

ASSESSMENT

29 November 2022



Contacts

Atsushi Goto
 Associate Lead Analyst
 Moody's Japan K.K.
 atsushi.goto@moodys.com

Manon Inomata
 Associate Analyst
 Moody's Japan K.K.
 manon.inomata@moodys.com

Jeffrey Lee
 VP-Sustainable Finance
 sukjoonjeffrey.lee@moodys.com

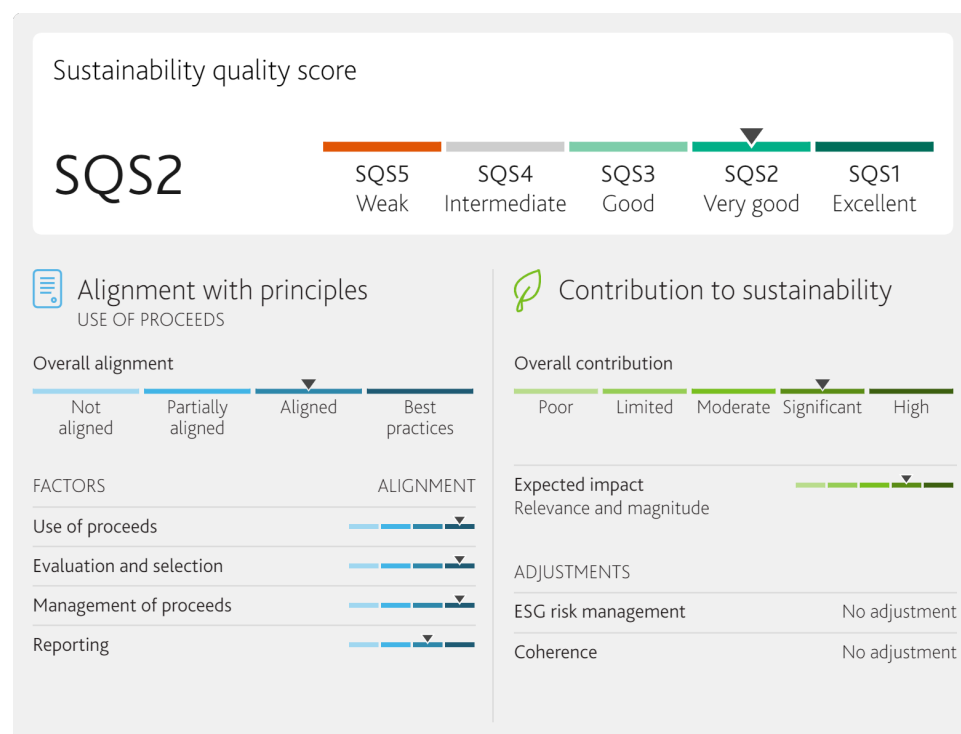
Rahul Ghosh
 MD-Sustainable Finance
 rahul.ghosh@moodys.com

Japan Student Services Organization

Second Party Opinion – Social Bond (70th) Assigned SQS2 Sustainability Quality Score

Summary

We have assigned an SQS2 sustainability quality score (very good) to Japan Student Services Organization's (JASSO) 70th social bond to be issued in February 2023. JASSO has established its use-of-proceeds framework to finance a single eligible social project category; scholarship loans. The issuance is aligned with the four core components of the International Capital Market Association's (ICMA) Social Bond Principles 2021 (including June 2022, Appendix 1), and the framework demonstrates a significant contribution to sustainability.



This report was republished on 30 November 2022 with an updated Appendix 1.

Scope

We have provided a Second Party Opinion (SPO) on the sustainability credentials of JASSO's 70th social bond, including the framework's alignment with the ICMA's Social Bond Principles (SBP) 2021 (including June 2022, Appendix 1). The agency plans to issue use-of-proceeds social bonds to finance a single eligible social project category – scholarship loans – as outlined in Appendix 2 of this report.

Our assessment is based on the latest version of JASSO's framework as of November 2022, and our opinion reflects our point-in-time assessment of the details in this version of the framework, and other public and non-public information provided by the agency.

We produced this SPO based on our [Framework to Provide Second Party Opinions on Sustainable Debt](#), published in October 2022.

