

Japan Credit Rating Agency, Ltd. (hereinafter referred to as "JCR") will announce the following Green Finance Framework Evaluation Results.

Japan Hotel REIT Investment Corporation

Green Finance Framework

Assignment



Issuer/Borrower	Japan Hotel REIT Investment Corporation (Security Code: 8985)
Subject	Japan Hotel REIT Investment Corporation Green Finance Framework

Evaluation Overview

▶▶▶ 1. Overview of Japan Hotel REIT Investment Corporation

Japan Hotel REIT Investment Corporation (hereinafter referred to as "JHR") is a real estate investment corporation specializing in hotels, which was established in November 2005 and listed on the Tokyo Stock Exchange in June 2006 under the name of Nippon Hotel Fund Investment Corporation. In April 2012, the corporation name however was changed to the current name, JHR along with the merger with Japan Hotel and Resort, Inc.

Japan Hotel REIT Advisors Co., Ltd. (hereinafter referred to as "JHRA") is mainly sponsored by SCJ One (S) Pte. Ltd. in the SC CAPITAL PARTNERS Group, an asset management company of the real estate private equity fund based in Singapore (87.6 percent investment in AM,) and other shareholders are Kyoritsu Maintenance Co., Ltd. (10.3 percent investment in AM) and ORIX Corporation (2.1 percent investment in AM.)

The properties owned are diversified in many places: 5.7 percent in Hokkaido, 24.9 percent in Tokyo, 20.4 percent in Kanto (excluding Tokyo,) 4.4 percent in Chubu, 13.0 percent in Osaka, 8.7 percent in Kansai (excluding Osaka,) 5.4 percent in Chugoku, 6.4 percent in Kyushu (excluding Okinawa) and 11.2 percent in Okinawa. The current portfolio (as of December 22, 2023) consists of a total of 47 properties, with a total acquisition price of 396.9 billion yen.

▶▶▶ 2. JHR's ESG Management and Decarbonization Initiatives

JHRA, which has operated JHR, has set forth "Connecting hotels, people and the future" as a mission statement. JHRA has worked on its operations with "Sustainability Policy", a policy for JHR and JHRA based on the recognition that the efforts to increase sustainability is essential to increase the investor value for an intermediate- and long-term in managing JHR.

JHRA has identified issues on which it shall prioritize as materiality from the both perspectives of expectation required by stakeholders and the impacts on JHR's business while promoting a variety of initiatives to address ESG issues based on the "Sustainability Policy." Establishing this framework and financing green finance will contribute to "Tackling climate change", "Reducing water consumption and waste" and "Proactive information disclosure and dialogue" in the materiality.

▶▶▶ 3. Green Finance Framework

This evaluation covers Green Finance Framework (hereinafter referred to as "this framework") published by JHR to exclusively limit the proceeds financed through green bonds or green loans (green bonds and green loans are hereinafter collectively referred to as "green finance") to the use with environmental benefits. JCR has evaluated whether this framework is aligned with the Green Bond Principles¹, the Green Loan Principles², the Green Bond Guidelines³ and the Green Loan Guidelines⁴. These principles and guidelines are not regulations with legal evidence; however, JCR will evaluate this framework by referring to these principles and guidelines as they are unified standards both domestically and globally.

JHR will use the proceeds financed through green finance to acquire green buildings that meet the predetermined eligibility criteria or refinance the proceeds to acquire green buildings and to finance renovation work or to acquire or install renewable energy power generation equipment. Negative impacts on the environment or society shall be considered and appropriate measures shall be taken when implementing eligible projects. Accordingly, JCR has evaluated that the use of proceeds in this framework is expected to have environment benefits.

A process has been established to involve the management in projects for which proceeds will be used. The proceeds will be appropriately managed and have been controlled through external audit. The predetermined items on the proceeds allocation and environmental benefits will be disclosed on the website as reporting. Accordingly, JCR has evaluated that the management and operation system has been established in JHR and has kept transparency.

¹ "Green Bond Principles 2021" by ICMA (International Capital Market Association) at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

² "Green Loan Principle 2023" by LMA (Loan Market Association,) APLMA (Asia Pacific Loan Market Association) and LSTA (Loan Syndications and Trading Association) at <https://www.lma.eu.com/>

³ "Green Bond Guidelines 2022" by Ministry of the Environment at <https://www.env.go.jp/content/000062495.pdf>

⁴ "Green Loan Guidelines 2022" by Ministry of the Environment at <https://www.env.go.jp/content/000062495.pdf>

Consequently, JCR assigned "g1(F)" to "Green Evaluation (Use of Proceeds)," "m1(F)" to "Management, Operation and Transparency Evaluation" and "Green 1(F)" to "JCR Green Finance Framework Evaluation" based on JCR Green Finance Evaluation Methodology. This framework meets the criteria for the items required in the Green Bond Principles, the Green Loan Principles, the Green Bond Guidelines and the Green Loan Guidelines.

