

Second-Party Opinion

Mitsubishi HC Capital Inc. Sustainable Bond Framework

Second-Party Opinion

Reviewed by:

MORNINGSTAR

SUSTAINALYTICS



Evaluation Summary

Sustainalytics is of the opinion that the Mitsubishi HC Capital Inc. Sustainable Bond Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2021. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – Renewable Energy, Green Buildings, and Access to Essential Services – are aligned with those recognized by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDG 3, 7, and 9.



PROJECT EVALUATION AND SELECTION Mitsubishi HC Capital Inc.'s Environment & Energy Business Department, Real Estate Business Department, or Healthcare Business Department will be responsible for selecting candidate eligible projects. The final decision will be made by a relevant approver ranging from the related General Managers to the Board of Directors respectively, depending on the monetary amount of the projects. Afterwards, from the list of approved candidate projects, Mitsubishi HC Capital Inc.'s Treasury Department will determine projects for the allocation of bond proceeds, verifying the alignment with the eligibility criteria under the Framework. Mitsubishi HC Capital Inc. has in place environmental and social risk management systems that are applicable to all eligible projects under the Framework. Sustainalytics considers the project selection process in line with market practice.



MANAGEMENT OF PROCEEDS Mitsubishi HC Capital Inc.'s Treasury Department will allocate proceeds to eligible projects using internal management files. The proceeds will be tracked and managed until the full redemption of bonds. Unallocated proceeds will be held in cash or cash equivalents. This is in line with market practice.



REPORTING Mitsubishi HC Capital Inc. will annually report on the allocation of proceeds and environmental impacts on its website until the full redemption of bonds. The report will include the outstanding amount of the bond, the amount of allocated and unallocated proceeds, and relevant qualitative and quantitative impact metrics by eligible project category. Sustainalytics views Mitsubishi HC Capital Inc.'s allocation and impact reporting as aligned with market practice.

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Introduction

Mitsubishi HC Capital Inc. (“Mitsubishi HC Capital” or the “Company”), headquartered in Tokyo, was established in April 2021 from the integration of Mitsubishi UFJ Lease & Finance and Hitachi Capital. By leveraging the strengths of each business and the complementary relationship between the two former companies, Mitsubishi HC Capital develops an advanced asset business, comprising the five areas of focus; “Social Infrastructure & Life”, “Environment & Energy”, “Sales Finance”, “Mobility”, and “Global Assets”.

Mitsubishi HC Capital has developed the Mitsubishi HC Capital Inc. Sustainable Bond Framework (the “Framework”), dated March 2023, under which it intends to issue green, social, or sustainability bonds and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects that are expected to generate positive environmental and/or social impact.

The Framework defines green eligibility criteria in two green categories:

1. Renewable Energy
2. Green Buildings

The Framework also defines social eligibility criteria in one category:

1. Access to Essential Services

Mitsubishi HC Capital engaged Sustainalytics to review the Mitsubishi HC Capital Inc. Sustainable Bond Framework, dated March 2023, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP), and Social Bond Principles 2021 (SBP).¹ This Framework has been published in a separate document.²

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent³ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2021, as administered by International Capital Market Association (ICMA);
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.13.2, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Mitsubishi HC Capital’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Mitsubishi HC Capital representatives have confirmed (1) they understand it is the sole responsibility of Mitsubishi HC Capital to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

¹ The Sustainability Bond Guidelines, Green Bond Principles, and Social Bond Principles are administered by the International Capital Market Association (ICMA) and are available at: <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

² The Mitsubishi HC Capital Inc. Sustainable Bond Framework is available on Mitsubishi HC Capital’s website at: https://www.mitsubishi-hc-capital.com/english/sustainability/sustainable_finance.html

³ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Mitsubishi HC Capital.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. Upon twenty-four (24) months following the evaluation date set stated herein, Mitsubishi HC Capital is encouraged to update the Framework, if necessary, and seek an update to the Second-Party Opinion to ensure ongoing alignment of the Framework with market standards and expectations.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Mitsubishi HC Capital has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Mitsubishi HC Capital Inc. Sustainable Bond Framework

Sustainalytics is of the opinion that the Mitsubishi HC Capital Inc. Sustainable Bond Framework is credible, impactful and aligns with the four core components of the GBP and SBP. Sustainalytics highlights the following elements of Mitsubishi HC Capital's Sustainability Bond Framework:

- Use of Proceeds:
 - The green eligible categories – Renewable Energy and Green Buildings – are aligned with those recognized by the GBP. The social eligible category – Access to Essential Services – is aligned with those recognized by the SBP.
 - In the Framework, Mitsubishi HC Capital has established a look-back period of 36 months for refinancing its existing loans or existing projects on or prior to the date of issuance of bonds, which Sustainalytics considers to be in line with market practice.
 - Mitsubishi HC Capital intends to allocate the proceeds to general purpose loans and equity investments. In such cases, the Company is committed to allocating the proceeds only to loans for, or equity investments in, corporations that generate 90% or more of its revenue from eligible activities set in the Framework. Sustainalytics recognises that the GBP and SBP favour project-based financing, which provides more transparency than non-project-based financing in general. Nevertheless, Sustainalytics recognises that the financing of pure play companies through green, social, or sustainability bonds is commonly accepted as an approach which can generate positive environmental and social impacts.
 - Under the Renewable Energy category, Mitsubishi HC Capital intends to finance the development, construction, and operation of solar power generation facilities in Japan. Sustainalytics considers that these investments are aligned with market practice.
 - Under the Green Buildings category, Mitsubishi HC Capital will allocate the proceeds to the development and acquisition of properties (office buildings and/or warehouses) that have obtained or are expected to obtain a green building certification. Sustainalytics considers the criteria for financing green buildings projects to be aligned with market practice, noting the following:
 - Mitsubishi HC Capital will allocate the proceeds to properties which meet one of the below certifications: CASBEE⁴ (A Rank or above), DBJ Green Building Certification⁵ (4

⁴ Comprehensive Assessment System for Built Environment Efficiency (CASBEE), at: <https://www.ibec.or.jp/CASBEE/english/>

⁵ Development of Bank of Japan (DBJ) Green Building Certification, at: https://www.dbj.jp/en/service/program/g_building/

Stars or above), BELS⁶ (4 Stars or above), Net Zero Energy Building (ZEB) or nearly ZEB⁷, or LEED⁹ (Gold or above). Sustainability views these certification schemes to be credible and impactful and the selected levels as aligned with market practice.

- Mitsubishi HC Capital has confirmed to Sustainability that logistic facilities designed for the storage or transportation of fossil fuels are excluded.

The warehouses, which are one of the uses of the proceeds in this category, include freezer/refrigerated warehouses that have received the above-mentioned green building certificates. Besides, Sustainability positively highlights that these freezer/refrigerated warehouses install/use natural (green) refrigerants with a lower global warming potential (GWP)¹⁰ than hydrofluorocarbons (HFCs)¹¹, which are widely used as refrigerants in general.

- Under the Access to Essential Services category, Mitsubishi HC Capital may allocate the proceeds to the factoring of medical fee receivables and nursing care fee receivables. The Company is committed to limiting the allocation of bonds to factoring for medical institutions and nursing care service providers that generate at least 90% of its revenue from services covered by Japan's public health insurance and long-term care insurance. Sustainability views that the allocation of proceeds is aligned with market expectation, as allocating the proceeds only to pure play companies will ensure that the financed medical and nursing care services are accessible to all regardless of ability to pay under Japan's social security system¹², which is designed to allow all the people who need these services to use at 10-30% of out-of-pocket expenses with the universal health insurance¹³ and the long-term insurance.¹⁴
- In addition, under the Access to Essential Services category, Mitsubishi HC Capital may allocate the proceeds to medical equipment leasing and instalment sales. In this project category, the Company will allocate the proceeds only to the financing of medical equipment used by medical institutions that generate at least 90% of its revenue from medical practices covered by Japan's public health insurance. Sustainability considers the allocation approach to be in line with market expectation, as it will ensure that the financed medical services are accessible to all regardless of ability to pay under Japan's social security system.
- Under the Framework, Mitsubishi HC Capital is committed not to allocating the proceeds to any project relating to the followings: i) unfair transactions that do not comply with relevant laws and regulations of the jurisdiction; ii) inappropriate relationship such as bribery, corruption, blackmail, and embezzlement; iii) transactions that may cause environmental and social issues including human rights issue; and iv) property development for the tenants which are primarily engaged in the business related to fossil fuels, weapons, and tobacco.
- Project Evaluation and Selection:
 - Mitsubishi HC Capital's Environment & Energy Business Department, Real Estate Business Department, or Healthcare Business Department will be responsible for conducting financial assessment and selecting candidate eligible projects. The final decision will be made by a relevant approver ranging from the related General Managers to the Board of Directors respectively, depending on the monetary amount of the projects. Afterwards, from the list of approved candidate projects, Mitsubishi HC Capital's Treasury Department will determine projects for the allocation of bond proceeds, verifying the alignment with the eligibility criteria under the Framework.
 - Mitsubishi HC Capital has in place environmental and social risk management systems that are applicable to all eligible projects under the Framework. Sustainability considers these environmental and social risk management systems to be adequate and aligned with market expectation.
 - Based on the clear delineation of responsibility for project evaluation and selection, Sustainability considers these processes to be in line with market practice.

⁶ Building-Housing Energy-efficiency Labelling System (BELS) (Japanese Only), at: <https://www.bcj.or.jp/assessment/bels/>

⁷ Agency for Natural Resources and Energy (ANRE), "Definition of ZEB and future measures proposed by the ZEB Roadmap Examination Committee": https://www.enecho.meti.go.jp/category/saving_and_new/saving/zeb_report/pdf/report_160212_en.pdf

⁸ Building Energy Index (BEI) of ZEB and nearly ZEB is superior to the five stars, the highest ranking, of BELS.

⁹ Leadership in Energy and Environmental Design (LEED), at: <https://www.usgbc.org/leed>

¹⁰ A value/coefficient that indicates the strength of the global warming impact when CO₂ is set as 1.