Issuer profile

Japan Student Services Organization (JASSO) is a Japanese independent administrative agency, overseen by the Minister of Education, Culture, Sports, Science and Technology (MEXT).

Founded in 2004 under the Act on the Japan Student Services Organization, Independent Administrative Agency, JASSO provides scholarship grants, loans and various student services to help ensure equal educational opportunities.

The agency is the largest scholarship provider in Japan, with total funding of more than JPY1.1 trillion for the fiscal year ending in March 2022 (fiscal 2021). One in every 3.1 postsecondary students received scholarship loans from JASSO in fiscal year 2021.

Strengths

- » Financing of a widely-used scholarship loan program that facilitates equal access to higher education in Japan
- » Clearly defined eligibility criteria for the use of proceeds enshrined in law
- » Well-established process for evaluating and selecting eligible students, including screening by personality, academic ability and family financial status
- » Strong internal management system, including an established process for repayment deferrals and official complaint-handling policies and committees
- » Well-established process for the management of proceeds, including use of a subaccount and allocation of funds within two days of issuance

Challenges

- » The already high penetration of tertiary education in Japan, compared with global peers, weighs on the expected contribution to sustainability. Furthermore, Category 2 scholarship loans target higher-income households compared with other scholarship programs provided by JASSO.
- » There is no commitment to undertake verification or an independent review of the allocation, or impact reporting.

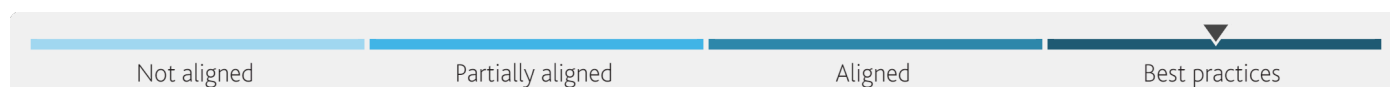
This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

Alignment with principles

JASSO's 70th social bond is aligned with the four core components of the ICMA's Social Bond Principles 2021 (including June 2022, Appendix 1):

- Green Bond Principles (GBP)
- Social Bond Principles (SBP)
- Green Loan Principles (GLP)
- Social Loan Principles (SLP)
- Sustainability-Linked Bond Principles (SLBP)
- Sustainability Linked Loan Principles (SLLP)

Use of proceeds



Clarity of the eligible categories – BEST PRACTICES

The agency plans to allocate the proceeds to Category 2 scholarship loans, which are interest-bearing scholarship loans provided to students from low- and middle-income households in Japan. The eligibility criteria, including income and academic requirements, are clearly defined and publicly available. For example, the issuer details on its website an approximate income threshold of JPY10.09 million (for a household of three) to qualify, a repayment duration of up to 20 years and a maximum monthly undergrad loan value of JPY120,000.

Clarity of the environmental or social objectives – BEST PRACTICES

Through the Category 2 scholarship loans, the agency plans to help ensure equal access to education. The project category is relevant to JASSO's social mandate and is coherent with international standards, particularly the UN Sustainable Development Goals (SDGs), specifically SDG4 (Quality education).

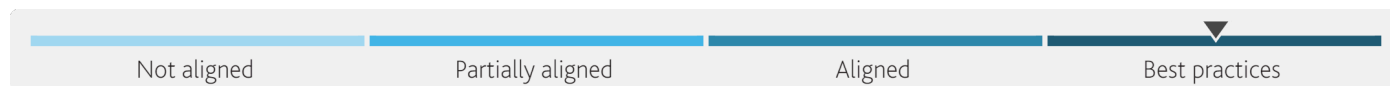
Clarity of the expected benefits – BEST PRACTICES

The expected benefit — that financially challenged students complete their higher education — is relevant to the project. In addition, the benefits are measurable and the agency will report the percentage of scholarship recipients among the applicants who meet the criteria. Other reported data will include total number of recipients, total amount of annual lending and the collection rate of repayments per year. In addition, the issuer commits to not direct the proceeds to the refinancing of existing loans.

