targeting.

Although business conditions in SMEs are uptrend, there are still small-sized companies who have not recovered to the conditions prior to the outbreak of infectious diseases. Providing instruments that flexibly meet the financing demands concern since in particular, financing support directly leads to the maintenance of employment for SMEs with high labor shares.

According to White Paper on Small and Medium Enterprises in Japan in 2022, the sentiment DI for SMEs rapidly declined due to the stagnant economic and social activities caused by the outbreak of infectious diseases in 2020, and the severe decline is worse than that of the Lehman crisis in the second quarter. However, the sentiment DI subsequently rose for the two consecutive fiscal years. In 2021, the sentiment DI repeatedly rose and again fell in the first quarter of 2022. Although medium-sized enterprises recovered to a level that exceeds that before the coronavirus pandemic, small-sized companies are not fully recovered yet and their recoveries vary depending upon their corporate sizes.

Chart 1: Trends in sentiment DI by industry segment⁴



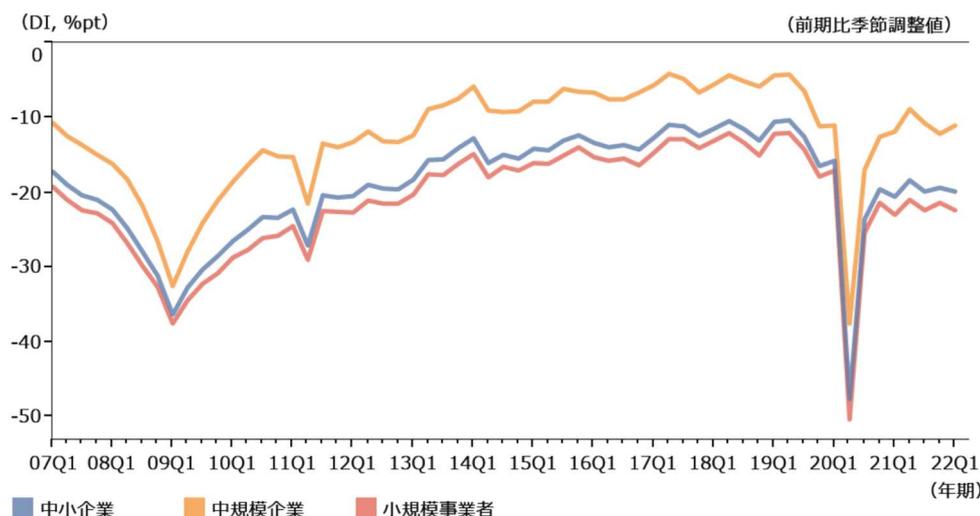
資料：中小企業庁・（独）中小企業基盤整備機構「中小企業景況調査」

（注）景況調査の業況判断DIは、前期に比べて、業況が「好転」と答えた企業の割合（％）から、「悪化」と答えた企業の割合（％）を引いたもの。

Cash flow conditions for SMEs are confirmed with Survey of Current Business in White Paper on Small and Medium Enterprises in Japan. The financial condition DI for SMEs fell sharply in the second quarter of 2020 due to a rapid decline in sales because of the coronavirus outbreak with which cash flow deteriorated but it significantly recovered in the third quarter. However, the recovery has been slow since 2021, and in particular small-sized firms are not recovered to the level before the outbreak of COVID-19.

⁴ Source: White Paper on Small and Medium Enterprises in Japan in 2022 (Japanese)

Chart 2: Changes in financial condition DI by corporate size⁵



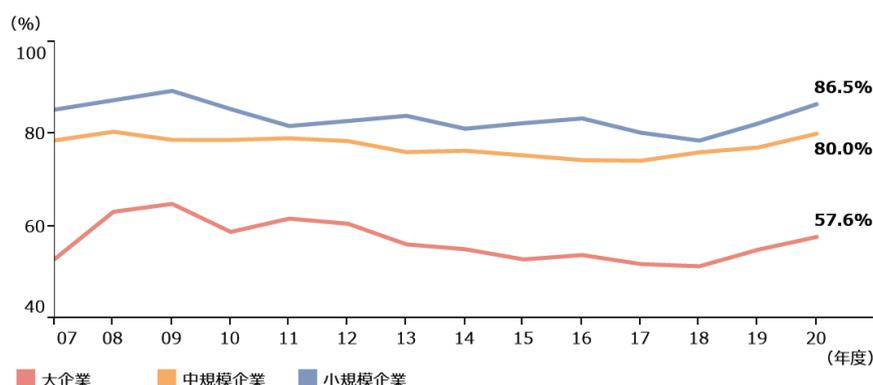
資料：中小企業庁・(独) 中小企業基盤整備機構「中小企業景況調査」

(注) 1.景況調査の資金繰りDIは、前期に比べて、資金繰りが「好転」と答えた企業の割合(%)から、「悪化」と答えた企業の割合(%)を引いたもの。

2.ここでは、中小企業とは中小企業基本法第2条第1項の規定に基づく「中小企業者」、小規模事業者とは中小企業基本法第2条第5項の規定に基づく「小規模企業者」、中規模企業とは中小企業から小規模事業者を除いた企業をいう。

The labor share of SMEs by corporate size is higher than that of large enterprises, which accounts for 80% or more of labor costs, indicating that cash flow management directly leads to the labor costs of employees. Thus, cash flow management support for SMEs plays an important role in maintaining employment and is of high social significance. It is necessary to continuously turn a virtuous cycle from expanding revenues to increasing wages in order for SMEs to continue to grow as enterprises and expand their businesses, and the important is to make investments in order to increase the added value generated by the enterprises that serve as the starting point.