¹¹ A type of a chlorofluorocarbon (CFC) substitute. While their ozone depletion effect is limited, they cause a significant greenhouse effect.

¹² For a case where recipients of the public assistance face financial difficulties, the expenses are covered by medical assistance and long-term care assistance, and recipients can access medical and nursing care services with no cost. (Ministry of Health, Labour and Welfare, "Outline of the Public Assistance System", at: https://www.mhlw.go.jp/english/topics/social_welfare/dl/outline_of_the_public_assistance_system_20101004.pdf)

¹³ Ministry of Health, Labour and Welfare, "Overview of Medical Service Regime in Japan", at:

https://www.mhlw.go.jp/bunya/iryouhoken/iryouhoken01/dl/01_eng.pdf

¹⁴ Ministry of Health, Labour and Welfare, "Long-term Care Insurance in Japan", at: <https://www.mhlw.go.jp/english/topics/elderly/care/index.html>

- Management of Proceeds:
 - Mitsubishi HC Capital's Treasury Department will track and manage the allocation of proceeds to eligible projects by using internal management files. The proceeds will be tracked and managed until full redemption of bonds.
 - The Company intends to reach full allocation within approximately 24 months of issuance. If there are unallocated proceeds caused due to repayment or other reasons, they will be re-allocated within 24 months from the point in time. Pending allocation, unallocated proceeds will be held in cash or cash equivalents until full allocation.
 - Based on the presence of an internal tracking system, allocation timeframe and management of temporary allocation, Sustainalytics considers these processes to be in line with market practice.
- Reporting:
 - Mitsubishi HC Capital intends to report on the allocation of proceeds and environmental and social impacts annually on its website until full redemption of bonds.
 - Allocation reporting will include the amount of outstanding bonds, the amount of allocation by eligible category, and the amount of unallocated proceeds if any.
 - Impact reporting will report on quantitative and qualitative impact indicators aggregated by eligible project category, to the extent practicable.
 - Based on these elements, Sustainalytics considers the Company's reporting process to be in line with market practice.

Alignment with Sustainability Bond Guidelines 2021

Sustainalytics has determined that the Mitsubishi HC Capital Inc. Sustainable Bond Framework aligns with the four core components of the GBP and SBP. For detailed information please refer to Appendix 1: Sustainability Bond/ Sustainability Bond Programme External Review Form.

Section 2: Sustainability Strategy of Mitsubishi HC Capital Inc.

Contribution to Mitsubishi HC Capital's sustainability strategy

Mitsubishi HC Capital has established its management vision of "solving social issues by developing unique and progressive businesses with consideration for the global environment," and promotes sustainability initiatives through its business.¹⁵ As its medium- to long-term management direction for the next 10 years, the Company will promote Sustainability Transformation (SX), under which the Company is committed to working for the achievement of "coexistence and co-prosperity with environmental and social values" and "sustainable growth," through the efforts on Mitsubishi HC Capital's materiality and a solid management base.¹⁶ In terms of its priority areas in sustainability, the Company identified the following six materiality themes: i) Promote a "decarbonized society", ii) Realize the circular economy, iii) Establish resilient social infrastructure, iv) Realize healthy lifestyles that promote positive wellbeing, v) Create businesses utilizing the latest technologies, and vi) Collaborate with partners locally and globally.¹⁷

As the basic philosophy of its environmental policy, Mitsubishi HC Capital declared that the Company "shall conduct business activities in harmony with the environment and society in order to contribute to the creation of a society that can conserve the global environment and achieve sustainable development".¹⁸ Based on its materiality theme i) "Promote a decarbonized society," the Company is engaged in the realization of a decarbonized society through investments in renewable energy as well as businesses to provide solutions for energy efficiency of power usage.¹⁹ Mitsubishi HC Capital's capacity for renewable energy generation in operation is approximately 0.9 GW from solar power and 0.3 GW from wind power (as of the end of March 2022).²⁰ The Company will work to further expand the scale of its renewable power sources.²¹ Furthermore,

¹⁵ Mitsubishi HC Capital Inc., "Basic Management Policy", at: <https://www.mitsubishi-hc-capital.com/english/corporate/idea/index.html>

¹⁶ Mitsubishi HC Capital Inc., "Integrated Report 2022", at:

https://www.mitsubishi-hc-capital.com/pdf/english/investors2/library/various-reports/cr_en_2022.pdf

¹⁷ Mitsubishi HC Capital Inc., "Materiality (Priority Key Challenges)", at: <https://www.mitsubishi-hc-capital.com/english/sustainability/materiality.html>

¹⁸ Mitsubishi HC Capital Inc., "Environmental Policy", at: <https://www.mitsubishi-hc-capital.com/english/sustainability/environment/index.html>

¹⁹ Mitsubishi HC Capital Inc., "Integrated Report 2022", at:

https://www.mitsubishi-hc-capital.com/pdf/english/investors2/library/various-reports/cr_en_2022.pdf

²⁰ Mitsubishi HC Capital Inc., "Environmental Targets and Performance", at:

<https://www.mitsubishi-hc-capital.com/english/sustainability/environment/achievements.html>

