

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Sustainability Bond Framework

Development Bank of Japan Inc.
28 September 2020

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	Green, Social and Sustainability Bonds
Relevant standards	Green and Social Bond Principles, and Sustainability Bond Guidelines, as administered by ICMA
Lifecycle	Pre-issuance verification
Validity	As long as DBJ's Sustainability Bond Framework remains unchanged

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SCOPE OF WORK

Development Bank of Japan Inc. (“DBJ”) commissioned ISS ESG to assist with its Sustainability Bond Framework by assessing three core elements to determine the sustainability quality of the framework:

1. DBJ’s Sustainability Bond Framework (September 2020 version)– benchmarked against the International Capital Market Association’s (ICMA) GBPs, SBPs and SBGs.
2. The eligible categories – whether the projects contributes positively to the UN SDGs (See Annex 2).
3. DBJ’s sustainability performance, according to the ISS ESG Corporate Rating.

ISS ESG SPO ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ¹
<p>Part 1:</p> <p>Alignment with GBPs, SBPs and SBGs</p>	<p>The issuer has defined a formal concept for its Sustainability Bond Framework regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. The issuer's framework secures overall alignment with all the Green/Social/Sustainability Bond Principles requirements, with the exception of the Use of Proceeds allocation in the case of three out of ten Eligible Categories; these are DBJ's Environmentally Rated Loan Program, Business Continuity Management Rated Loan Program, and Employee's Healthcare Management Rated Loan Program. Under those categories, the proceeds of bonds will be allocated to general corporate purpose loans without specification of project or expenditure categories, allowing the borrowing entities to allocate proceeds to any business activities beyond exclusion criteria applied, although the borrowing entities are screened by relevant criteria of the loan programmes in the aspect of either environmental management, business continuity management, or healthcare management.</p> <p>ISS ESG finds that the eligibility and exclusion criteria defined by the issuer's framework ensure adequate sustainability quality for both projects and loans (re-)financed through the Sustainability Bonds.</p>	<p>Positive</p> <p><i>Overall alignment with the ICMA GBPs, SBPs and SBGs, with the exception of inclusion of general corporate purpose loans into the use of proceeds.</i></p>
<p>Part 2:</p> <p>Sustainability quality of the eligible categories</p>	<p>Under the Sustainability Bond Framework, the issuer will (re-)finance eligible project categories which include green buildings, renewable energy, clean transportation, employment generation, affordable basic infrastructure, affordable housing and access to essential services. The issuer will also (re)finance rated loan programmes related to energy efficiency and socioeconomic advancement and empowerment.</p> <p>Those use of proceed categories focusing on project finance have a significant contribution to SDGs 3 'Good health and well-being', 7 'Affordable and clean energy', 8 'Decent work and economic growth', 10 'Reduced inequalities', 11 'Sustainable cities and communities' and 13 'Climate action', and has a limited contribution to SDG 1 'No poverty'. The Rated Loan Programs' borrowers are positively associated with SDG 3, 8, 11, 13 and 12 "Responsible consumption and production".</p>	<p>Positive</p>
<p>Part 3:</p> <p>Issuer sustainability performance</p>	<p>The issuer has been given a rating of D², which classifies it as 'Not Prime' by the methodology of the ISS ESG Corporate Rating.</p> <p>It is rated 37th out of 41 companies within its sector as of 28.09.2020. This equates to a low relative performance, with a Decile Rank³ of 9.</p>	<p>Status: Not Prime</p> <p>Rating: D</p> <p>Decile Rank: 9</p>

¹ ISS ESG's evaluation is based on DBJ's Sustainability Bond Framework (September 2020 version), and on the ISS ESG Corporate Rating applicable at the SPO delivery date (updated on the 23.04.2020). As at the time of publication of this SPO, the ESG Corporate Rating does not reflect certain recent development.

² The ISS ESG Corporate Rating scale goes from D- "Poor performance" to A+ "Excellent performance".

³ Rank relative to industry group. 1 indicates a high relative ESG performance, while 10 indicates a low relative ESG performance.

ISS ESG SPO ASSESSMENT

PART 1: ALIGNMENT WITH THE GBPs, SBPs AND SBGs

Rationale for issuance

DBJ issued its inaugural green bond as Japan's first issuer in 2014. Subsequently, with expansion of eligible assets in its framework, DBJ has issued sustainability bonds for five consecutive years since 2015. In 2020, the outbreak of COVID-19 brought attention to sustainable finance, and especially to that of its social aspect. Under such circumstances, with various social challenges including high number of natural disasters, an aging population and infrastructure, as well as the outbreak of COVID-19, DBJ has seen a need to revise its Sustainability Bond Framework by expanding it to incorporate new eligible assets for both green and social aspects and have developed an updated framework focused on climate change mitigation, disaster resiliency and healthcare & social well-being.