Chart 3: Labor share by corporate Size



資料：財務省「法人企業統計調査年報」

(注) 1.ここでいう大企業とは資本金10億円以上、中規模企業とは資本金1千万円以上1億円未満、小規模企業とは資本金1千万円未満。

2.ここでいう労働分配率とは付加価値額に占める人件費とする。

3.付加価値額 = 営業純益 (営業利益 - 支払利息等) + 人件費 (役員給与 + 役員賞与 + 従業員給与 + 従業員賞与 + 福利厚生費) + 支払利息等 + 動産・不動産賃借料 + 租税公課。

4.金融業、保険業は含まれていない。

⁵ Source: White Paper on Small and Medium Enterprises in Japan in 2022 (Japanese)

According to White Paper on Small and Medium Enterprises in Japan in 2022, a start-up rate in Japan remained low, 5.1% in 2018, compared to that, 9 - 12% in other developed countries. Comparing to the amounts invested in ventures by VC or others (results in 2021), Japan ranked 11th with US 3.5 billion (JPY 455.0 billion) while the US ranked 1st with US 376.1 billion (roughly JPY 49 trillion), China ranked 2nd with US 61.1 billion (approximately JPY 8 trillion) and India ranked 3rd with US 37.7 billion (nearly JPY 6.2 trillion.) Although the growth rate has more than doubled over FY 2019, the important issues for the medium- to long term sustainable development in Japan hereafter⁶ is to promote innovation through financial support for high-quality start-up.

As a survey⁷ by the Bank of Japan (“BOJ”) is shown, an investment amount in venture businesses, including start-up is on the increase partly due to significant progress in digital transformation (DX) and climate changes worldwide during the past decade or so. Unlisted companies with corporate values that are more than JPY 100 billion (so-called “Unicorn”) started their businesses, albeit only still a few firms. Initial public offerings (“IPO”) by ventures or others also have continuously increased. IPO on Mothers, an emerging market (roughly equivalent to the current Growth market) reached a record high in 2021.

Chart 4: Financing amount by ventures⁸

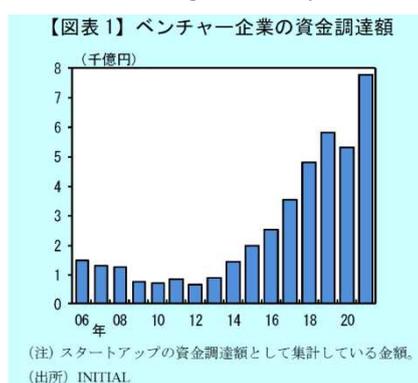


Chart 5: Number of Initial Public Offerings⁹



In a review by BOJ, the background to increasing investments by business companies is a recovery in investment capacities along with their improved business performance, an increase in a momentum toward open innovations in recent years and introduction of the special incentive tax system for open innovation in April 2020. The number of established specialized departments/Cooperate Venture Capital (“CVC”), an investment subsidiary, which invest in ventures, and the amount/number of funds structured by business companies or CVC have continuously risen. In particular, a research shows that the foundation of CVC who invested in DX-related and tackling climate changes are aggressive furthermore.

Venture ecosystems whose efforts lag behind those of overseas, are also gradually formulated, which is possibly contributing significantly to a capital inflow to venture businesses. The venture ecosystem refers to a mechanism collaborating with various entities such as the infrastructures or systems that support to grow ventures at each stage, the government, universities and large corporations. Silicon Valley in the United States is a representative example. Cases, evaluated by JCR, that do financing the following as use of proceeds are increasing: office research bases as clusters of ventures, interaction bases with large corporations and

⁶ Source: Nihon Keizai Shimbun, May, 2022, <https://www.nikkei.com/article/DGKKZO60565180W2A500C2TB0000>

⁷ Source: BOJ Review, Current Conditions and Challenges of Japanese Venture Business, June 2022

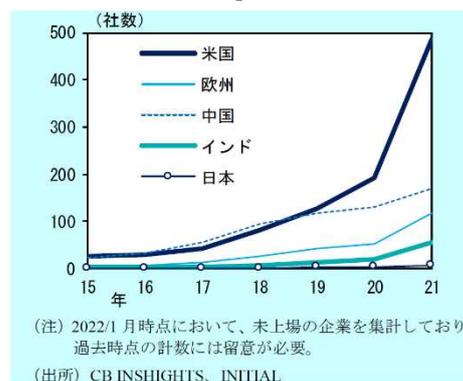
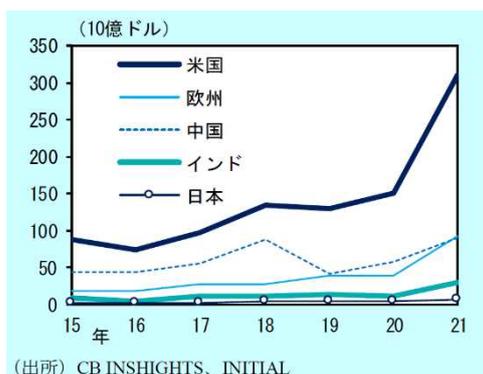
⁸ Source: BOJ Review, Current Conditions and Challenges in Japanese Venture Business, June 2022 (Japanese)