²¹ Mitsubishi HC Capital Inc., "Integrated Report 2022", at:

https://www.mitsubishi-hc-capital.com/pdf/english/investors2/library/various-reports/cr_en_2022.pdf

Mitsubishi HC Capital supports the promotion of its clients' energy-saving investments through its ESCO²² business, by developing energy-saving plans for buildings and other constructions and by carrying out renovation work with a guarantee for the energy-saving effect.²³ In terms of its efforts to address climate change, the Company discloses information on energy consumption and GHG emissions (Scopes 1-3). For gasoline consumption (Scope 1) and electricity consumption (Scope 2), the Company has established a single-year target on par with or below the average of the most recent three years.²⁴

As efforts to address social issues, Mitsubishi HC Capital is working on the creation and provision of services that ensure stakeholders' health, safety, and mental and physical wellbeing based on its materiality theme (iv) "Realize healthy lifestyles that promote positive wellbeing."²⁵ The Company aims to develop and provide value-added services that contribute to its customers and society, solving issues in a wide range of industries including medical institutions and nursing care service providers.²⁶

Sustainalytics is of the opinion that the Mitsubishi HC Capital Inc. Sustainable Bond Framework is aligned with the company's overall sustainability strategy and initiatives and will further the Company's action on its key environmental and social priorities.

Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the proceeds from the instruments issued under the Framework will be directed towards eligible projects that are expected to have positive environmental and social impact. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks possibly associated with the eligible projects may include issues involving occupational safety and health, impacts of large-scale renewable energy projects on land use and ecosystems, emissions and waste from facility construction and demolition processes, and financial risks associated with both lenders and borrowers.

Sustainalytics is of the opinion that Mitsubishi HC Capital is able to manage and/or mitigate potential risks through implementation of the following:

- Mitsubishi HC Capital operates efficient and effective environmental management systems across four groups of divisions, namely the sales, office-based, lease-up asset handling, and internal audit divisions. These systems are overseen by the Head of the IT & Operations Division, who is also a member of the Sustainability Committee. Furthermore, as part of its compliance activities, the Company ensures that all executives and employees fully comply with applicable laws and regulations, including those related to the environment, and carries out regular compliance checks.²⁷
- With respect to occupational safety and health, Japan's Industrial Safety and Health Act requires the assessment of workers' health and the working environment to ensure that appropriate safety and health measures are taken in the workplace.²⁸ The Company recognizes that human rights and labour practices are important issues and has committed to supporting and respecting international norms related to human rights and labour practices such as the UN Guiding Principles on Business and Human Rights (Ruggie Principles) and the ILO Declaration on Fundamental Principles and Rights at Work, as well as the establishment of the Company's "Human Rights Policy".²⁹
- In terms of risks associated with environment and biodiversity, Mitsubishi HC Capital has obtained the ISO 14001 certification, which provides organizations with a long-term environmental management framework, while integrating social and economic needs. By doing so, Mitsubishi HC Capital intends to achieve its environmental targets and continued improvement. Regarding the management/disposal of refrigerants in freezer/refrigerated warehouses, Mitsubishi HC Capital has confirmed that it will check relevant policies at the timing of obtaining a green building certification and implement them.

²² Energy Service Company business, where the costs of renovation for energy efficiency are compensated by the reduction in utility costs after the renovation.

²³ Mitsubishi HC Capital Inc., "ESCO (Energy Service Company) (Japanese only)", at: <https://www.mitsubishi-hc-capital.com/service/mul/esco/index.html>

²⁴ Mitsubishi HC Capital Inc., "Environmental Targets and Performance", at:

<https://www.mitsubishi-hc-capital.com/english/sustainability/environment/achievements.html>

²⁵ Mitsubishi HC Capital Inc., "Materiality (Priority Key Challenges)", at: <https://www.mitsubishi-hc-capital.com/english/sustainability/materiality.html>

²⁶ Mitsubishi HC Capital Inc., "Integrated Report 2022", at:

https://www.mitsubishi-hc-capital.com/pdf/english/investors2/library/various-reports/cr_en_2022.pdf

²⁷ Mitsubishi HC Capital Inc., "Environmental Management System", at:

<https://www.mitsubishi-hc-capital.com/english/sustainability/environment/management.html>

²⁸ Japanese Law Translation, "Industrial Safety and Health Act", at: <https://www.japaneselawtranslation.go.jp/ja/laws/view/3440>

²⁹ Mitsubishi HC Capital Inc., "Human Rights Initiatives", at: <https://www.mitsubishi-hc-capital.com/english/sustainability/social/index.html>

- To deal with financial risks, Mitsubishi HC Capital promotes the prevention of money laundering, terrorist financing, and anti-social conduct. The Company has established the “Principles for Money-Laundering Prevention,”³⁰ “Principles for National Security Export Control,”³¹ and the “Basic Policy on Anti-social Elements”³² to prevent money laundering, terrorist financing, and anti-social conduct, respectively, and ensures compliance in its project screening and management processes.

