



Second Opinion

HIKARI TSUSHIN, Inc.

Social Finance Framework

February 13, 2024

ESG Division

Tatsushi Oishi

Rating and Investment Information, Inc. (R&I) has confirmed the alignment of the Social Finance Framework of HIKARI TSUSHIN dated February 2024 with the International Capital Market Association (ICMA)'s Social Bond Principles 2023 (SBP2023), Social Loan Principles (LMA2023), and the Financial Services Agency's Social Bond Guidelines 2021. This opinion is based on the following views.

■ Overview of the Opinion

(1) Use of Proceeds

The target project is financing to provide essential financial services (including loans, installment sales, and leases) to people in emerging countries (Cambodia and Malaysia) who are not offered sufficient financial services by banks, etc. Cambodia has one of the lowest income levels even in emerging countries. Receivables will be mainly from installment loans for motorbikes, which are in high demand as a leg of daily life. While Malaysia is getting poised for financial inclusion with the development of financial infrastructure and a high ownership rate of bank accounts, it is a challenge to improve financial access for people without access to formal financial services, such as foreign workers, their families, and people in rural areas, and the provision of low-cost financial services and improvement in financial literacy are required. Therefore, this case will revolve around installment loans for mobile phones and motorbikes, as well as consumer loans, for people with average income or below. As for negative impacts, an increase in the borrowers' liabilities as a result of the supply of more funds than necessary can be thought of, which is addressed through appropriate credit management. R&I has judged that the target project will produce positive results for the society as a whole. Among the project categories as exemplified in SBP2023, it falls under the categories of "Access to essential services" and "SME financing and microfinance," with the target populations of individuals and micro, small and medium enterprises with difficulty in obtaining financing in emerging countries where financial services are immature.

(2) Process for Project Evaluation and Selection

The target project has been selected with HIKARI TSUSHIN's approach to sustainability in mind. Eligibility and exclusion criteria for project evaluation and selection are clearly defined, including ensuring that sufficient deterrence is taken against the possibility of significant adverse social impacts such as multiple debt problems. The criteria for evaluation and the selection of a target project have undergone appropriate processes.

(3) Management of Proceeds

Proceeds will be lent in full through its Group company to local subsidiaries, which will manage the funds. Funds required for local customers have been supplied by HIKARI TSUSHIN. Therefore, when allocating to refinancing, funds raised will be allocated immediately to refinance such funds. Those subsidiaries already hold more receivables than proceeds through social finance. They will continue to hold eligible receivables in an amount equal to or greater than the funds raised under the Framework, and manage such that the proceeds will remain allocated all the time. In addition, HIKARI TSUSHIN will conduct periodic monitoring at least once a year as long as there is an outstanding balance of the proceeds.

(4) Reporting

Materials that clearly explain the allocation of proceeds and social outcomes to investors and financial institutions will be disclosed. The allocation status and impact reporting will be disclosed on the website (or reported to financial institutions in the case of loans). It can be judged that reporting on the allocation of funds as well as output, outcomes and impacts is appropriate.

Rating and Investment Information, Inc.

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(Contact) Customer Service Department, Sales and Marketing Division: Terrace Square, 3-22, Kandanishiki-cho, Chiyoda-ku, Tokyo 101-0054, Japan TEL 03-6273-7471
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Outline of the Issuer

- HIKARI TSUSHIN group handles a wide range of products, mainly in-house products such as Internet connection lines, electricity and home delivery water. It was founded in 1988. It is headquartered in Ikebukuro, Toshima-ku, Tokyo, and is in charge of corporate management of respective group companies as a holding company. It aims to contribute to stakeholders including customers, business partners, shareholders, employees and society, etc. by disseminating various products and services widely to individual and corporate customers.
- Its core business is a stock business where recurring revenue is expected from usage fees, etc., after the sale of goods and services. The products and services of the stock business range widely from communications line services, home delivery water, electricity, insurance, industry-specific IT solutions, payment solutions, mobile phones and office automation equipment.
- HIKARI TSUSHIN also develops a finance business for individuals and companies through BusinessPartner, its subsidiary. In Japan, it offers installment payments service for office supplies, website production, etc., business loans, as well as installment payments for consumers' purchases such as beauty salon treatments and personal gyms and consumer loans. Overseas, it offers consumer loans and installment payments for mobile phones, motorbikes, cars and farm equipment, etc. in Cambodia. It also offers consumer loans and installment payments for cars and mobile phones, etc. in Malaysia. In addition it offers a mobile phone leasing business for individuals in Laos and microfinance for individuals in Mongolia.

1. Use of Proceeds

(1) Eligible Projects

The proceeds will be allocated to new expenditures or refinancing related to the following project as a target project. When allocating to existing projects, expenditures made within 36 months of the issue date of a social bond for eligible projects can be included.