By doing so, DBJ expects to continuously broaden its investor base by attracting further like-minded investors that seek responsible investments which value both green and social aspects of sustainable finance. As a result, by getting support from responsible investors globally, DBJ would like to continuously contribute to solve issues facing its clients, with an aim to pursue sustainable development for Japan and the world.

Opinion: ISS ESG considers the Rationale for Issuance description provided by DBJ as aligned with the best market practices. The issuer has a long standing experience of issuing green bonds and sustainability bonds, and the expanded framework further reinforces DBJ's commitment to sustainability.

1. Use of Proceeds

The net proceeds, or an amount equal to the net proceeds, of the issuance of the DBJ Sustainability Bonds will be allocated, by way of various financial instruments, exclusively to finance or refinance, in whole or in part, existing and/or future projects or businesses which meet the following Eligibility Criteria (the “DBJ Sustainability Bond Eligibility Criteria” and the financing(s) satisfying the DBJ Sustainability Bond Eligibility Criteria is (are) defined as the “Eligible Financing(s)”: The look-back period for refinanced Green and Social Eligible Financing(s) will be 36 months prior to the date of the DBJ Sustainability Bond issuance).

Green eligible categories: Climate Resiliency / Climate Change Mitigation

ELIGIBLE GREEN CATEGORY	ELIGIBILITY CRITERIA	ENVIRONMENTAL OBJECTIVES
Green buildings	<ul style="list-style-type: none"> • Funds to finance or refinance buildings that are rated 3, 4 or 5 stars under the DBJ Green Building Certification Program (“GBC”). • Funds to finance or refinance companies, buildings, real estate properties or REITs that have a ‘Green Star’ rating under the Global Real Estate Sustainability Benchmark (“GRESB”) evaluation framework. • Funds to finance or refinance buildings with high environmental scores, which meet one of the followings: <ul style="list-style-type: none"> ○ Based on Tokyo Metropolis Building Environment plan system, both Perimeter Annual Load (“PAL”) reduction rate and Energy Reduction Ratio (“ERR”) are in the top two levels ○ Buildings which have 15% better energy saving performance based on comparison between primary energy consumption and DECC data ○ For commercial real estates, buildings which meet the CBI criteria set for relevant cities (Tokyo’s criteria would be used for Japan) ○ For residential real estates, buildings which are net zero energy houses ○ For data centers, buildings with PUE (Power Usage Effectiveness) below 1.5 ○ Buildings with CASBEE or BELS score in the top 3 levels 	<ul style="list-style-type: none"> • Climate change mitigation
Renewable energy	<ul style="list-style-type: none"> • Funds to finance or refinance renewable energy projects below the threshold of 100g of CO2 per kWh: <ul style="list-style-type: none"> ○ Construction, acquisition, maintenance, and/or operation of solar, wind (onshore and offshore), biomass, geothermal, run-of-river hydropower, and tidal and wave power assets 	<ul style="list-style-type: none"> • Climate change mitigation • Pollution prevention and control

Clean transportation	<ul style="list-style-type: none"> Funds to finance or refinance clean transportation projects or loans to companies exclusively for use for clean transportation projects: <ul style="list-style-type: none"> Installation and/or maintenance of energy-efficient and/or electric trains (Re)construction, extension, maintenance, and/or upgrade of rail lines (Re)construction, maintenance, operation and/or upgrade of railway systems and assets Infrastructure and components which could help increase the transport capacity and improve the efficient movement of people and freight 	<ul style="list-style-type: none"> Climate change mitigation Pollution prevention and control
Energy Efficiency - DBJ Environmentally Rated Loan Program	<ul style="list-style-type: none"> Loans to companies that are rated A, B or C under the DBJ Environmentally Rated Loan Program (“ERLP”) 	<ul style="list-style-type: none"> Climate change mitigation Pollution prevention and control