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Mitsubishi HC Capital has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

All three use of proceeds categories are aligned with those recognized by GBP or SBP. Sustainalytics has focused on the impact of these use of proceeds, specifically relevant in the local and global context.

Importance of renewable energy

In 2021, global energy-related CO₂ emissions rose by 6% to 36.3 billion tonnes.³³ According to the International Energy Agency’s (IEA)’s Net Zero Emissions by 2050 Scenario (NZE),³⁴ a scenario in line with 1.5°C commitment under the Paris Agreement, the power sector needs to reduce CO₂ emissions by 7.6% annually on average by 2030. The NZE also requires the sector to increase the proportion of renewable energy in power generation from 29% in 2020 to more than 60% by 2030.³⁵ In 2050, renewable energy is expected to reach approximately 90% of global power generation, with wind power and solar power together accounting for nearly 70%.³⁶

In Japan, in FY2020, while the proportion of renewable energy from total power generation was 19.8%, fossil fuel-based thermal power accounted for 76.3%.³⁷ In April 2021, the Japanese government has committed to reducing GHG emissions by 46% by FY2030 with the baseline of FY2013.³⁸ In line with the commitment, the government aims to raise the proportion of renewable energy to 36-38% by FY2030 in the Japanese energy mix.³⁹ Furthermore, the government pledged to achieve net-zero GHG emissions by 2050 and has formulated the Green Growth Strategy, which describes the policy directions and action plans toward achieving carbon neutrality in 2050.⁴⁰ In the strategy, the government states that it will promote renewable energy installation, with the reference goal of achieving approximately 50-60% of power generation by renewable energy in 2050.

Considering the above, Sustainalytics is of the opinion that Mitsubishi HC Capital’s use of proceeds is expected to contribute to reducing CO₂ emissions in the power sector globally and to the achievement of Japan’s medium- to long-term climate goals.

Importance of green buildings

In 2021, global building energy demand increased by almost 20% and reached 135 EJ (compared to 115 EJ in 2010).⁴¹ The operation of buildings in 2021 accounted for 30% of global final energy consumption and 27% of total energy sector CO₂ emissions.⁴² As per the IEA, carbon emissions from buildings operations should

³⁰ Mitsubishi HC Capital Inc., “Principles for Money-Laundering Prevention”, at:

https://www.mitsubishi-hc-capital.com/pdf/english/sustainability/variou s_policies/laundering.pdf

³¹ Mitsubishi HC Capital Inc., “Principles for National Security Export Control”, at:

https://www.mitsubishi-hc-capital.com/pdf/english/sustainability/variou s_policies/exportcontrol.pdf

³² Mitsubishi HC Capital Inc., “Basic Policy on Anti-social Elements”, at:

https://www.mitsubishi-hc-capital.com/pdf/english/sustainability/variou s_policies/antisocial.pdf

³³ International Energy Agency (IEA), “Global Energy Review: CO₂ Emissions in 2021”, at:

<https://iea.blob.core.windows.net/assets/c3086240-732b-4f6a-89d7-db01be018f5e/GlobalEnergyReviewCO2Emissionsin2021.pdf>

³⁴ International Energy Agency (IEA), “Net Zero Emissions by 2050 Scenario (NZE)”, at:

<https://www.iea.org/reports/world-energy-model/net-zero-emissions-by-2050-scenario-nze>

³⁵ International Energy Agency (IEA), “Renewable Power”, at: <https://www.iea.org/reports/renewable-power>

³⁶ International Energy Agency (IEA), “Net Zero by 2050 A Roadmap for the Global Energy Sector”, (2021), at:

<https://www.iea.org/reports/net-zero-by-2050>

³⁷ “Agency for Natural Resources and Energy (ANRE), “FY2020 Energy Supply and Demand Report (Final Figures) (Japanese only)”, at:

<https://www.meti.go.jp/press/2022/04/20220415003/20220415003-1.pdf>

³⁸ Ministry of the Environment (MoE), “Japan’s Nationally Determined Contribution (NDC)”, at: https://www.env.go.jp/earth/ndc/JAPAN_NDC.pdf

³⁹ Agency for Natural Resources and Energy (ANRE), “Outline of Strategic Energy Plan”, at:

https://www.enecho.meti.go.jp/en/category/others/basic_plan/pdf/6th_outline.pdf

⁴⁰ Ministry of Economy, Trade and Industry (METI), “Green Growth Strategy through Achieving Carbon Neutrality in 2050”, at:

https://www.meti.go.jp/english/policy/energy_environment/global_warming/pdf/ggs_full_en.pdf

⁴¹ International Energy Agency (IEA), “Buildings Sectoral Overview”, (2022), at: <https://www.iea.org/reports/buildings>

⁴² Ibid.

reduce by more than half by 2030 compared to 2021, to align with the Net Zero Scenario.⁴³ Therefore, it is indispensable for not only developed countries but also for emerging and developing countries to improve new and existing buildings' energy efficiency as a measure to address climate change.