⁹ Source: BOJ Review, Current Conditions and Challenges in Japanese Venture Business, June 2022 (Japanese)

attracting supportive organizations in urban central areas conducted by major real estate developers. The ecosystem's infrastructure is in place through providing offices for ventures in Shibuya that has been incubation for start-up as well as providing offices for ventures or actively inviting accelerators to support entrepreneurs in Nihonbashi and Marunouchi. A survey by BOJ shows in the “Global Start-up Ecosystem Ranking,” which ranks cities that are easy for ventures to grow that Tokyo has steadily improved its evaluation; e.g., it unranked in 2019, ranked 15th in 2020 and ranked 9th in 2021. On the other hand, Japanese financing amounts are still lower, taking the number of overseas unicorn companies and their financing amounts into consideration.

Chart 6: International Comparison in Investment in Ventures¹⁰

Chart 7: International Comparison in the Number of Unicorn Enterprises¹¹



¹⁰ Source: Bank of Japan, Review by BOJ, Current Conditions and Challenges in Japanese Venture Business, June 2022 (Japanese)

¹¹ Source: Bank of Japan, Review by BOJ, Current Conditions and Challenges in Japanese Venture Business, June 2022 (Japanese)

Category 2 (Use of Proceeds) : Support for medical/nursing care facilities

Category 2 (Use of Proceeds) is to support business financing for hospitals/nursing care facilities by AG Medical, a subsidiary of AIFUL. The use of proceeds is categorized as “essential services (medical care/finance)” that covers “people who need medical/nursing care services and enterprises in need of business financing to maintain and continue medical/nursing care services” under the eligible social project category in the social bond principles/guidelines.

“Eligible Criteria”: Support for business funds for hospitals and nursing care facilities

“Targets”: People in need of medical and nursing care services or businesses in need of business financing to continue medical and nursing care services

“Business Overview”

<Medical loans secured by medical fee receivables and Nursing loans secured by nursing fee receivables>

This loan is a loan instrument that allows medical/nursing care companies such as hospitals and nursing care facilities to borrow business financing with a maximum loan amount of JPY 1 billion secured by medical fees and nursing care fees. Specifically, AG Medical provides loans secured by receivables owed to payment organizations of National Health Insurance Organization (*Kokuho*) or Health Insurance Claims Review & Reimbursement Services (*Shaho*).

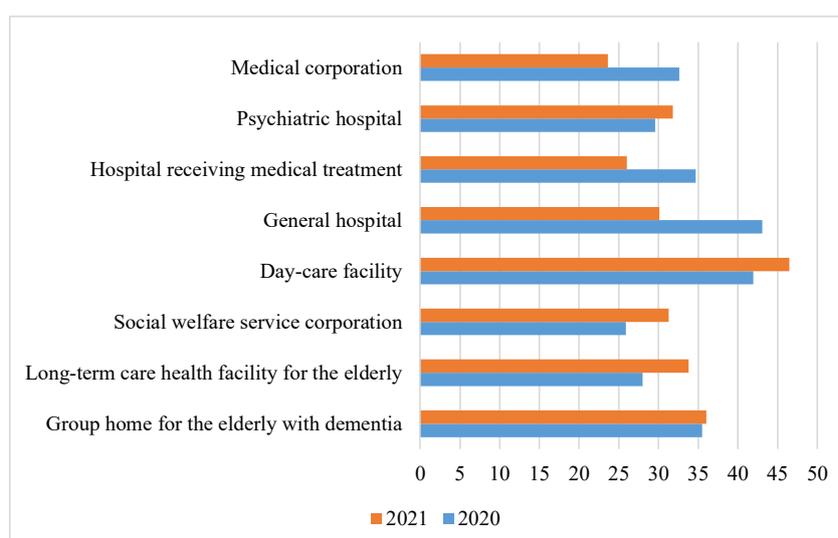


Social issues: Lag in compensation in medical institutions/nursing care facilities and business conditions of medical institutions or others

The portion of payments to medical institutions except for self pays by patients is paid by insurers of health insurance societies, which they purchased or national health insurance society. On the other hand, payments from Health Insurance Claims Review & Reimbursement Services and Tokyo Metropolitan National Health Insurance Organization are usually paid in two to three months, which may result in lags in expenses incurred, which is required for operating medical institutions/nursing care facilities. As measures to solve these lags to occur, the aforementioned Service and Organization use medical fees’ factoring services and medical loans secured by medical fee receivables provided by AG Medical.

According to a survey by Welfare and Medical Care Organization, some medical institutions and nursing care facilities have deficits by facility type as described in Chart 8. Collecting compensation as quickly as possible seems to be very advantageous in particular for financially troubled facilities.