Project category	SBP categories	Eligible projects	Target populations
Financial services for individuals and micro, small and medium enterprises in emerging countries	Access to essential services/SME financing and microfinance	<p>Funds to provide financial services (including loans, installment sales, and leases) for individuals and micro, small and medium enterprises, including sole proprietors, in emerging countries where financial services are immature</p> <p><Project example></p> <ul style="list-style-type: none"> Provision of financial services to individuals and micro, small and medium enterprises, such as installment sales of mobile phones, leasing and installment sales of motorcycles/ four wheel buggy and farm equipment, and microfinance, in emerging countries such as Cambodia and Malaysia through the BusinessPartner group However, in Malaysia it covers people with average income or below 	Individuals and micro, small and medium enterprises with difficulty in obtaining financing in emerging countries where financial services are immature

- Through Active People's Microfinance Institution, a Cambodian subsidiary, and JCL Credit Leasing Sdn Bhd., a Malaysian subsidiary of its subsidiary BusinessPartner, respectively, HIKARI TSUSHIN supports improvements in the quality of life and economic conditions. The use of funds in the project is local finance businesses of both companies. When allocating to refinancing, the proceeds will be allocated immediately to refinance funds that have already been lent out through BusinessPartner.

<Issue recognition of finance and society as well as target populations in Cambodia>

■Active People's Microfinance Institution Plc.



The company has branches across Cambodia, mainly in Phnom Penh, and offers installment loans for motorbikes, used cars and mobile phones primarily for individuals, as well as microfinance. It has the largest share in installment loans for motorbikes in Cambodia (No. 1 share (based on its own survey)).

In Cambodia, the number of vehicle registrations has been on the rise in recent years due to the remarkable economic growth and an expansion of the middle-income class, with two-wheelers accounting for 84.9% in particular. Behind the high prevalence of motorbikes there is an issue of underdeveloped public transport, such as buses and trains, with the tendency of high fares in Cambodia. A reason for this is that relatively inexpensive motorbikes have become a leg of life because many of automobiles available were expensive imported vehicles due to limited production plants and high tariffs.

As of 2022, Cambodia is on the list of the least developed countries, which are considered particularly poor even among developing countries. In particular, nearly a half of those living in rural areas live in poverty and often lack access to services such as education and health care. Motorbikes are a medium for those people to travel to and from schools and hospitals.

In addition, many in the poor earn their living through agriculture and small businesses. Owning a motorbike can help increase their income by making it easier to transport agricultural produce to distant markets and work from afar.

Active People's Microfinance Institution supports improvements in the quality of life and economic conditions of poor and low-income people by providing support for the acquisition of motorbikes and microfinance, including individuals and sole proprietors in Cambodia.

<Issue recognition of finance and society and target populations in Malaysia>



■JCL Credit Leasing Sdn Bhd.

The company provides installment sales and loans for motorbikes, mobile phones, used cars, etc. for individuals in Kuala Lumpur, Malaysia. It is the first in the country among the eight companies that have been approved to accept loans online, which was not approved before, in the recognition of its business format that is in line with laws and regulations. It now receives all requests and fully operates online.

While Malaysia is getting poised for financial inclusion with the development of financial infrastructure and a high ownership rate of bank accounts, it is a challenge to improve financial access for people without access to formal financial services, such as foreign workers, their families, and residents in rural areas, and the provision of low-cost financial services and improvement in financial literacy are required.

Malaysia's average age is young, with a median age of 30.4 years old in 2022. On the other hand, the unemployment rate for young workers is about 10%, which is markedly higher than the unemployment rate for all ages, and there are income gaps due to differences in generation, region and nationality.

JCL Credit Leasing Sdn Bhd. provides installment sales and loans for motorbikes, mobile phones and used cars, etc. for individuals in Kuala Lumpur, Malaysia, to provide financial access to more people, including those with below average income. People with average income or less are a part of the eligibility criteria in this case.

(2) Goals of Eligible Projects Are Positive Social Outcomes

The benefits and impacts of the target project are summarized as follows:




Benefits and impacts of eligible projects	
Direct ¹ benefits	<ul style="list-style-type: none"> Acquisition of equipment necessary for individuals and micro, small and medium enterprises (motorbikes, mobile phones, etc.)
Indirect benefits	<ul style="list-style-type: none"> Improvements in the quality of life and economic conditions of individuals and micro, small and medium enterprises
Negative impacts and responses thereto	<ul style="list-style-type: none"> An increase in the liabilities as a result of the supply of more funds than necessary will be addressed through appropriate credit management

The target project is financing to provide essential financial services (including loans, installment sales, and leases) to people in emerging countries (Cambodia and Malaysia) who are not offered sufficient financial services by banks, etc. These direct benefits can be provided through funding for individuals and micro, small and medium enterprises to acquire necessary equipment (motorbikes, mobile phones), thereby improving their quality of life and economy. As for negative impacts, an increase in the borrowers' liabilities as a result of the supply of more funds than necessary can be thought of, which is addressed through appropriate credit management. Based on the above, R&I has judged that the target project is producing positive results for the society as a whole.