In Japan, the building sector was responsible for 30% of CO₂ emissions in 2019 with final energy consumption by buildings having increased by 20% in 2019 when compared to 1990.^{44,45} In its Nationally Determined Contribution (NDC) submitted to the Secretariat of the United Nations Framework Convention on Climate Change (UNFCCC) in 2021, Japan committed to increasing its GHG emissions reduction target from 26% to 46% of the 2013 level and to achieving net zero emissions by 2050.⁴⁶ Regarding the building sector, it is estimated that the reduction of CO₂ emissions by 50-65% by 2030 compared to 2013 is required based on the reduction targets of residential, commercial and others.⁴⁷ Given the significant contribution of buildings in Japan's total CO₂ emissions, the Japanese government has been working to strengthen energy-saving measures in buildings. Japan's Building Energy Efficiency Act of 2015 sets mandatory energy efficiency standards for large-scale non-residential buildings (2,000m² or more).⁴⁸ In 2019, the Act was amended also mandating compliance with the energy efficiency standards for medium-size non-residential buildings (300m² or more).⁴⁹ The 2022 amendment of the Act mandates new construction after 2025 of both non-residential and residential, irrespective of size, to comply with the energy efficiency standards and also sets incentive measures toward the zero-energy building or zero-energy house level.⁵⁰

Based on the above, Sustainalytics is of the opinion that Mitsubishi HC Capital's use of proceeds is expected to promote higher energy efficiency in the building sector and help achieve Japan's GHG emissions reduction targets.

Importance of medical services

Under Japan's universal health insurance system, everyone is entitled to access basic medical services. The universal health insurance system, which is partly supported by public funds, enables residents in Japan to receive various medical services at a low cost.⁵¹ While Japan's health insurance system covers 84% of healthcare costs, which is higher than the Organization for Economic Co-operation and Development (OECD) countries' average of 74%,⁵² the nation's healthcare sector is facing challenges such as increasing demand for medical services due to the ageing population and the shortage of doctors. In relation to the increasing demand for healthcare services, the number of people aged 65 and over accounted for 28% of the total population of Japan in 2019 and is estimated to increase to 38% by 2050.⁵³ Elderly people tend to have multiple chronic diseases including hypertension, and changes in the disease structure due to the ageing of the population have led to an increase in demand for healthcare services and medical expenditures.⁵⁴ With the increase in the ageing population, the percentage of healthcare spending against Japan's GDP continued to increase from 7% in 2000 to 11% in 2019.⁵⁵ In terms of the shortage and the uneven distribution of doctors,

⁴³ Ibid.

⁴⁴ Ministry of the Environment (MoE), "Greenhouse Gas Emissions in Fiscal Year 2019 (Final Figures) (Japanese only)", at: <https://www.env.go.jp/press/files/jp/116118.pdf>

⁴⁵ Ministry of Land, Infrastructure, Transport and Tourism (MLIT), "Overview of the Act on the Improvement of Energy Consumption Performance of Buildings", at: <http://www.mlit.go.jp/common/001134876.pdf>

⁴⁶ Government of Japan, "Japan's Nationally Determined Contribution (NDC)", (2021), at: https://unfccc.int/sites/default/files/NDC/2022-06/JAPAN_FIRST%20NDC%20%28UPDATED%20SUBMISSION%29.pdf

⁴⁷ Ibid.

⁴⁸ Ministry of Land, Infrastructure, Transport and Tourism (MLIT), "Overview of the Act on the Improvement of Energy Consumption Performance of Buildings", (2016), at: <http://www.mlit.go.jp/common/001134876.pdf>

⁴⁹ International Energy Agency (IEA), "Japan's Roadmap to Carbon Neutrality in the Building and Housing Sectors", (2021), at: <https://iea.blob.core.windows.net/assets/993f67a2-054e-41ba-9adb-f782358a4e73/3.JapansRoadmaptoCarbonNeutralityintheBuildingandHousingSectors.pdf>

⁵⁰ Rethink Tokyo, 'Energy conservation architecture to be mandatory for Japan real estate from 2025', at: <https://www.rethinktokyo.com/news/2022/04/25/energy-conservation-architecture-be-mandatory-japan-real-estate-2025/1650839788>

⁵¹ Ministry of Health, Labour and Welfare, "Overview of Medical Service Regime in Japan", at: https://www.mhlw.go.jp/bunya/iryouhoken/iryouhoken01/dl/01_eng.pdf

⁵² Organisation for Economic Co-operation and Development (OECD), "Extent of health care coverage", at: <https://www.oecd-ilibrary.org/sites/85214623-en/index.html?itemId=/content/component/85214623-en>

⁵³ Organisation for Economic Co-operation and Development (OECD), "Demographic trends", at: <https://www.oecd-ilibrary.org/sites/9989e95c-en/index.html?itemId=/content/component/9989e95c-en>

⁵⁴ Ministry of Health, Labour and Welfare, "Current state of medical care for the elderly people (Japanese only)", at: https://www.mhlw.go.jp/file/05-Shingikai-12601000-Seisakutoukatsukan-Sanjikanshitsu_Shakaihoshoutantou/0000125582.pdf