Chart 8: Ratio of Facilities with Deficits such as Medical Institutions/Nursing Care Facilities (%)¹²



JCR evaluates that the business is socially highly beneficial since the eligible criteria for this loan support the cash flow management and business conditions of medical institutions or nursing care facilities, and furthermore, these lead to maintaining stable employment of medical/nursing care workers and provide patients with high-quality medical nursing care services.

Category 3 (Use of Proceeds) : Providing individuals in emerging countries with financial services

Category 3 (Use of Proceeds) is to provide financial services for individuals in emerging countries where financial services are immature by A&A, a subsidiary of AIFUL. This use of proceeds is categorized as “essential services (finance)” that covers “individuals who have difficulties in financing in countries where financial services are immature” under the eligible social project category in the social bond principles/guidelines.

“Eligible Criteria”: Improvement of financial literacy by providing individuals with access to financial services in emerging economies with immature financial services

“Targets”: Individuals with difficulty in raising funds in countries with immature financial services

“Business Overview”: Credit card loans and nano-finance for consumers provided by A&A

A&A provides credit card loans for consumers in Thailand in which improving financial literacy is one of the issues since Thai have been suffering from black-market finance for a long time. Household liabilities are relatively high in Thailand, comparing to those in neighboring countries or developed countries, and the household liabilities was 87% in the second quarter of 2022. According to a survey by JETRO, Thai Chamber of Commerce and Industry University (“UTCC”) announced in April 29, 2019 that its research targeted households with monthly income of 15,000 baht (approximately JPY 52,500, 1 baht is equivalent to nearly JPY 3.5) or less and showed that the average household liabilities increased by 15.1% from 2018 to approximately 158,000 baht (roughly JPY 553,000.) Approximately 86% of the respondents answered that they have no savings and borrow money to pay off their living expenses and loans, thus they have to be cautious about consumption. The survey also revealed that 58.2% of their debts were borrowed from financial institutions, whereas 41.8% of their debts were borrowed from unofficial loan sharks. Furthermore, the

¹² Source: Prepared by JCR based on materials disclosed by the Welfare and Healthcare Organization.

research indicated that low-income earners have extremely serious debts since approximately 80% of the respondents went into defaults in the last 12 months. The Thai government deploys operations to support farmers and low-income earners who tend to be multiple debtors and allows non-banks or others to use smaller finance systems with interest rate ceilings and lending limits through which the government encourages these people concerned to refinance their debts from loan sharks to those from formal financial institutions since it considers that debt burdens or problems over black-market financing exercise drags on its economy. In 2015, the government started to operate “Nano-finance,” a small finance system deployable nationwide in order for these debtors not to use black-market finance. The maximum loan amount is 0.1 million baht, and the maximum interest rate is 36% per annum, higher than the statutory interest rate; however, the operations are managed with lower interest rates under administrative guidance, taking risks in financial institutions who lend to low-income households without collateral into consideration. The government has also introduced “Pico-finance” with the upper limit of 50,000 baht since 2016 and is taking measures to encourage those borrowers to borrow money not from loan sharks but official financial providers. Considering the fact that some loan sharks make loans with interest rate of 30 – 50% a day or a month, the government hopes that the financial market for individuals will be healthier through Nano-finance or Pico-finance under administrative guidance.

A&A provides credit card loans for consumers and nano-finance under the Thai government regulations. Attributes of the outstanding loans as of March 31, 2022 show that lending to households who has less average monthly income accounts for 70% or more in Thailand, and lending for youth and the middle-aged accounts for 70%. Detailed credit lines are set depending upon borrowers’ incomes and their debt history, and 90% or less of the total limit is less than the lending limit defined by Nano-finance, and 70% or less of that is less than the lending limit defined by Pico-finance through which the government strives to prevent people from having multiple debts. A&A also endeavors to realize sound finance inclusion in Thailand through transmitting educational videos for improving financial literacy on its website.

Taking the aforementioned into consideration, JCR evaluates that the use of proceeds contributes to financial inclusion based on developing sound financial markets and improving financial literacy in Thailand.

b. Negative Impacts on Society and the Environment

AIFUL sets forth the following measures as initiatives to curb material adverse impacts on social and the environment in the Framework.

<The Framework on Initiatives to Reduce Negative Impacts on the Social Environment>

In order to prevent customers' cash flow from worsening and the occurrence of problems such as multiple debts, AIFUL Group investigates customers' repayment ability based on data from Designated Credit Bureau and its own credit system (including credit monitoring during the transaction period with customers) and tightens its credit criteria.