Best practices identified

- » Eligibility criteria are clearly defined for all project categories
- » Objectives set are defined, relevant and coherent for all project categories
- » Relevant benefits are identified for all project categories
- » Benefits are measurable and quantified for most projects, either ex-ante with clear baselines or with a commitment to do so in future reporting
- » Commitment to transparently disclose the share of proceeds used for refinancing where feasible
- » Commitment to transparently communicate the associated lookback period(s) where feasible

Process for project evaluation and selection



Transparency and quality of process for defining eligible projects – BEST PRACTICES

The applicable laws and regulations, and the operational procedure, which are publicly available, define the candidate selection process. The procedure also details the roles and responsibilities for candidate selection, which involves stakeholders with relevant expertise – including the principals of educational institutions – and requires the process to be documented. The continued compliance of the recipients with the defined eligibility criteria will be monitored annually and corrective actions will be taken, if necessary.

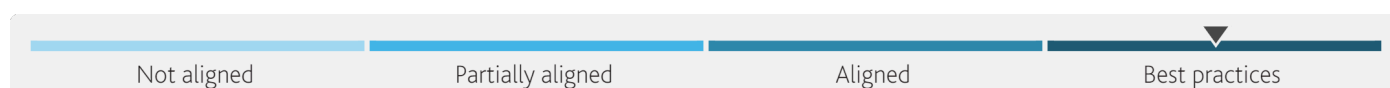
Environmental and social risk mitigation process – BEST PRACTICES

Because JASSO is a government-related agency, its environmental and social risk mitigation process is well-established and transparently disclosed. Strengths include an established process for repayment deferrals and official complaint-handling policies and committees.

Best practices identified

- » The roles and responsibilities for project evaluation and selection are clearly defined and include relevant expertise
- » There is evidence of continuity in the selection and evaluation process through the life of the financial instrument(s), including compliance verification and procedures to undertake implement mitigating actions when needed
- » The process for project evaluation and selection is traceable
- » Material Significant environmental and social risks for most project categories are identified
- » Presence of corrective measures to address environmental and social risks across projects
- » Environmental, social and governance (ESG) controversies are monitored

Management of proceeds



Allocation and tracking of proceeds – BEST PRACTICES

The net proceeds of the bond will be placed in a segregated account and will be fully disbursed to the scholarship recipients no more than two days after issuance.

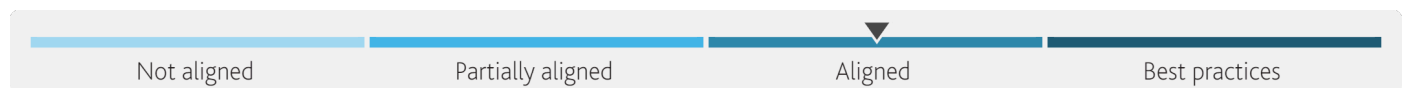
Because this is a government-aided program, it is highly unlikely that the program will be canceled or postponed without amendments in the law. In case the allocation is delayed because of unforeseeable reasons, the agency commits to process the disbursement to the students as soon as possible.

Management of unallocated proceeds – BEST PRACTICES

Because the bond proceeds will be disbursed to students within a window of two days, it is highly unlikely that the unallocated proceeds would require temporary placement or that such proceeds would need to be reallocated to other eligible projects.

Best practices identified

- » Broad disclosure of a clearly articulated and comprehensive management of proceeds policy to external stakeholders; bondholders or lenders at a minimum
- » Short allocation period, for example typically less than 24 months

Reporting**Transparency of reporting – ALIGNED**

The agency will report annually on the use of the proceeds and their impact, and this reporting will be made publicly available on the agency's website. It has already published its [impact reporting](#) for fiscal 2021 and commits to continue such reporting going forward. The reporting will include details on the allocation, the number of Category 2 scholarship loan recipients and the total disbursed amount. In addition, JASSO is legally required to submit its annual report to MEXT, which contains similar impact and allocation reporting indicators, and publish it thereafter.