⁵⁵ The World Bank, "Current health expenditure (% of GDP) – Japan", at: <https://data.worldbank.org/indicator/SH.XPD.CHEX.GD.ZS?locations=JP>

the number of doctors per 1,000 population in Japan is 2.5, which is lower than the OECD countries' average of 3.6.⁵⁶ In particular, local hospitals face difficulties in securing a sufficient number of healthcare workers.⁵⁷

To address issues including the growing need for healthcare resources and the excessive burden on healthcare workers, the Ministry of Health, Labour and Welfare formulated "Health Care 2035" in 2015 to layout medium-term initiatives up to 2035. As one of the three visions to be achieved by the healthcare sector by 2035, the Ministry proposed to provide better care at lower costs by improving the quality and efficiency of medical care services, while securing sustainable financial resources for healthcare as a basis required for the achievement of the vision.⁵⁸ Furthermore, the Ministry has been engaged in establishing an efficient and high-quality medical care system in an ageing society, by formulating the "Regional Medical Care Vision," which looks ahead to 2025 when the baby boomers will be 75 years old or older.⁵⁹ In 2014, for the achievement of the Regional Medical Care Vision, the Fund for securing comprehensive medical and long-term care in local communities was established to provide financial support to medical institutions. In 2022, 102.9 billion yen was budgeted as the Fund's healthcare expenses. The Fund will be used to support, for example, the provision of medical facilities and equipment, the change of bed functions and the number of beds, the staffing of healthcare workers, and the improvement of the working environment at medical institutions.⁶⁰

Based on the above, Sustainalytics is of the opinion that Mitsubishi HC Capital's use of proceeds is expected to contribute to the sustainable operation of medical institutions, which meet the increasing demand for medical services in Japan.

Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The instruments issued under the Mitsubishi HC Capital Inc. Sustainable Bond Framework are expected to help advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Renewable Energy	7. Affordable and clean energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Green Buildings	9. Industry, innovation and infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Access to Essential Services	3. Good health and well-being	3.8 Achieve universal health coverage, 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

⁵⁶ Organisation for Economic Co-operation and Development (OECD), "Doctors (overall number)", at:

<https://www.oecd-ilibrary.org/sites/b39949d7-en/index.html?itemId=/content/component/b39949d7-en>

⁵⁷ Ministry of Health, Labour and Welfare, "Report of the Study Group on the Vision for the Work Style of Doctors and Nurses in Light of the New Healthcare System (Japanese only)", at: <https://www.mhlw.go.jp/file/05-Shingikai-10801000-Iseikyoku-Soumuka/0000162693.pdf>

⁵⁸ Ministry of Health, Labour and Welfare, "Health Care 2035", at:

<https://www.mhlw.go.jp/seisakunitsuite/bunya/hokabunya/shakaihoshou/hokeniryou2035/future/en/>

⁵⁹ Ministry of Health, Labour and Welfare, "Regional Medical Care Vision (Japanese only)", at:

<https://www.mhlw.go.jp/stf/seisakunitsuite/bunya/0000080850.html>

⁶⁰ Ministry of Health, Labour and Welfare, "the Fund for Comprehensive Securing of Regional Medical and Nursing Care (Japanese only)", at:

https://www.mhlw.go.jp/jigyo_shiwake/dl_2022/mtg0509_04.pdf

Conclusion

Mitsubishi HC Capital Inc. has developed the Mitsubishi HC Capital Inc. Sustainable Bond Framework under which it may issue green, social, or sustainability bonds and use the proceeds to finance projects in the following categories: Renewable Energy, Green Buildings, and Access to Essential Services. Sustainalytics considers that the projects funded by the bond proceeds are expected to provide positive environmental and social impact.

The Mitsubishi HC Capital Inc. Sustainable Bond Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that Mitsubishi HC Capital Inc. Sustainable Bond Framework is aligned with the overall sustainability strategy of the company and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 3, 7, and 9. Additionally, Sustainalytics is of the opinion that Mitsubishi HC Capital Inc. has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the proceeds.

Based on the above, Sustainalytics is confident that Mitsubishi HC Capital Inc. is well positioned to issue green, social, or sustainability bonds and that Mitsubishi HC Capital Inc. Sustainable Bond Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles 2021 and Social Bond Principles 2021.

Appendix

Appendix 1: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Mitsubishi HC Capital Inc.
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:	Mitsubishi HC Capital Inc. Sustainable Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	March 24, 2023
Publication date of review publication:	
Original publication date <i>[please fill this out for updates]</i> :	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.
The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- | | |
|--|--|
| ☒ Use of Proceeds | ☒ Process for Project Evaluation and Selection |
| ☒ Management of Proceeds | ☒ Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| ☒ Consultancy (incl. 2 nd opinion) | ☐ Certification |
| ☐ Verification | ☐ Rating |
| ☐ Other <i>(please specify)</i> : | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section *(if applicable)*:

The eligible categories for the use of proceeds – Renewable Energy, Green Buildings, and Access to Essential Services – are aligned with those recognized by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDG 3, 7, and 9.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| ☒ Renewable energy | ☐ Energy efficiency |
| ☐ Pollution prevention and control | ☐ Environmentally sustainable management of living natural resources and land use |
| ☐ Terrestrial and aquatic biodiversity conservation | ☐ Clean transportation |
| ☐ Sustainable water and wastewater management | ☐ Climate change adaptation |
| ☐ Eco-efficient and/or circular economy adapted products, production technologies and processes | ☒ Green buildings |
| ☐ Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | ☐ Other (please specify): |

