

# POST ISSUANCE REVIEW<sup>1</sup>

## OF THE MANAGEMENT OF JFM'S GREEN BOND ISSUED IN FEBRUARY 2020

November 2020

### SCOPE

In January 2020, Vigeo Eiris was commissioned to provide an independent opinion (thereafter "Second Party Opinion" or "SPO") on the sustainability credentials and management of the Green Bond<sup>2</sup> (the "Bond") proposed to be issued by Japan Financing Organization For Municipalities' (the "JFM" or the "Issuer"). We issued our SPO on January 13<sup>th</sup>, 2020.

As of today, Vigeo Eiris has been commissioned by JFM to provide an independent opinion (or "Review") on the management of the 2020 Green Bond.

Our opinion is established according to our Environmental, Social and Governance ("ESG") exclusive assessment methodology and to the latest version of the International Capital Market Association's Green Bond Principles ("GBP") voluntary guidelines edited in June 2018.

Our opinion is built on the review of the coherence between the Issuer's initial commitments and the Green Bond Principles with the following elements:

1. Bond processes implemented
2. Allocation process and results obtained from the use of Bond proceeds financing Eligible Projects
3. Reporting on the environmental benefits of the Eligible Projects

Our sources of information are multichanneled, combining data from (i) public information gathered from public sources, press content providers and stakeholders, (ii) information from Vigeo Eiris' exclusive ESG rating database, and (iii) information provided by the Issuer through documents.

We carried out our due diligence assessment from October 13<sup>th</sup> to October 26<sup>st</sup>, 2020. We consider that we were provided with access to all the appropriate documents we solicited. We consider that the information made available enables us to establish our opinion with a reasonable level of assurance on its completeness, precision and reliability.

### VIGEO EIRIS' OPINION

**Vigeo Eiris is of the opinion that the Green Bond issued in 2020 by JFM remains aligned with the GBP 2018. We maintain a reasonable<sup>3</sup> level of assurance on the sustainability of the Bond.**

- ▶ We express a reasonable assurance on the Issuer's capacity to use the Bond's proceeds to finance and refinance Eligible Projects in line with its initial commitments.
- ▶ We express a reasonable assurance on the Issuer's capacity to implement the evaluation and selection process, in line with its initial commitments.
- ▶ We express a reasonable assurance on the Issuers' capacity to manage the proceeds, in line with its initial commitments.
- ▶ We express a reasonable assurance on the Issuer's capacity to implement the reporting process in line with its initial commitments:
  - First, we express a reasonable assurance on the Issuer's capacity to report on the fund allocation, in line with its initial commitments. The indicators used to report on the allocation of proceeds are complete and relevant, at both category and bond level.
  - We express a reasonable assurance on the Issuer's capacity to report on the environmental benefits and impacts of the financed Eligible Projects, in line with its initial commitments. The indicators used to report on the environmental benefits (outputs, outcomes and impacts) are relevant and complete.

<sup>1</sup> This Review is to be considered as the "Consultant review" described by the International Capital Market Association ([www.icmagroup.org](http://www.icmagroup.org)).

<sup>2</sup> The "Green Bond" is to be considered as the bond issued, subject to the discretion of the Issuer. The name "Green Bond" has been decided by the Issuer: it does not imply any opinion from Vigeo Eiris.

<sup>3</sup> Definition of Vigeo Eiris' scales of assessment (as detailed in the Methodology section):

- Level of Evaluation: Advanced, Good, Limited, Weak.
- Level of Assurance: Reasonable, Moderate, Weak.

Summary: level of assurance on the Issuer's/Borrower's capacity to :				
Use the proceeds to finance Eligible Projects	Allocation of the proceeds	Management of proceeds	Report on the allocation of proceeds	Report on the environmental benefits
<b>Reasonable</b>	<b>Reasonable</b>	<b>Reasonable</b>	<b>Reasonable</b>	<b>Reasonable</b>
Moderate	Moderate	Moderate	Moderate	Moderate
Weak	Weak	Weak	Weak	Weak

*This Post-Issuance Review is based on the review of the Bond issued by JFM in January 2020 and of its annual reporting according to our exclusive assessment methodology and to the GBP voluntary guidelines (June 2018)*

Paris, November 5, 2020

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This opinion aims at providing a post-issuance independent review on the sustainability credentials and management of the Bond, based on the information which has been made available to Vigeo Eiris. Vigeo Eiris has neither interviewed stakeholders out of the Issuer's employees, nor performed an on-site audit nor other test to check the accuracy of the information provided by the Issuer. The accuracy, comprehensiveness and trustworthiness of the information collected are a responsibility of the Issuer. Providing this review does not mean that Vigeo Eiris certifies the effectiveness, the excellence or the irreversibility of the assets financed by the Bond. The Issuer is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by Vigeo Eiris neither focuses on the financial performance of the Bond, nor on the effective allocation of its proceeds. Vigeo Eiris is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction.