AIFUL Group also considers “thorough compliance” to be of the utmost importance, and in order to prevent the occurrence of misconduct incidents, such as violations of laws and regulations related to the money lending business and installment sales or leaks of information, AIFUL has established Compliance Committee (four times a year) as a direct advisory body to the Board of Directors. By collecting compliance-related information and implementing measures to prevent violations of laws and regulations, AIFUL verifies and ascertains the compliance system on a company-wide basis. Furthermore, AIFUL Group Compliance Committee (twice a year) has been established for the purpose of sharing unified corporate ethics throughout the Group and establishing a compliance system for the entire Group. In April 2007, the Group strengthened its internal control functions and legal compliance system by unifying the management of hotlines (internal reporting system), strengthening the functions to collect information on compliance and unifying the functions related to rewards and penalties. In addition, the Group has formulated businesses rules equipped with a function for enlightenment of legal compliance, strengthened the acquisition of legal knowledge and awareness of compliance with laws and regulations through internal education, strengthened the effectiveness of internal audits such as call monitoring and took other measures. At the same time, AIFUL Group has put in place a system to review these measures as appropriate. To reinforce these activities, the Group has installed Three Lines Model. The first line is on-site monitoring through self-inspection and the establishment of a Compliance Office in business divisions. The second line is internal control such as awareness-raising, education, and follow-ups by the Corporate Risk Management Department, the division in charge of controlling compliance. The third line is corrective measures determined based on appropriateness and effectiveness as evaluated in internal audits of the entire Group, including group companies and overseas subsidiaries, by the independent Group Internal Auditing Department.

The Group strives to “sever ties with antisocial forces,” to “partner with specialist organizations,” and to “respond to unreasonable demands in a resolute manner,” based on its Basic Policy on Antisocial Forces. To prevent money laundering and financing of terrorism, the Group also carries out KYC (know your customer) in response to the requests of international organizations such as the FATF (Financial Action Task Force), law enforcement and supervisory authorities.

Based on the aforementioned, JCR evaluates that AIFUL has identified negative impacts on social and the environment and has taken the necessary avoidance/mitigation measures.

c. Consistency with SDGs

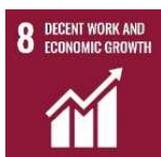
i. Consistency with SDGs mapping of ICMA

JCR evaluates that the use of proceeds in this loan will contribute to the following SDGs goals and targets while referencing to SDGs mapping of ICMA.



Goal 3: Good Health and Well-being

Target 3.8. Achieve universal health coverage (“UHC”), including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all



Goal 8: Decent Work and Economic Growth

Target 8.3. Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium sized enterprises, including through access to financial services

Target 8.10. Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all



Goal 9: Industry, Innovation and Infrastructure

Target 9.3. Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets

Target 9.5. Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including, by 2030, encouraging innovation and substantially, increasing the number of R&D workers per 1 million people and public and private R&D spending

ii. Consistency with SDGs Action Plans and Social Bond Guidelines

JCR confirmed that the projects subject to use of proceeds comply with the following items in the “social issues under the SDGs Action Plan, etc.” exemplified in Social Bond Guidelines by Financial Services Agency.

(1) Financing for SMEs and maintenance and creation of employment

Social Issues under the SDGs Action Plan, etc.: Regional Revitalization/Development		
Targets: SMEs in need of proceeds to grow and continue their businesses		Target
Investments/loans to promote and support the growth of regional SMEs	Maintenance and creation of employment through providing SMEs with proceeds	

(2) Support for medical/nursing care facilities

Social Issues under the SDGs Action Plan, etc.: Correspondence to an Aging Society, Achieving Good Health and Longevity		
Targets: People who need medical/nursing care services, and companies in need of business proceeds to maintain and continue medical/nursing care services		Target
Investment and loans in the health and medical sectors	Accesses to essential services (medical care and finance)	

(3) Providing financial services for individuals in emerging countries

*As the target business is overseas, no mapping is conducted with the Japanese SDGs Action Plan.

Evaluation Phase 2: Management, Operation, and Transparency Evaluation

JCR evaluated that the management and operation systems have been well developed, that transparency is very high and that it is promising that the projects will be implemented as planned and the proceeds will be adequately appropriated based on the current situation described below and JCR's evaluation of the subject. In Phase 2, JCR evaluated the management, operation and transparency to be the highest level of “m1.”

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 social finance, the appropriateness of social project's selection standards and processes, and whether a series of processes are properly disclosed to lenders/investors.

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

a. Target

AIFUL Group sets forth “Financial Inclusion” as a goal on sustainability and its initiatives for financial inclusion are as follows:

AIFUL Group's Initiatives for Financial Inclusion

Japan's financial industry has been maturing, and over-competition has become an issue in its industry structure. However, despite this industry structure, some people are unable to enjoy financial services under the current framework of the financial industry. As a service provider to these customers, AIFUL Group has been working to develop products based on the concept of financial inclusion.

In addition, based on its corporate philosophy of “Earn the trust of society through corporate activity based in integrity,” the Group will contribute to development of domestic industries by supporting companies that take on new challenges to achieve their future dreams. At the same time, the Group will contribute to society by providing business support for the medical and welfare fields, which have become major social issues due to the aging of the population.

For many customers beyond the attributes of debtors to enjoy the current financial services, it is necessary to create a new system. AIFUL Group aims to “grow as an IT financial group by reforming its organization and systems in response to changes in the business environment and utilizing digital technologies.” The Group will further expand its business and provide financial services through the creation of a new system utilizing information technology.