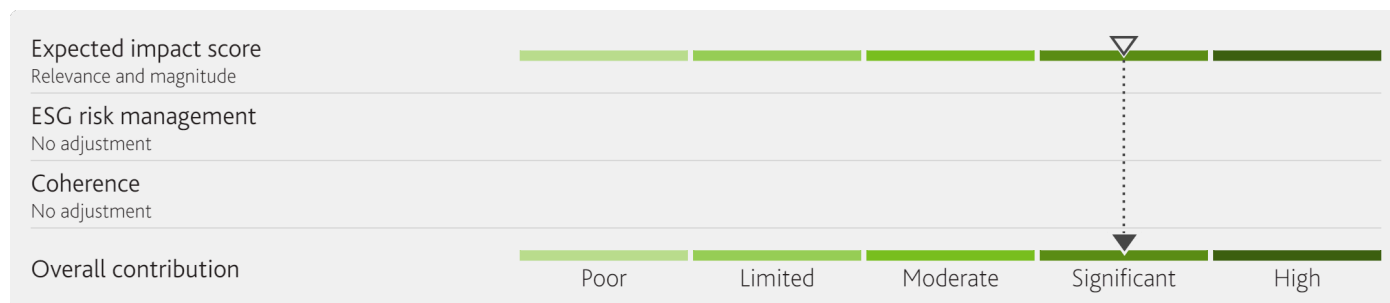
The reporting indicators selected are clear, relevant and exhaustive. However, the agency does not commit to the verification or an independent review of the tracking method, allocation of funds and reported benefits.

Best practices identified

- » Reporting until full bond maturity or loan payback
- » Reporting covers material significant developments and issues related to the projects or assets
- » Reporting on the allocation of proceeds and the benefits done at least at eligible category level
- » Exhaustive allocation reporting – balance or % of unallocated funds, types of temporary investments (e.g. cash or cash equivalent) and share of financing vs re-financing
- » Clear and relevant indicators to report on the expected environmental/social impact of all the projects, where feasible, or eligible categories
- » Disclosure of reporting methodology and calculation assumptions to bondholders or lenders at a minimum

Contribution to sustainability

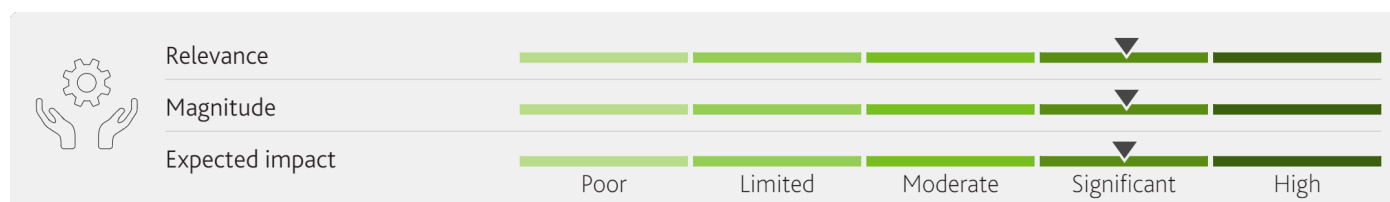
The framework demonstrates a significant overall contribution to sustainability.



Expected impact

The expected impact of the eligible project category of scholarship loans on JASSO's social objective is significant. A detailed assessment of the project category is provided below.

Category 2 Scholarship Loans



The project category exhibits significant relevance overall. The scholarship loan program is very important to the agency and to Japan because of the financial burden of higher education. This is also reflected in the financing gap between public and private spending on education in Japan, which is significantly higher than in most advanced economies globally. At the same time, the country's high penetration rate of tertiary education demonstrates that the need for scholarship programs is largely realized in Japan, mostly by JASSO. According to the [Sustainable Development Report 2022](#), the percentage of the Japanese population, aged 25 to 34, who have completed tertiary education is 61.5%, which compares favorably with global peers such as the UK (55.8%), the US (51.9%), France (49.5%) and Germany (34.9%).

The category is likely to have a significant magnitude because Category 2 scholarship loans are likely to lower the financial hurdle of accessing, continuing and completing higher education by providing affordable scholarship loans to candidates from low- and middle-income households. Unlike conventional scholarship loans, the loans are affordable and accessible because they have a long tenure of up to 20 years; the interest rate is capped at 3%, while the actual interest rates for students that graduated in March 2022 are much lower at 0.040%-0.569%; and the repayment capability of the borrower is not assessed. However, the students will continue to carry the burden of repayment in the future because of the interest-bearing nature of the loans, unlike scholarship grants, which require no repayment, and Category 1 scholarship loans, which are interest free.