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## DETAILED RESULTS

### Use of Proceeds

**We express a reasonable assurance on the Issuer's capacity to use the Bond's proceeds to finance Eligible Projects in line with its initial commitments and with GBP 2018 requirements.**

According to the information provided by the Issuer, 100% of the net proceeds of the issuance have been used to finance Eligible Projects for a total amount of EUR 500 million. Vigeo Eiris had access to the list of all projects financed by the Bond, also publicly available in JFM's Green Bond Impact Report 2020<sup>4</sup>.

In particular, the Bond's proceeds have been reported by the Issuer as used to finance Eligible Projects under the Sustainable Water and Wastewater Management Eligible Category:

Development, construction, maintenance, updates, operation of sewerage related assets, which are in line with sewerage drainage standards set by Japanese law including (100% of net proceeds):

- Pipes (55% of net proceeds)
- Sewerage Management Related Facilities (7% of net proceeds)
- Pump Station (5% of net proceeds)
- Advanced Treatment Plant (3% of net proceeds)
- Purification Center (1% of net proceeds)
- Others (29% of net proceeds)




The Issuer reported that the refinancing rate for sewerage projects was 0%.

The Eligible Projects effectively contribute to the environmental objectives initially defined by the Issuer namely: Pollution Prevention and Control, Water Resource Conservation, and Renewable energy generated from sewage sludge, sewage sludge recycling (Material Recycling).




The Issuer had initially committed to assess the following environmental benefits of the Eligible projects: improvement of water quality, efficient use of energy and the recycling of sewage sludge.

We consider the environmental benefits to be clearly assessed, in line with the Issuer's initial commitment.

We consider that the selected Eligible Projects contributed to the following United Nations' Sustainable Development Goal, namely Goal 3. Good Health and Well-being, Goal 6. Water and Sanitation, Goal 11. Sustainable Cities and Communities, Goal 13. Climate Action, Goal 14. Life Below Water and Goal 15. Life on Land.

Eligible Category	SDG		SDG Targets
Sustainable water and wastewater management		SDG 3. Good health and well-being	3.9. By 2030, substantially Reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination.
		SDG 6. Clean Water and Sanitization	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.
		SDG 11. Sustainable Cities and Communities	11.5 By 2030, significantly reduce the number of deaths and the number of people affected and substantially decrease the direct economic losses relative to global gross domestic product caused by disasters, including water-related disasters, with a focus on protecting the poor and people in vulnerable situations.

<sup>4</sup> <http://www.jfm.go.jp/en/pdf/impactreport2020.pdf#page=1>

Eligible Category	SDG		SDG Targets
		SDG 13. Climate Action	The Assets are likely to contribute to SDG 13 which consists in adopting urgent measures to combat climate change and its effects.
		SDG 14. Life Below Water	14.1 By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution.
		SDG 15. Life on Land	15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements.

### **Process for Project Evaluation and Selection**

**We express a reasonable assurance on the Issuer's capacity to implement the evaluation and selection process, in line with its initial commitments and with GBP 2018 requirements.**

The evaluation and selection process of the Eligible Projects appears to be efficiently implemented. Vigeo Eiris (VE) had access to all of the appropriate documents (see below).

- The process applied appears to be based on relevant expertise internal and external expertise:
- JFM's Green Bond Working Group consists of members of the corporate planning department, finance department and the loan department including members who have experience in local government projects related to the environment, and was responsible for ensuring that the allocation of the net proceeds (or an amount equal to the net proceeds) of the issuance of the Green Bonds was in alignment with the eligibility criteria set forth in its Green Bond Framework. The loan department confirmed that the borrower has obtained consent or approval on the borrowing, in accordance with the requirements of Japanese law.
- Following the extension of loans by JFM to the Eligible Projects, JFM's Green Bond Working Group conducted surveys with the relevant local governments to gain impact metrics.
- The net proceeds (or an amount equal to the net proceeds) of the issuance of the Green Bonds were allocated to Eligible Projects, and a portfolio (the Effective Portfolio) was selected from the Eligible Projects based on projects run by local governments which returned effective responses to a follow-up survey.
- Traceability of the selection and evaluation process is ensured through an annual verification/meeting minutes as well as related documents of the selected assets by the JFM's Green Bond Working Group.