If applicable please specify the environmental taxonomy, if other than GBPs:

Use of proceeds categories as per SBP:

- | | |
|---|---|
| ☐ Affordable basic infrastructure | ☒ Access to essential services |
| ☐ Affordable housing | ☐ Employment generation (through SME financing and microfinance) |
| ☐ Food security | ☐ Socioeconomic advancement and empowerment |
| ☐ Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | ☐ Other (please specify): |

If applicable please specify the social taxonomy, if other than SBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Mitsubishi HC Capital Inc.'s Environment & Energy Business Department, Real Estate Business Department, or Healthcare Business Department will be responsible for selecting candidate eligible projects. The final decision will be made by a relevant approver ranging from the related General Managers to the Board of Directors respectively, depending on the monetary amount of the projects. Afterwards, from the list of approved candidate projects, Mitsubishi HC Capital Inc.'s Treasury Department will determine projects for the allocation of bond proceeds, verifying the alignment with the eligibility criteria under the Framework. Mitsubishi HC Capital Inc. has in place environmental and social risk management systems that are applicable to all eligible projects under the Framework. Sustainability considers the project selection process in line with market practice.

Evaluation and selection

- | | |
|---|---|
| ☒ Credentials on the issuer's social and green objectives | ☒ Documented process to determine that projects fit within defined categories |
| ☒ Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | ☒ Documented process to identify and manage potential ESG risks associated with the project |
| ☒ Summary criteria for project evaluation and selection publicly available | ☐ Other (please specify): |

Information on Responsibilities and Accountability

- | | |
|--|--|
| ☒ Evaluation / Selection criteria subject to external advice or verification | ☐ In-house assessment |
| ☐ Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

Mitsubishi HC Capital Inc.'s Treasury Department will allocate proceeds to eligible projects using internal management files. The proceeds will be tracked and managed until the full redemption of bonds. Unallocated proceeds will be held in cash or cash equivalents. This is in line with market practice.

Tracking of proceeds:

- | |
|---|
| ☒ Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| ☒ Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| ☐ Other (please specify): |

Additional disclosure:

- | | |
|---|---|
| ☐ Allocations to future investments only | ☒ Allocations to both existing and future investments |
|---|---|

- | | |
|---|--|
| ☐ Allocation to individual disbursements | ☒ Allocation to a portfolio of disbursements |
| ☒ Disclosure of portfolio balance of unallocated proceeds | ☐ Other (please specify): |

4. REPORTING

Overall comment on section (if applicable):

Mitsubishi HC Capital Inc. will annually report on the allocation of proceeds and environmental impacts on its website until the full redemption of bonds. The report will include the outstanding amount of the bond, the amount of allocated and unallocated proceeds, and relevant qualitative and quantitative impact metrics by eligible project category. Sustainalytics views Mitsubishi HC Capital Inc.'s allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

- | | |
|--|--|
| ☐ Project-by-project | ☒ On a project portfolio basis |
| ☐ Linkage to individual bond(s) | ☐ Other (please specify): |

Information reported:

- | | |
|---|---|
| ☒ Allocated amounts | ☐ Sustainability Bond financed share of total investment |
| ☒ Other (please specify):
the outstanding amount of the bond, the amount of unallocated proceeds | |

Frequency:

- | | |
|--|--------------------------------------|
| ☒ Annual | ☐ Semi-annual |
| ☐ Other (please specify): | |

Impact reporting:

- | | |
|--|--|
| ☐ Project-by-project | ☒ On a project portfolio basis |
| ☐ Linkage to individual bond(s) | ☐ Other (please specify): |

Information reported (expected or ex-post):

- | | |
|---|--|
| ☒ GHG Emissions / Savings | ☐ Energy Savings |
| ☐ Decrease in water use | ☐ Number of beneficiaries |
| ☐ Target populations | ☒ Other ESG indicators (please specify): |

Renewable Energy

- Annual power generation produced

(estimation based on
output standards)

Green Buildings

- Acquisition status of green building certification
- Balance by green building certification / asset type
- In the case freezer or refrigerator installed assets, outline of such equipment (refrigerant, etc.)

Access to Essential Services

- Number of Eligible Projects executed (annual basis)
- Cumulative amount of Eligible Projects (annual basis)

Frequency:

- ☒ Annual ☐ Semi-annual
- ☐ Other (please specify):

Means of Disclosure

- ☐ Information published in financial report ☐ Information published in sustainability report
- ☐ Information published in ad hoc documents ☒ Other (please specify):
The Company's website
- ☐ Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- ☐ Consultancy (incl. 2nd opinion) ☐ Certification
- ☐ Verification / Audit ☐ Rating
- ☐ Other (please specify):

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP

- i. Second-Party Opinion: An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.
- iii. Certification: An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. Green, Social and Sustainability Bond Scoring/Rating: An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

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For more information, visit www.sustainalytics.com

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