¹ "Direct" relates to the users of eligible projects, "indirect" relates to the society in which eligible projects are conducted, and "extensive" relates to the society that extends beyond the society in which eligible projects are conducted. For details, see "R&I Social Bond Opinion Assessment Methodology" at https://www.r-i.co.jp/rating/products/esg/so_social_jpn.pdf.


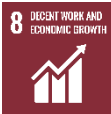

Relevance of eligible projects to the Sustainable Development Goals (SDGs)

- R&I used the ICMA's mapping table for project categories and SDGs as a reference to identify contributions to the SDGs by the target project, with a corresponding relationship between the eligible project and SDGs as follows.

SDGs	
	1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance.
	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.
	9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.

Consistency with SDGs Action Plan

In relation to the priorities (1) to (8) set forth in the Japanese Government's "SDGs Action Plan 2023" for achieving the SDGs, projects to which proceeds from the social bond will be allocated to are expected to contribute to the following in particular.

Priority	Corresponding SDGs targets
(1) Realization of gender equality and a society where every person can play an active role	  

Checks against project categories illustrated in SBP2023

The target project corresponds to the project categories exemplified in SBP2023 of "Access to essential services" and "SME financing and microfinance," with the target populations of individuals and micro, small and medium enterprises with difficulty in obtaining financing mainly in emerging countries where financial services are immature.

The target project is financing to provide essential financial services (including loans, installment sales, and leases) to people in emerging countries (Cambodia and Malaysia) who are not offered sufficient financial services by banks, etc. Cambodia has one of the lowest income levels even in emerging countries. Receivables will be mainly from installment loans for motorbikes, which are in high demand as a leg of daily life. While Malaysia is getting poised for financial inclusion with the development of financial infrastructure and a high ownership rate of bank accounts, it is a challenge to improve financial access for people without access to formal financial services, such as foreign workers, their families, and people in rural areas, and the provision of low-cost financial services and improvement in financial literacy are required. Therefore, this case will revolve around installment loans for mobile phones and motorbikes, as well as consumer loans, for people with average income or below. As for negative impacts, an increase in the borrowers' liabilities as a result of the supply of more funds than necessary can be thought of, which is addressed through appropriate credit management. R&I has judged that the target project will produce positive results for the society as a whole. Among the project categories as exemplified in SBP2023, it falls under the categories of "Access to essential services" and "SME financing and microfinance," with the target populations of individuals and micro, small and medium enterprises with difficulty in obtaining financing in emerging countries where financial services are immature.

2. Process for Project Evaluation and Selection

(1) Incorporation into Comprehensive Objectives, Strategies and so on

- HIKARI TSUSHIN and the HIKARI TSUSHIN group recognize that addressing issues related to sustainability, such as consideration to global environmental issues including climate change, respect for human rights, consideration to the health and working environment of employees, their fair and appropriate treatment, fair and appropriate transactions with business partners, and crisis management in response to natural disasters, etc., are important management issues that would lead to not only reduced risks but also profit opportunities, and are aggressively and proactively addressing these issues from the perspective of improving corporate value over the medium to long term.
- Based on its approach to sustainability, it sets items for each of the environment, social, and governance aspects. On the social aspect, it promotes specific initiatives under the following eight items: (1) promotion of diversity, (2) meritocracy, (3) respect for human rights, (4) working hours, (5) various systems, (6) setting up an opinion-box system, (7) economic contributions, and (8) contribution to local government.
- In order to contribute to the creation of a prosperous society, the BusinessPartner group actively engages in social contribution activities and aims to become a corporate group with a clear value in society and the markets.
- Initiatives under this project are positioned as a business that leads to “(7) economic contributions” in HIKARI TSUSHIN’s measures on the social aspect. A social issue to be resolved is improvements in the quality of life and economic conditions of individuals and micro, small and medium enterprises through financial services.