Proceeds financed through social financing by AIFUL will be used for businesses on supporting SMEs and medical/nursing care facilities and providing financial services for individuals in emerging countries. JCR evaluates that eligible projects in the Framework will contribute to the achievement of financial inclusion.

b. Selection criteria

The use of proceeds in the Framework is to support SMEs and medical/nursing care facilities and provide financial services for individuals in emerging countries. As described in Evaluation Phase 1, JCR evaluates that the aforementioned use of proceeds has significant social benefits.

c. Process

Eligible projects in the Framework are drafted by Finance Department, and after confirming the consistency with AIFUL Group's "Basic Sustainability Policy" and "AIFUL Compliance Code of Conduct," the final decision will be made by Executive Officers and Directors (including President and CEO) in charge of promoting sustainability. When evaluating and selecting a specific eligible project, Finance Department selects it after confirming the consistency with "Basic Sustainability Policy," "AIFUL Compliance Code of Conduct" and various laws and regulations and determining eligibility. Then, Executive Officers and Directors (including President and CEO) in charge of promoting sustainability will make the final decision. JCR evaluates that the management appropriately involves the processes to select projects.

The goals, selection criteria and processes stipulated in the Framework are described in this Evaluation Report and will be disclosed on AIFUL's website.

Based on the above, JCR evaluates that the process is properly in place and transparency to investors or others is maintained.

2. Adequacy and Transparency of Management of Proceeds

(1) JCR's Key Consideration in This Factor

It is usually assumed that how to manage proceeds varies widely depending upon borrowers/issuers. JCR confirms whether the proceeds financed through social finance are surely appropriated to social projects and whether a mechanism and internal system are in place to enable easy tracking and managing the appropriation status.

JCR also gives importance to whether proceeds are scheduled to be used for social finance at an early stage and to the evaluation of management/operation methods for unappropriated proceeds.

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

Proceeds financed under the Framework will be promptly and fully appropriated to social-eligible projects as refinancing through respective companies in AIFUL Group. Such appropriations will be made within a range not exceeding the borrowings in eligible-project-related Group and assets in eligible projects. Accordingly, there will be no unappropriated proceeds. In cases where there are any unpredictable unappropriated proceeds due to prepayment or others, the Company will appropriate these to the assets in the identical eligible project.

The proceeds are appropriated to social eligible projects through respective group companies who also manage the proceeds. Finance Department in AIFUL regularly monitors the proceeds so that the amount equivalent to proceeds or greater is appropriated to eligible projects as long as the balance of proceeds remains available. Finance Department tracks/controls the proceeds with a management table that shows an amount of proceeds received and its appropriation status, and the results are monthly reported in regular meetings in which AIFUL's managers and those with higher positions participate. Furthermore, a complete set of vouchers on tracking/controlling proceeds, including the aforementioned management table, is subject to audit internally and externally on a regular basis; therefore, it is considered to be fully controlled.

JCR evaluates that proceeds managed by AIFUL are appropriate and its transparency is high with the following: (1) the plan to appropriate proceeds is appropriately mapped out based on the Framework under which the proceeds concerned are certainly appropriated to social-eligible projects; (2) the said appropriation status is appropriately tracked/controlled and its internal control is properly planned and (3) there will be no unappropriated proceeds.

3. Reporting

(1) JCR's Key Consideration in This Factor

JCR evaluates whether the system for disclosing information to lenders/investors before and after financing social finance is planned in a detailed and effective manner in this section.

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

<The Framework on Reporting>

<p>< Funding Status Reporting ></p> <p>As long as there is an outstanding balance of funds raised in accordance with this framework, the following benchmarks will be disclosed annually on our website.</p> <ul style="list-style-type: none"> ■ Allocation amount for each business segment of qualified projects (including the ratio of new expenditure and refinancing) ■ Unallocated amount ■ Funding balance <p>The Company will disclose in a timely manner any significant changes in funding conditions after the raised funds have been allocated.</p>			
<p><Impact Reporting></p> <p>As long as there is an outstanding balance of funds raised in accordance with this framework, the following items related to social impact from qualified projects will be disclosed on our website on an annual basis to the extent that it is practicable to disclose:</p>			
Project Category	Impact reporting items		
	Output	Outcome	Impact
Support for Small and Medium Enterprise	Number and amount of funding for each category of services provided	Approximate number of businesses and employees receiving funding support for each category of services provided	Supporting the growth of SMEs and startups from the perspective of financial inclusion and maintaining employment by improving the stability of management
Support for medical and nursing care facilities	Number and amount of funding for each category of applicable facility	Estimated number of beds or employees providing medical or nursing services that have received financial support for each category of applicable facility	Providing access to medical and nursing care services to those in need and maintaining and improving medical and nursing care services
Provision of financial services to individuals in emerging countries	Number and amount of funding for services provided	Number and amount of financial services provided to young people (in their 20s and 30s)	Improving financial literacy by providing individuals with access to financial services

<Evaluation of JCR to the Framework>

a. Reporting on appropriation of financing

AIFUL will explain the use of proceeds financed through social finance to lenders/investors in advance. As long as the balance of proceeds remains available based on the Framework, the Company will annually disclose proceeds appropriated/unappropriated and outstanding proceeds on its website. In cases where there are any significant changes after financing is appropriated, the details will be disclosed in a timely manner on its website.

b. Reporting on social benefits

AIFUL will annually disclose reporting on the proceeds financed in the Framework. Disclosure will be made by dividing into an output, outcome and impact per social project, including support for SMEs and

medical/nursing care facilities and provision of financial services for individuals in emerging countries. JCR evaluates the reporting is appropriate since the detailed output and outcome to be disclosed are related to the achievement of targets set forth in the impacts.