ESG risk management

We have not applied a negative adjustment for ESG risk management to the expected impact score. The category is likely to have limited negative externalities, with the agency benefiting from strong ESG management policies as a government-related issuer. Furthermore, the interest rate on loans is capped at 3% and repayment deferral options are available to prevent over-indebtedness.

Coherence

We have not applied a negative adjustment for coherence to the expected impact score because the eligible project category is coherent with JASSO's sustainability objective. The agency was established by the Japanese government solely to support students, including providing Category 2 scholarship loans.

Appendix 1 - Mapping eligible categories to the UN SDGs

The eligible category included in JASSO's framework is likely to contribute to the UN SDGs, namely:

UN SDG 17 Goals	Eligible Category	SDG Targets
GOAL 4: Quality Education	Category 2 Scholarship Loans	4.3: Ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education

The UN SDG mapping in this SPO takes into consideration the eligible project categories (or key performance indicators) and associated sustainability objectives/benefits documented in the agency's financing framework, as well as resources and guidelines from public institutions, such as the ICMA SDG Mapping Guidance and the UN SDG targets and indicators.

Appendix 2 - Summary of eligible category in JASSO's framework

Eligible Category	Description	Sustainability Objectives	Impact Reporting Metrics
Category 2 Scholarship Loans	<p>Interest bearing scholarship loans that have to be repaid</p> <ul style="list-style-type: none"> - Interest rate is capped at 3% - Maximum repayment period of 20 years - Monthly disbursement of up to ¥120,000 for a undergraduate student 	Equal access to education	<ul style="list-style-type: none"> - Total number of recipients of the "Category 2 Scholarship Loans" per year. - Total amount of lending through the "Category 2 Scholarship Loans" per year. - Percentage of recipients of the scholarship among the applicant who meet the criteria (in %). - Collection rate of repayment concerning the "Category 2 Scholarship Loans" per year (in %)

Moody's related publications

Second Party Opinion analytical framework:

- » [Framework to Provide Second Party Opinions on Sustainable Debt](#), October 2022

Topic page:

- » [ESG Credit and Sustainable Finance](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Moody's assigns SPOs in alignment with the main tenets of the ICMA Guidelines for Green, Social, Sustainability and Sustainability-Linked Bonds External Reviews and the LSTA/LMA/APLMA Guidance for Green, Social and Sustainability-Linked Loans External Reviews, as applicable; Moody's practices may however diverge in some respects from the practices recommended in those documents. Moody's approach to assigning SPOs is described in its Assessment Framework, and is subject to the ethical and professional principles set forth in the Moody's Investors Service Code of Professional Conduct.

Additional terms with respect to Second Party Opinions (as defined in Moody's Investors Service Rating Symbols and Definitions): Please note that a Second Party Opinion ("SPO") is not a "credit rating". The issuance of SPOs is not a regulated activity in many jurisdictions, including Singapore. JAPAN: In Japan, development and provision of SPOs fall under the category of "Ancillary Businesses", not "Credit Rating Business", and are not subject to the regulations applicable to "Credit Rating Business" under the Financial Instruments and Exchange Act of Japan and its relevant regulation. PRC: Any SPO: (1) does not constitute a PRC Green Bond Assessment as defined under any relevant PRC laws or regulations; (2) cannot be included in any registration statement, offering circular, prospectus or any other documents submitted to the PRC regulatory authorities or otherwise used to satisfy any PRC regulatory disclosure requirement; and (3) cannot be used within the PRC for any regulatory purpose or for any other purpose which is not permitted under relevant PRC laws or regulations. For the purposes of this disclaimer, "PRC" refers to the mainland of the People's Republic of China, excluding Hong Kong, Macau and Taiwan.

© 2022 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJJK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJJK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJJK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJJK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJJK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJJK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000. MJJK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER

1347105