Social eligible categories: Disaster resiliency

ELIGIBLE SOCIAL CATEGORY	ELIGIBILITY CRITERIA	TARGET POPULATION
Employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises	<ul style="list-style-type: none"> Funds to finance or refinance businesses negatively impacted by the economic slowdown from socioeconomic crisis and natural disasters through DBJ’s respective socioeconomic crisis financing programs, such as the Regional Emergency Response Program Funds to finance or refinance businesses negatively impacted by the economic slowdown from socioeconomic crisis through DBJ’s specific investment operations. Eligible financial products include debt, mezzanine debt and equity 	<ul style="list-style-type: none"> Vulnerable groups impacted by natural disasters that may include the general public
Affordable basic infrastructure – Power cable and grid upgrade (Energy efficiency - Efficient power grid)	<ul style="list-style-type: none"> Funds to finance or refinance electric power cable and grid extensions and upgrades mainly for disaster preparation or reconstruction (the extensions and upgrades may also be included where it contributes to higher efficiency of the grid, and to facilitate the connection of renewable energy sources to the general network) 	<ul style="list-style-type: none"> Vulnerable groups impacted by natural disasters that may include the general public (Climate change mitigation)
Socioeconomic advancement and empowerment - DBJ Business Continuity Management Rated Loan Program	<ul style="list-style-type: none"> Loans to companies rated [A, B or C] under the DBJ Business Continuity Management Rated Loan Program (“BCMRLP”) 	<ul style="list-style-type: none"> Vulnerable groups impacted by natural disasters that may include the general public

Social eligible categories: Healthcare & Social Well-being

ELIGIBLE SOCIAL CATEGORY	ELIGIBILITY CRITERIA	TARGET POPULATION
Affordable housing	<ul style="list-style-type: none"> Funds to finance or refinance housing business serving vulnerable populations, such as affordable housing 	<ul style="list-style-type: none"> Underserved people, having needs to get access to essential services including healthcare and social well-being, but may also include the general public
Access to essential services - healthcare	<ul style="list-style-type: none"> Funds to finance or refinance loans to domestic healthcare companies, which meet one of the following criteria; <ul style="list-style-type: none"> Financing, acquisition, maintenance and operation of public hospitals run by a social medical care corporation or a social welfare corporation and nursing homes Financing of medical care facilities and medical equipment and product manufacturers that contribute to treating and preventing the spread of infectious diseases (COVID-19, etc.) and financing of pharmaceutical companies contributing to testing and R&D toward alleviating symptoms and preventing the spread of infectious diseases 	<ul style="list-style-type: none"> Underserved people, having needs to get access to essential services including healthcare and social well-being, but may also include the general public Vulnerable groups impacted by natural disasters that may include the general public
Socioeconomic advancement and empowerment – DBJ Employee’s Healthcare Management Rated Loan Program	<ul style="list-style-type: none"> Loans to companies rated [A, B or C] under the DBJ Employee’s Healthcare Management Rated Loan Program (“HMRLP”) 	<ul style="list-style-type: none"> Ensuring business’ focus on health that in terms improves the quality of life and healthcare for employees

Exclusionary criteria

DBJ has developed a list of exclusionary criteria to be applied to the allocation of the proceeds from the DBJ Sustainability Bond issuance. In this regard, DBJ commits to not knowingly allocating the net proceeds for the financing of assets/projects/businesses included in the exclusionary criteria.

- Businesses dedicated to the manufacture or retail sale and distribution of weapons and small arms; or businesses dedicated to the production of products and services supporting the manufacture or retail sale of weapons and small arms
- Extraction, refining, or transportation of coal
- Ownership or operation of dedicated gambling establishments/activities
- Biomass plants designed primarily to consume food stocks
- Large-scale (over 25MW capacity) hydropower

Opinion: ISS ESG considers the Use of Proceeds provided by DBJ as overall aligned with the GBPs, SBPs and GBGs, with the exception of three categories; these are DBJ’s Environmentally Rated Loan Program, Business Continuity Management Rated Loan Program, and Healthcare Management Rated Loan Program. Under those categories, the proceeds of the bonds will be allocated to general

corporate purpose loans without a specification of project or expenditure categories, allowing the borrowing entities to allocate proceeds to any business activities beyond exclusion criteria, although the borrowing entities are screened by relevant criteria of the loan programmes in the aspect of either environmental management, business continuity management, or healthcare management.

ISS ESG finds that the eligibility criteria set by the issuer's framework ensure adequate sustainability quality for both projects and loans (re-)financed through eventual Sustainability Bonds. Clear exclusion criteria have been defined in order to avoid potential investments in controversial activities.