(2) Criteria for Project Evaluation and Selection

- In determining the eligibility of an eligible project, the Group company implementing it will ensure that various laws and regulations required by the national and local governments where they are located are complied with, and that sufficient deterrence is taken against the possibility of serious adverse social effects such as money laundering, terrorist financing, and multiple debt problems.
- A project that HIKARI TSUSHIN has concluded does not have sufficient efforts to deter serious adverse social effects in place, in determining its eligibility, will be excluded from the scope of the use of proceeds.
- The use of funds in the eligible project is intended to contribute to improvements in the quality of life and economic conditions of individuals and micro, small and medium enterprises who are not offered sufficient financial services from banks, etc., by providing them with necessary financial services. It falls under the Social Bond Principles’ project categories of “Access to essential services” and “SME financing and microfinance.”

(3) Process for Project Evaluation and Selection

- The Group company implementing a project makes the selection, and HIKARI TSUSHIN receives and checks information necessary for determining the eligibility from the Group company, to confirm the eligibility as an eligible project and give a final approval.
- In the credit review process for individual claims of each local subsidiary involved in the disbursement of loans, appropriate reviews that pay consideration to compliance with laws and regulations and multiple debts are conducted.

The target project has been selected with HIKARI TSUSHIN’s approach to sustainability in mind. Eligibility and exclusion criteria for project evaluation and selection are clearly defined, including ensuring that sufficient deterrence is taken against the possibility of significant adverse social impacts such as multiple debt problems. The criteria for evaluation and the selection of a target project have undergone appropriate processes.

3. Management of Proceeds

- Funds raised through social finance will be lent through its Group company BusinessPartner to local subsidiaries of the Group, and those local subsidiaries will manage the funds. Funds required for local customers have been supplied by HIKARI TSUSHIN. Therefore, when allocating to refinancing, funds raised will be allocated immediately to refinance such funds.
- Those subsidiaries already hold more receivables than proceeds through social finance, and will manage such that the balance of receivables will remain larger than the amount of funds to be allocated all the time.
- HIKARI TSUSHIN will conduct periodic monitoring at least once a year as long as there is an outstanding balance of the proceeds.
- Proceeds will be managed in cash or cash equivalents until allocated when unallocated funds arise.

Proceeds will be lent in full through its Group company to local subsidiaries, which will manage the funds. Funds required for local customers have been supplied by HIKARI TSUSHIN. Therefore, when allocating to refinancing, funds raised will be allocated immediately to refinance such funds. Those subsidiaries already hold more receivables than proceeds through social finance. They will continue to hold eligible receivables in an amount equal to or greater than the funds raised under the Framework, and manage such that the proceeds will remain allocated all the time. HIKARI TSUSHIN will conduct periodic monitoring at least once a year as long as there is an outstanding balance of the proceeds.

4. Reporting

(1) Overview of Disclosure

- An overview of reporting is as follows. Allocation of proceeds and periodic reports will be disclosed over the period until the social finance is repaid/redeemed.

	Items	Timing	Method
Allocation of proceeds	<ul style="list-style-type: none"> Allocated amount to eligible projects (including the ratios of new expenditures and refinancing) Unallocated amount Outstanding balance of proceeds 	Annually	On the website, or to be reported to financial institutions in the case of loans
Impact	Impact Reporting	Annually	On the website, or to be reported to financial institutions in the case of loans

(2) Impact Reporting

- The following indicators will be published to the extent that reporting is practicably possible.

Project	Output	Outcomes	Impact
Financial services for individuals and micro, small and medium enterprises in emerging countries	Number and amount of financing provided by target country and type of service provided	Number of people (by above/below average income) who have benefited from the services (access to communication or transportation medium, etc.)	Improvement in living standards of people and economic activation in emerging countries

- Social benefits of the target project will be reported in three stages: output, outcomes, and impact. Output indicators are direct results of the project such as the number and amount of financings provided. Outcomes indicators are indicators to report what type of debtors have been financed through the implementation of the project and what positive impact it has produced. Impact is what shows up indirectly as a result, and qualitative evaluation has been carried out in advance because it is difficult for HIKARI TSUSHIN to measure it directly.

Materials that clearly explain the allocation of proceeds and social outcomes to investors and financial institutions will be disclosed. The allocation status and impact reporting will be disclosed on the website (or reported to financial institutions in the case of loans). It can be judged that reporting on the allocation of funds as well as output, outcomes and impacts is appropriate.

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The R&I assessment method and results are disclosed on the R&I website (at <https://www.r-i.co.jp/en/rating/esg/index.html>).

In December 2022, R&I expressed its support for the intent of and its endorsement of the "Code of Conduct for ESG Evaluation and Data Providers" (ESG Code of Conduct) published by the Financial Services Agency. Disclosures on R&I's compliance with the six Principles of the ESG Code of Conduct and the Guidelines for their implementation are available on the R&I website at <https://www.r-i.co.jp/en/rating/products/esg/index.html> (Disclosures on Compliance with the ESG Code of Conduct).

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