We maintain our area for improvement which consists in having an external verifier review the compliance of the selection process with the Issuer's commitments.

### **Management of Proceeds**

**We express a reasonable level of assurance on the Issuer's/Borrower's capacity to implement the allocation process, in line with its initial commitments and with GBP 2018 requirements.**

The allocation process appears to be efficiently implemented. The Issuer declares that the management of proceeds has been made according to its initial commitment:

- Prior to the allocation to loans for Eligible Projects, an amount equal to the net proceeds of the issuance of the Green Bonds were invested in JFM's liquidity portfolio in cash and cash equivalents.

- The Issuer fully allocated the net proceeds to the Eligible Project by 31 March 2020 after issuance.
- JFM's Green Bond Working Group tracked, monitored and accounted for the allocation of the net proceeds (or an amount equal to the net proceeds).
- JFM conducted inspections and examinations on projects which JFM has funded to ensure allocation of net proceeds (or an amount equal to the net proceeds) to the Eligible Projects.

We maintain our area for improvement which consists in having an external verifier to review the tracking method and the allocation of the proceeds.

### **Reporting**

**We express a reasonable assurance on the Issuer's capacity to implement the reporting process, in line with its initial commitments and with GBP 2018 requirements.**

**We express a reasonable assurance on the Issuer's capacity to report on the fund allocation.** The indicators used for the fund allocation reporting are complete and relevant, at both Effective Portfolio and bond level, including:

- List of projects financed by the Bond, with related description of each project
- Total cost of financed Eligible Projects (in JPY)
- Amounts allocated to Eligible projects (in JPY) and % of total cost of projects

**We express a reasonable assurance on the Issuer's capacity to report on environmental benefits of the financed Eligible Projects in line with its initial commitments.**

Both the financial and environmental data have been efficiently monitored and verified

The issuer has committed to report annually until full allocation of the proceeds, and to make publicly accessible its reports on the Issuer's official website.

JFM's reporting is publically available in its Green Bond Impact Report 2020.

The indicators proposed in the reporting to assess the environmental benefits (outputs, outcomes and impacts) are complete and relevant:

<b>Issuer's reporting</b>	
<b>Eligible subcategories of Project</b>	<b>Output, Outcome and Impact Indicators</b>
New Construction / Update of Sewerage Management Related Facilities	<ul style="list-style-type: none"> <li>– Covered area population (nb. of inhabitants)</li> <li>– Water Management Capacity (wastewater treated to appropriate standards in m<sup>3</sup> per month/year)</li> <li>– Water Quality Impact (will confirm the treated water is compliant with related laws and regulations in Japan)</li> <li>– Other Positive Environmental Impact (If any)</li> </ul>
New Construction / Update of Facility/Equipment	<ul style="list-style-type: none"> <li>– Covered area population (nb. of inhabitants)</li> <li>– Absolute amount of sludges treated and disposed of (in tonnes of dry solids per month/year) (if any).</li> <li>– Other Positive Environmental Impact (If any)</li> </ul>
New Construction / Update of Pipes	<ul style="list-style-type: none"> <li>– Newly constructed pipe length (m) and/or Total Pipe length (m)</li> <li>– Covered area population (nb. of inhabitants)</li> <li>– Other Positive Environmental Impact (If any)</li> </ul>

In addition, the Issuer provides 4 cases studies related to 4 of its Eligible Projects.

The methodology calculation and assumptions have been transparently communicated in the Issuer's reporting.

The reporting complies with the Issuer's commitment to report in case of ESG controversy and in case of material development.

We note that the reported results are aligned/above the estimated benefits presented in the initial SPO.

We maintain our areas for improvement to mandate an external verification of the data used to report on the environmental benefits of the bonds.

## METHODOLOGY

In Vigeo Eiris' view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organization activity or transaction. In this sense, Vigeo Eiris writes an opinion on the Issuer's Corporate Social Responsibility as an organization, and on the Issuance through the objectives, management and reporting of the assets/projects to be (re)financed.

Vigeo Eiris' methodology for the definition and assessment of the ESG performance is based on criteria aligned with public international standards, in compliance with the ISO 26000 guidelines, and organized in 6 domains: Environment, Human Resources, Human Rights, Community Involvement, Business Behaviour and Corporate Governance. The evaluation framework has been customized regarding material issues, based on our relevant sector ESG assessment frameworks and on specific issues considering the Issuer's business activity.