JCR evaluates that reporting on the appropriation status of proceeds and social benefits will be properly disclosed to lenders/investors.

4. Organization’s Social Issues’ Initiatives

(1) JCR's Key Consideration in This Factor

In this section, JCR evaluates whether the management of borrowers/issuers highly prioritizes social issues for management and whether the financing policy for social finance and selection criteria/processes of social projects are clearly set through establishing a department specializing in social issues or in collaboration with external organizations.

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

In April 2021, AIFUL Group drew up VISION, MISSION and VALUE as shown in Chart 9 to crystallize its corporate philosophy, “Earn the trust of society through corporate activity based in integrity.” In VALUE with its key words, “sincerity,” “trust,” “effort” and “gratefulness,” AIFUL Group, as value to be provided to society, expressly states “We support consumption and economic activities of small business owners with our financial system” in which concepts of financial inclusion are incorporated.

Chart 9: VISION/MISSION/VALUE in AIFUL Group

VISION / MISSION / VALUE

| VISION |

For Colorful Life.

For realizing a society in which your traits will shine

Your originality in your daily life and work. AIFUL hopes to brighten our society further with the characteristics of individuals. So that all kinds of people can envision a future in which they will be able to be themselves, we value individuality.

| MISSION |

Toward customers	Toward society	Toward our staff
<p>Let's go beyond the expectations of customers</p> <p>Go beyond</p> <p>Requirements</p> <ul style="list-style-type: none"> To understand customers To think from the viewpoint of customers To give a proposal while foreseeing future trends <p>We always think from the viewpoint of customers and keep exceeding the expectations of customers with our swift services while devoting the utmost effort.</p>	<p>Let's create a better tomorrow</p> <p>Step forward</p> <p>Requirements</p> <ul style="list-style-type: none"> To create a happy tomorrow for everyone To continue our efforts to improve things <p>By improving things on a daily basis, we will contribute to the happy tomorrow of many people.</p>	<p>We respect the characteristics of each other</p> <p>Be unique</p> <p>Requirements</p> <ul style="list-style-type: none"> To exert one's individuality To recognize each other <p>While respecting the characteristics of each other, we will keep creating a variety of values.</p>

| VALUE |

Sincerity	Trust
<p>Be honest</p> <p>We will not betray our fellows or go against our rules</p>	<p>Build relationship</p> <p>What matters most is to trust the other person</p>
Effort	Gratefulness
<p>Try harder</p> <p>What matters is to exert all one's strength</p>	<p>Be grateful</p> <p>What matters is to appreciate and respect all stakeholders</p>

(Source: AIFUL’s “Annual Report for the fiscal year ended March 31, 2022”)

In “Basic Sustainability Policy” formulated in December 2021, AIFUL Group sets “creating products that meet society’s expectations” as a social priority issue, and then sets forth “Products development to meet the diverse financial needs of customers” as one of the initiatives to resolve these issues. Measures that embody the aforementioned are to support SMEs, which are social eligible projects in the Framework, and to provide financial services for individuals in emerging countries. AIFUL also sets up “social contribution and coexisting with the local community” as a prioritized social issue in the basic policy, and sets forth “loan secured by medical fee receivables” as one of its initiatives to resolve these issues. Measures related to the above are supporting for medical/nursing care facilities. In this way, promoting social eligible projects listed in the Framework will contribute to solve these social issues held out by AIFUL.

In AIFUL, mainly Corporate Planning/Finance Departments promote sustainability as a structure to promote sustainability-related initiatives under supervision of Executive Officers and Directors (including President and CEO) in charge of promoting sustainability. However, the Company has neither conference body nor departments specializing in sustainability, thus it is expected that the Company establishes them. JCR expects AIFUL to seek to enhance sustainability management further while having objectivities such as hearing the views of external academics with expert insight on social issues.

JCR evaluates that the management in AIFUL highly prioritizes social issues for its organizational initiatives.