2. Process for Project Evaluation and Selection

Application of eligibility and exclusionary criteria in project selection

DBJ's Treasury team is responsible for the selection of financial assets that meet the DBJ Sustainability Bond Eligibility Criteria and for the allocation of the DBJ Sustainability Bond proceeds to the selected financial assets. All financings and corresponding approved ratings (only applicable to the ERLP, BCMRLP, HMRLP and GBC programs as well as the GRESB, CASBE and BELS framework) are tracked in an internal management system. This allows DBJ's Treasury team to accurately identify and select the financial assets in accordance with the DBJ Sustainability Bond Eligibility Criteria and allocate the DBJ Sustainability Bond proceeds appropriately. These eligible assets/projects/businesses and the net proceeds, or an amount equal to the net proceeds, allocated to them, are recorded and maintained in the internal management systems, which are used for tracking and reporting purposes and appropriately updated from time to time..

Process to mitigate environmental and social risks

DBJ has the following processes that consider management of environmental and social risks in its financing process:

- DBJ periodically monitors if borrowers comply with applicable regulations and laws (including environmental laws), and if they obtain and maintain governmental permits, approvals, licenses and authorizations. If a breach is expected to have a materially adverse effect, and not cured within a grace period, DBJ is entitled to request prepayment subject to contractual arrangements.
- With respect to asset/structured/project finance, in some cases, DBJ engages an independent consultant to undertake due diligence on environmental and social aspects. If this is not the case, DBJ assesses the capability and reliability of the borrower in relation to identifying and managing environmental and social risks.
- The Sustainability Committee, responsible for considering the incorporation of sustainability and ESG insights into the DBJ's usual business activities, discusses and considers the balance between economic and social value (i.e. sustainability management), and maintains communications with stakeholders on this topic.

Opinion: *ISS ESG considers the Project Evaluation and Selection processes as aligned with the GBPs, SBPs and SBGs. Processes to identify environmental and social risks are well disclosed; this includes periodical monitoring of compliance with regulations and laws, and external due diligences. Eligibility criteria are clearly defined and publicly disclosed and the process for project selection is structured and transparent.*

3. Management of Proceeds

The net proceeds, or an amount equal to the net proceeds, from the DBJ Sustainability Bond issuance will be held and tracked in DBJ’s treasury until they are allocated to the eligible projects and/or businesses. So long as the DBJ Sustainability Bond is outstanding, DBJ aims and will check to the extent possible to allocate the net proceeds, or an amount equal to the net proceeds, of the DBJ Sustainability Bond towards the eligible projects and/or businesses. Unallocated proceeds will be held in cash and/or a money-market portfolio which will be tracked by DBJ Treasury Department. DBJ has internal management systems to track the amount of funds allocated to each of the Eligible Financings.

Opinion: *ISS ESG considers the Management of Proceeds as aligned with the GBPs, SBPs and SBGs. Appropriate tracking of the proceeds is in place and intended types of temporary investment instruments for unallocated proceeds are disclosed.*

4. Reporting

DBJ will report annually on its website the following information until full allocation of the net proceeds, or an amount equal to the net proceeds, from the DBJ Sustainability Bond issuance:

- Allocation in aggregate to each eligibility criterion, and number of businesses/assets/projects funded under each eligibility criterion
- The estimated share of financing a refinancing
- The amount of unallocated proceeds and the investments in which these proceeds are held.

Furthermore, DBJ will report on the following additional information and impact metrics on a best effort basis:

Green eligible categories: Climate Resiliency / Climate Change Mitigation

TYPE OF ELIGIBLE FINANCING	ADDITIONAL INFORMATION TO BE REPORTED
Green Buildings	<p>GBC</p> <ul style="list-style-type: none"> • Certification vintage • Subject to confidentiality and clients’ prior consent, two or three case studies of underlying green buildings funded by the relevant Sustainability Bond <p>GRESB</p> <ul style="list-style-type: none"> • Certification vintage • Subject to confidentiality and clients’ prior consent two or three case studies of underlying REITs and real estate properties funded with the relevant Sustainability Bond <p>Buildings with high environmental scores</p> <ul style="list-style-type: none"> • Holding ratio to total floor area, property value, loan amount • Where feasible, primary energy consumption, actual or theoretical CO2 emission amount
Renewable Energy, Clean Transportation	<ul style="list-style-type: none"> • Distribution by sub-sector and location • Subject to confidentiality and clients’ prior consent, high-level description of select projects • Where feasible, quantitative assessment of expected positive environmental impacts on an aggregate basis • KPI: estimated carbon avoidance