Our research and rating procedures are subject to internal quality control at three levels (analysts, heads of cluster sectors, and internal review by the audit department for second party opinions) complemented by a final review and validation by the Direction of Methods. A right of complaint and recourse is guaranteed to all companies under our review, including three levels: first, the team linked to the company, then the Direction of Methods, and finally Vigeo Eiris' Scientific Council. All collaborators are signatories of Vigeo Eiris' Code of Conduct.

### Eligible Projects review

The analysis of the conformance with the Issuer's initial commitments covers both the eligibility criteria (based on the definition of Eligible Projects categories, use of proceeds requirements) and the selection criteria (based on the ESG commitments).

Our review covers both the implementation of the initial commitments made by the Issuer in the SPO, and the annual reporting made after the issuance by JFM of its Green Bond (2020):

- Fund allocation, reporting on the use of proceeds, considered as a primary component and mandatory to achieve reasonable level of assurance at Bond level; and
- Environmental benefits, reporting on outputs, outcomes and impact indicators, considered as a primary component and mandatory to achieve reasonable level of assurance at Bond level.

### Bond review

The analysis of the implementation of the Bond processes and commitments covers:

- The evaluation and selection process, i.e. assessment of the coherence and efficiency of the implemented process, and of the exhaustiveness of the ESG issues covered; and
- The allocation of proceeds process, based on the rules for management of proceeds defined prior to the issuance of the Bond.

The analysis of the existence and completeness of the reporting, at Bond level, according to the Issuer's initial commitments, also covers two components:

- Fund allocation, reporting on the aggregated use of proceeds, considered as a primary component and mandatory to achieve a reasonable level of assurance at Bond level;
- Social and environmental benefits, reporting on aggregated output and impact indicators, considered as a primary component and mandatory to achieve a reasonable level of assurance at Bond level;

### Reporting

The reporting indicators in place for the allocation of proceeds and for the sustainable benefits are evaluated according to the quality of the indicators (exhaustiveness and relevance), and considering the reporting nature and management (format, visibility, data collection, etc.).

The evaluation of the projects results is conducted at Bond level, including aggregated reporting, based on environmental benefits, considered as essential to achieve a good performance.

VIGEO EIRIS' ASSESSMENT SCALES			
Performance evaluation		Level of assurance	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the objective of social responsibility. Reasonable level of risk management and using innovative methods to anticipate emerging risks.	Reasonable	Able to convincingly conform to the prescribed principles and objectives of the evaluation framework
Good	Convincing commitment; significant and consistent evidence of command over the issues. Reasonable level of risk management.	Moderate	Compatibility or partial convergence with the prescribed principles and objectives of the evaluation framework
Limited	Commitment to the objective of social responsibility has been initiated or partially achieved; fragmentary evidence of command over the issues. Limited to weak level of risk management.	Weak	Lack or unawareness of, or incompatibility with the prescribed principles and objectives of the evaluation framework
Weak	Commitment to social responsibility is non-tangible; no evidence of command over the issues. Level of insurance of risk management is weak to very weak.		





Vigeo Eiris is an independent international provider of environmental, social and governance (ESG) research and services for investors and public & private organizations. We undertake risk assessments and evaluate the level of integration of sustainability factors within the strategy and operations of organizations.

Vigeo Eiris offers a wide range of services:

- ▶ **For investors:** decision making support covering all sustainable and ethical investment approaches (including ratings, databases, sector analyses, portfolio analyses, structured products, indices and more).
- ▶ **For companies & organizations:** supporting the integration of ESG criteria into business functions and strategic operations (including sustainable bonds, corporate ratings, CSR evaluations and more).

Vigeo Eiris is committed to delivering client products and services with high added value: a result of research and analysis that adheres to the strictest quality standards. Our methodology is reviewed by an independent scientific council and all our production processes, from information collection to service delivery, are documented and audited. Vigeo Eiris has chosen to certify all its processes to the latest ISO 9001 standard. Vigeo Eiris is an approved verifier for CBI (Climate Bond Initiative). Vigeo Eiris' research is referenced in several international scientific publications.

With a team of more than 240 experts of 28 different nationalities, Vigeo Eiris is present in Paris, London, Brussels, Milan, Montreal, Hong Kong, Casablanca, Rabat and Santiago.

The Vigeo Eiris Global Network, comprising 4 exclusive research partners, is present in Brazil, Germany, Israel and Japan.

For more information: [www.vigeo-eiris.com](http://www.vigeo-eiris.com)

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