Chart 10: Basic Sustainability Policy in AIFUL Group

Challenges	Initiatives	Relevant SDGs
Initiatives for Priority Environmental Issues		
Realization of a carbon-free society	Management of energy consumption	
	"Cool Biz" and "Warm Biz" Activities	
	Endorsement of "COOL CHOICE"	
	Efforts to improve operational efficiency	
	Reducing the number of multifunction devices	
	Management of air conditioner operating hours	
	Shift to LED lighting fixtures at Kusatsu Center	
Promoting Resource Recycling	Promotion of stair use	
	Waste separation and recycling	
	Eco-cap campaign	
	Introduction of RECOLO	
	"Green Fund-raising" activities	
	Reuse of stationery among departments	
	Promotion of paper-saving campaigns	
Promoting the Purchase of Green products and Eco Mark certified products		
Introduction of paperless, online statements		
Initiatives for Priority Social Issues		
Creating Products that Meet Society's Expectations	Product development to meet the diverse financial needs of customers	-
	Service quality improvement by collecting customer feedback and using it to enhance our services	
	Establish a comprehensive support system for customers	
	Provide products which completes non face to face way	
	AIFUL-CSIRT (formation of an early warning and resolve team for cyber-attacks)	
Workplace and Work Environment	Establishment of the Human Resources Outline	
	Harassment hotline	
	Conduct an awareness and satisfaction survey through employee self-assessment surveys	
	Employee stock ownership plan	
	Expanding Human resource development system	
	Support for variety personal development	
	Flextime system	
	Promoting health checkups and stress checkups	
	Purchase of emergency stockpiles of disaster	
	Introduction of Telework and Staggered working hours	
	Supervising working hours and paid leave acquisition	
Barrier-Free Building		
Hold emergency drills		
Promoting Diversity	Platinum Kurumin certification	
	Expand hiring female	
	Development and promotion of female employees	
	Retiree re-employment system	
	Employment of persons with disabilities	
Social Contribution and Coexisting with the Local Community	Support the Measures against Covid-19	
	Sponsorship of Hackathon	
	Volunteer leave system	
	Blood donation activities	
	Neighborhood clean-up project	
	Installation of AEDs and hold life-saving seminars	
	Initiatives for donations associated with large-scale disasters	
	Social Contribution through Credit Cards	
Charity courses (point donation system)		
Loan secured by medical fees receivables		

(Source: AIFUL)

■Evaluation Results

Based on its JCR Social Finance Evaluation Methodology, JCR assigned “s1 (F)” for “Socialness Evaluation (Use of Proceeds) and “m1 (F)” for “Management, Operation and Transparency Evaluation.” As a result, JCR assigned “Social 1 (F)” for “JCR Social Loan Evaluation.” The Framework fully satisfies the standards for the items required in Social Bond Principles, Social Loan Principles and Social Bond Guidelines, and it is consistent with concrete measures toward SDGs targets and the government’s SDGs goals.

<JCR Social Finance Framework Evaluation Matrix>

		Management, Operation and Transparency Evaluation				
		m1(F)	m2(F)	m3(F)	m4(F)	m5(F)
Social Evaluation	s1(F)	Social 1(F)	Social 2(F)	Social 3(F)	Social 4(F)	Social 5(F)
	s2(F)	Social 2(F)	Social 2(F)	Social 3(F)	Social 4(F)	Social 5(F)
	s3(F)	Social 3(F)	Social 3(F)	Social 4(F)	Social 5(F)	N/A
	s4(F)	Social 4(F)	Social 4(F)	Social 5(F)	N/A	N/A
	s5(F)	Social 5(F)	Social 5(F)	N/A	N/A	N/A

(Responsible analysts for this evaluation) Atsuko Kajiwara and Shintaro Arai

Important Explanation on this Evaluation

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

JCR Social Finance Framework Evaluation, which is granted and assigned by Japan Credit Rating Agency, Ltd. (JCR), covers the policies set out in the Social Framework, and expresses the overall opinion of JCR at this time regarding the appropriateness of Social 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 social contributions, management and operation systems, and transparency of individual bonds and borrowings to be implemented based on these policies. In the event that an individual bond or individual borrowing based on the Framework is subject to a social finance evaluation, a separate evaluation is required. In addition, JCR Social Framework Evaluation does not demonstrate social improvement effects of individual bonds or borrowings implemented under the Framework, and does not assume responsibility for social improvement effects. In principle, JCR does not directly measure social improvement effects of proceeds financed under Social Framework although JCR confirms items measured quantitatively and qualitatively by the issuer or a third party requested by the issuer.

2. Methodologies used to perform this evaluation

The methodologies used in this evaluation are described in “JCR Social Finance Evaluation” on the “Sustainable Finance/ESGs” section of the JCR website (<https://www.jcr.co.jp/en/>)

3. Relationship with Acts concerning Credit Rating Business

The act of granting and assigning an assessment of JCR Social Finance Framework is conducted by JCR as a related business and differs from the act related to the credit rating business.

4. Relationship with Credit Ratings

The evaluation is different from the Credit Rating and does not commit to provide a pre-determined credit rating or make available for inspection

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

There are no capital or personnel relationships that may result in a conflict of interest between the evaluation parties and JCR.

■Points to consider

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JCR Social Finance Framework Evaluation: the extent to which the proceeds financed based on the Framework are appropriated for social projects as defined by JCR, and the degree to which the management, operation, and transparency of the use of proceeds are evaluated. Evaluations are performed on a 5-point scale, from top to bottom, using evaluation symbols of the Social 1 (F), Social 2 (F), Social 3 (F), Social 4 (F) and Social 5 (F).

■Status of registration as an external evaluator of sustainable finance or others

- Ministry of the Environment: Registered as a supporter for issuing Green Bond
- ICMA (registered as an observer of the International Capital Markets Association): Member of Social Bonds Working Group
- UNEP FI: Positive Impact Financial Principles: Members of Working Group

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

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

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