- | | |
|--|---|
| <p>Energy Efficiency - DBJ Environmentally Rated Loan Program</p> | <ul style="list-style-type: none"> • Certification vintage • Distribution by sector • Subject to confidentiality and clients' prior consent, select project summaries and key factors evaluated on specific green/social projects undertaken or implemented by the clients |
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Social eligible categories: Disaster resiliency

TYPE OF ELIGIBLE FINANCING	ADDITIONAL INFORMATION TO BE REPORTED
Employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises	<ul style="list-style-type: none"> • Distribution by sector • Financing amount
Affordable basic infrastructure – Power cable and grid upgrade	<ul style="list-style-type: none"> • Subject to confidentiality and clients' prior consent, high-level description of select projects
Socioeconomic advancement and empowerment - DBJ Business Continuity Management Rated Loan Program	<ul style="list-style-type: none"> • Certification vintage • Distribution by sector • Subject to confidentiality and clients' prior consent, select project summaries and key factors evaluated on specific green/social projects undertaken or implemented by the clients

Social eligible categories: Healthcare & Social Well-being

TYPE OF ELIGIBLE FINANCING	ADDITIONAL INFORMATION TO BE REPORTED
Affordable housing	<ul style="list-style-type: none"> • Number of residences provided
Access to essential services - healthcare	<ul style="list-style-type: none"> • Distribution by sub-sector • Hospitals: Number of hospital beds • Pharma: Number of tests, or medicine distributed • Nursing homes: Care capacity
Socioeconomic advancement and empowerment - DBJ Employee's Healthcare Management Rated Loan Program	<ul style="list-style-type: none"> • Certification vintage • Distribution by sector • Subject to confidentiality and clients' prior consent, select project summaries and key factors evaluated on specific green/social projects undertaken or implemented by the clients

Opinion: ISS ESG considers the Reporting description provided by DBJ as aligned with the GBPs, SBPs and SBGs. The issuer gives great details about scope and duration of reporting for both allocation and impact reporting. Impact indicators are thoroughly defined, while it is not clear whether the reporting will be made public by the issuer.

PART 2: CONTRIBUTION OF THE ELIGIBLE CATEGORIES TO THE UN SDGs

1. Use of Proceeds category – Project finance


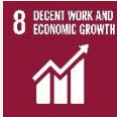





Using a proprietary methodology, ISS ESG assessed the contribution of DBJ’s Sustainable Bond Framework to the Sustainable Development Goals defined by the United Nations (UN SDGs). This assessment is an ISS ESG proprietary methodology while taking into account the sustainability quality of the Sustainable Bond Framework and the issuer’s specific sectorial context.

This assessment is displayed on 5-point scale (see Annex 2 for methodology):

Significant Obstruction	Limited Obstruction	No Net Impact	Limited Contribution	Significant Contribution
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Each of the Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
Climate Resiliency / Climate Change Mitigation		
Green Buildings	Significant contribution	
Solar Power	Significant contribution	
Wind Power	Significant contribution	
Geothermal	Significant contribution	
Hydropower	Significant contribution	
Biomass Electricity Generation	Limited contribution	
Tidal and Wave Power	Significant contribution	
Clean Transportation	Limited contribution	

Disaster resiliency		
Employment Generation ⁴	Limited contribution	 
	Significant contribution	
Power cable and grid upgrade	Significant contribution	 
Healthcare & Social Well-being		
Affordable housing	Significant contribution	 
Health and care facilities	Significant contribution	

2. Rated Loan Programs

Based on the scoring indicators, methodology and rating scale of each DBJ's Rated Loan Programs, ISS ESG evaluated the association of borrowing companies with relevant UN SDGs. This evaluation differs from the ISS ESG proprietary methodology for assessing Use of Proceeds category focusing on project finance and is based on the sub-targets of relevant UN SDGs.

RATED LOAN PROGRAM	ASSOCIATION	SUSTAINABLE DEVELOPMENT GOALS
Environmentally Rated Loan Program's Borrowers	Positive association ⁵	 
Business Continuity Management Rated Loan Program's Borrowers	Positive association	
Employee's Healthcare Management Rated Loan Program's Borrowers	Positive association	 

⁴ The framework-specific assessment is diverging from the ISS ESG SDG assessment proprietary methodology. Based on use of proceeds information provided by the issuer, ISS ESG assessed that the loans to companies have a significant contribution to SDG 8 "Decent work and economic growth" when targeting employment generation and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises.

⁵ The positive association with SDG 13 "Climate action" cannot be ensured for all borrowing companies under the Environmentally Rated Loan Program as only a couple of indicators of the scoring methodology can be directly linked to climate change mitigation and adaptation.

PART 3: DBJ’S ESG PERFORMANCE AND STRATEGY

Methodological note: Please note that this section of the SPO is extracted from the ISS ESG Corporate Rating of DBJ. As at the time of publication of this SPO, the ESG Corporate Rating does not reflect certain recent development, the assessment below has been partly amended.

The ISS ESG Corporate Rating provides material and forward-looking environmental, social and governance (ESG) data and performance assessments. The overall analysis is graded on a twelve-point scale from A+ (the company shows excellent performance) to D- (the company shows poor performance or fails to demonstrate any commitment to appropriately address the topic). “Prime” status is granted to industry leaders who fulfill demanding performance expectations. Industry leaders are considered the top three companies in an industry from the ESG Corporate Rating universe at the time of generation of this report.

COMPANY	STATUS	RATING	DECILE RANK	TRANSPARENCY LEVEL
DBJ	NOT PRIME	D	9	HIGH

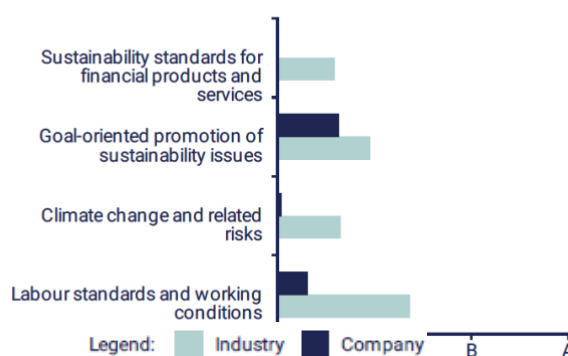
The issuer has been given a rating of D , which classifies it as ‘Not Prime’ by the methodology of the ISS ESG Corporate Rating. The Decile Ranking of 9 equates to a low relative performance.

ESG performance

As of 28.09.2020, this rating places DBJ 37th out of 41 companies rated by ISS ESG in the Financials/Development Banks sector.

Key Challenges faced by companies in term of sustainability management in this sector are displayed in the chart on the right, as well as the issuer’s performance against those key challenges in comparison to the average industry peers’ performance.

Key Issue Performance



Sustainability Opportunities

Development Bank of Japan (DBJ) provides different types of financial products and services with a focus on contributing to Japan’s economic and social development. In addition, it also finances such areas as environmental measures, crisis management and response, disaster recovery and healthcare. As a development bank, DBJ contributes to the UN’s Sustainable Development Goals (SDGs).

Sustainability Risks

Development Bank of Japan (DBJ) is not transparent on whether and/or how it manages environmental and social risks and impacts of the activities it finances. It only states that it supports environmentally beneficial businesses, by financing renewable energy, waste processing and recycling, and soil remediation measures and issues green bonds. Unlike more progressive development banks, it also does not provide access to a project database transparently displaying all the individual activities it is financing. In addition, there is no indication that DBJ measures the sustainable development impact of its activities by systematically carrying out evaluations.

As regards DBJ's own operations, the company implements some staff related measures, such as related to mental health management, workplace flexibility and working time reduction, and strategic training management. To a limited extent it also takes environmental management of its operations into account.

Breaches of international norms and ESG controversies

DBJ is not facing any controversies.

DISCLAIMER

1. Validity of the SPO: As long as DBJ's Sustainability Bond Framework remains unchanged.
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
3. We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of ISS ESG in connection with the use of these SPO, the information provided in them and the use thereof shall be excluded. In particular, we point out that the verification of the compliance with the selection criteria is based solely on random samples and documents submitted by the issuer.
4. All statements of opinion and value judgements given by us do not in any way constitute purchase or investment recommendations. In particular, the SPO is no assessment of the economic profitability and credit worthiness of a bond but refers exclusively to the social and environmental criteria mentioned above.
5. We would point out that this SPO, in particular the images, text and graphics contained therein, and the layout and company logo of ISS ESG and ISS-ESG are protected under copyright and trademark law. Any use thereof shall require the express prior written consent of ISS. Use shall be deemed to refer in particular to the copying or duplication of the SPO wholly or in part, the distribution of the SPO, either free of charge or against payment, or the exploitation of this SPO in any other conceivable manner.

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ANNEX 1: ISS ESG Corporate Rating

The following pages contain extracts from DBJ's 2020 ISS ESG Corporate Rating.

Development Bank of Japan Inc.

Company Information

Country
Japan

ISIN
JP372150A751

Industry
Financials/Development Banks

Key Results

Rating
D

Decile Rank
9

Transparency Level
High

Performance score
16

Status
Not Prime

Prime Threshold
C

Absolute Rating



The assessment of a company's sustainability performance is based on approximately 100 criteria, selected specifically for each industry. A company's failure to disclose, or lack of transparency, regarding these matters will impact a company's rating negatively.

Transparency Level



Decile Rank

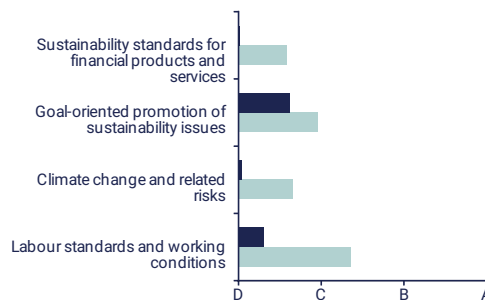


Industry Leaders

Company name (in alphabetical order)	Country	Grade
Asian Development Bank	PH	B
European Investment Bank	LU	B-
International Bank for Reconstruction and Development	US	B-

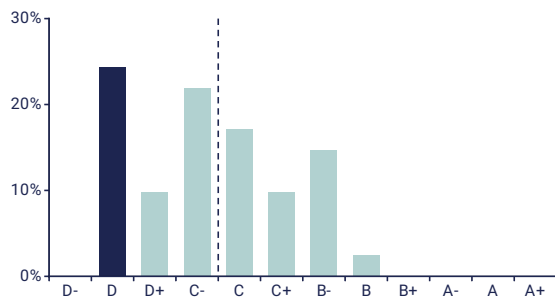
Legend: ■ Industry ■ Company --- Prime

Key Issue Performance

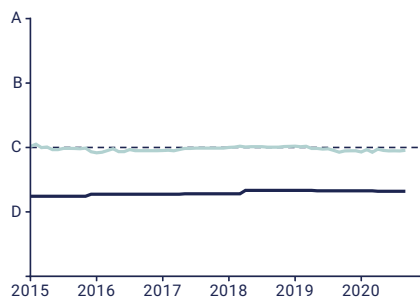


Distribution of Ratings

41 companies in the industry



Rating History



Development Bank of Japan Inc.

Methodology - Overview

The ESG Corporate Rating methodology was originally developed by Institutional Shareholder Services Germany (formerly oekom research) and has been consistently updated for more than 25 years.

ESG Corporate Rating - The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

Analyst Opinion - Qualitative summary and explanation of the central rating results in three dimensions:

- (1) Opportunities - assessment of the quality and the current and future share of sales of a company's products and services, which positively or negatively contribute to the management of principal sustainability challenges.
- (2) Risks - summary assessment of how proactively and successfully the company addresses specific sustainability challenges found in its business activity and value chain, thus reducing its individual risks, in particular regarding its sector's key issues.
- (3) Governance - overview of the company's governance structures and measures as well as of the quality and efficacy of policies regarding its ethical business conduct.

Controversial Business Practices - The assessment of companies' sustainability performance in the ESG Corporate Rating is informed by a systematic and comprehensive evaluation of companies' ability to prevent and mitigate ESG controversies. ISS ESG conducts research and analysis on corporate involvement in verified or alleged failures to respect recognized standards for responsible business conduct through Norm-Based Research.

Norm-Based Research is based on authoritative standards for responsible business conduct such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights and the Sustainable Development Goals.

As a stress-test of corporate disclosure, Norm-Based Research assesses the following:

- Companies' ability to address grievances and remediate negative impacts
 - Degree of verification of allegations and claims
 - Severity of impact on people and the environment, and systematic or systemic nature of malpractices
- Severity of impact is categorized as Potential, Moderate, Severe, Very severe. This informs the ESG Corporate Rating.

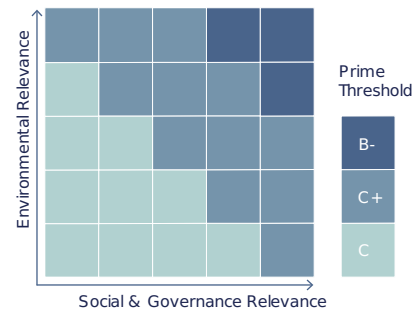
Decile Rank - The Decile Rank indicates in which decile (tenth part of total) the individual Corporate Rating ranks within its industry from 1 (best – company's rating is in the first decile within its industry) to 10 (lowest – company's rating is in the tenth decile within its industry). The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of companies within an industry cannot be evenly divided by ten, the surplus company ratings are distributed from the top (1 decile) to the bottom. If there are Corporate Ratings with identical absolute scores that span a division in decile ranks, all ratings with an equal decile score are classified in the higher decile, resulting in a smaller number of Corporate Ratings in the decile below.

Development Bank of Japan Inc.

Methodology - Overview

Industry Classification - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analyzed is classified in a Sustainability Matrix.

Depending on this classification, the two dimensions of the ESG Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS ESG Prime Status (Prime threshold) are defined (absolute best-in-class approach).



Industry Leaders - List (in alphabetical order) of the top three companies in an industry from the ESG Corporate Rating universe at the time of generation of this report.

Key Issue Performance - Overview of the company's performance with regard to the key social and environmental issues in the industry, compared to the industry average.

Performance Score - The ESG Performance Score allows for cross-industry comparisons using a standardized best-in-class threshold that is valid across all industries. It is the numerical representation of the alphabetic ratings (D- to A+) on a scale of 0 to 100 with 50 representing the prime threshold. All companies with values greater than 50 are Prime, while companies with values less than 50 are Not Prime. As a result, intervals are of varying size depending on the original industry-specific prime thresholds.

Rating History - Development of the company's rating over time and comparison to the average rating in the industry.

Rating Scale - Companies are rated on a twelve-point scale from A+ to D-:

A+: the company shows excellent performance.

D-: the company shows poor performance (or fails to demonstrate any commitment to appropriately address the topic).

Overview of the range of scores achieved in the industry (light blue) and indication of the grade of the company evaluated in this report (dark blue).

Distribution of Ratings - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ESG Corporate Rating universe (company portrayed in this report: dark blue).

Sources of Information - A selection of sources used for this report is illustrated in the annex.

Status & Prime Threshold - Companies are categorized as Prime if they achieve/exceed the sustainability performance requirements (Prime threshold) defined by ISS ESG for a specific industry (absolute best-in-class approach) in the ESG Corporate Rating. Prime companies are sustainability leaders in their industry and are better positioned to cope with material ESG challenges and risks, as well as to seize opportunities, than their Not Prime peers. The financial materiality of the Prime Status has been confirmed by performance studies, showing a continuous outperformance of the Prime portfolio when compared to conventional indices over more than 14 years.

Transparency Level - The Transparency Level indicates the company's materiality-adjusted disclosure level regarding the environmental and social performance indicators defined in the ESG Corporate Rating. It takes into consideration whether the company has disclosed relevant information regarding a specific indicator, either in its public ESG disclosures or as part of the rating feedback process, as well as the indicator's materiality reflected in its absolute weight in the rating. The calculated percentage is classified in five transparency levels following the scale below.

0% - < 20%: very low

20% - < 40%: low

40% - < 60%: medium

60% - < 80%: high

80% - 100%: very high

For example, if a company discloses information for indicators with a cumulated absolute weight in the rating of 23 percent, then its Transparency Level is "low". A company's failure to disclose, or lack of transparency, will impact a company's ESG performance rating negatively.

ANNEX 2: Methodology

Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, ISS ESG identifies the extent to which DBJ's Sustainability Bond Framework contributes to related SDGs.

ANNEX 3: Quality management processes

SCOPE

DBJ commissioned ISS ESG to compile a Framework SPO. The Second Party Opinion process includes verifying whether the Sustainability Bond Framework aligns with the ICMA's Green and Social Bond Principles and the Sustainability Bond Guidelines and to assess the sustainability strategy of the issuer.

CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA Green Bond Principles
- ICMA Social Bond Principles
- ICMA Sustainability Bond Guidelines

ISSUER'S RESPONSIBILITY

DBJ's responsibility was to provide information and documentation on the concept of its framework, eligibility criteria applied to the selection and evaluation of eligible projects and on loan programmes (re)financed under the framework.

ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Sustainability Bond Framework to be issued by DBJ based on ISS ESG methodology and in line with the ICMA GBPs, SBPs and SBGs.

The engagement with DBJ took place in August and September 2020.

ISS ESG'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

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