Table of Contents

■ Evaluation Phase 1: Green Evaluation

I. Use of Proceeds

JCR's Key Consideration in this Factor

Current Status of Evaluation Targets and JCR Evaluation

1. Environmental Benefits of Projects
2. Negative Impacts on the Environment and Society
3. Alignment with SDGs

■ Evaluation Phase 2: Management, Operation and Transparency Evaluation

I. Selection Criteria and Processes of the Use of Proceeds

JCR's Key Consideration in this Factor

Current Status of Evaluation Targets and JCR Evaluation

1. Goal
2. Selection Criteria
3. Process

II. Management of Proceeds

JCR's Key Consideration in this Factor

Current Status of Evaluation Targets and JCR Evaluation

III. Reporting

JCR's Key Consideration in this Factor

Current Status of Evaluation Targets and JCR Evaluation

IV. Organizational Environmental Initiatives

JCR's Key Consideration in this Factor

Current Status of Evaluation Targets and JCR Evaluation

■ Evaluation Phase 3 : Evaluation Results (Conclusions)

I. Use of Proceeds

JCR's Key Consideration in this Factor

In this section, firstly, JCR will confirm whether the proceeds have been used for green projects with clear environmental benefits. Then, in cases where the use of proceeds is expected to have negative impacts on the environment and society, JCR will confirm whether the impacts have been fully examined by an internal specialist department or an external third party institution and whether necessary measures have been taken for the workaround and mitigation. Finally, JCR will confirm the alignment with the Sustainable Development Goals (hereinafter referred to as "SDGs.")

▶▶▶ Current Status of Evaluation Targets and JCR Evaluation

The use of proceeds in this framework are expected to have environmental benefits as they will be used for (i) acquisition of buildings (green buildings) that have obtained or will obtain a certain level of regionally, nationally or internationally recognized certification and refinance of the proceeds for the acquisition of buildings, (ii) renovation work or (iii) the proceeds for acquire or install renewable energy power generation equipment.

The Framework for Use of Proceeds

Proceeds financed through green bonds or green loans (hereinafter referred to as "green finance") will be used to (i) acquire green buildings that meet the following eligibility criteria or to refinance the proceeds to acquire green buildings that satisfy the following eligibility criteria, (ii) to finance proceeds for renovation work or (iii) to acquire renewable energy power generation equipment or (iv) to be allocated to proceeds so as to install renewable energy power generation equipment.

<Eligibility Criteria>

1. Green Building

Properties that have acquired/renewed or will acquire or renew one of the following certification in the third certification institutions from (1) to (5) below.

- (1) DBJ Green Building Certification: 3 stars or more
- (2) CASBEE certification (including municipal version of CASBEE): B + rank or higher
- (3) BELS certification: 3 stars or more (the 2016 standard)
- (4) LEED certification: Silver or higher
- (5) BREEAM certification: Very good or better

2. Renovation Work

Renovation work that satisfies any of the followings:

(1) Renovation work with the effect of reducing any of the followings: CO₂ emissions, energy consumption or water consumption by 30 percent in the real estate under management.

(2) Renovation work intended to increase the number of stars or improve the rank by one or more of the third-party certification institutions as specified in the eligibility criteria 1.

3. Renewable Energy

Acquisition or installation of the following renewable energy power generation equipment

(1) Solar power generation

(2) Onshore wind power generation (the output shall be less than 20kW)

(3) Biomass power generation (the fuels shall be procured in the same or adjacent prefectures as those facilities)

Evaluation by JCR to the Framework

1. Environmental Benefits of Projects

(1) Use of Proceeds 1: Green Building

Use of proceeds 1 covers properties that have already obtained or will obtain environmental certification and is expected to have environmental benefits for all of the use of proceeds. This use of proceeds falls under "Green buildings that meet regional, national or internationally recognized standards or certifications for environmental performance" in the Green Bond Principles and the Green Loan Principles and "Projects for Green Buildings" in the Green Bond Guidelines and the Green Loan Guidelines.

Under this framework, JHR will use the proceeds for buildings that have acquired/renewed or will acquire the highest three ranked certification in DBJ Green Building Certification, CASBEE Certification, BELS, LEED Certification and BREEAM Certification.

DBJ Green Building Certification

DBJ Green Building Certification refers to a certification system provided by DBJ (Development Bank of Japan) to evaluate real estate with social and environmental consideration. The evaluation results will be indicated with the number of stars, and the evaluation axis will be "buildings with social and environmental consideration." The evaluation with major five categories are follows: "Energy & Resources (environmental performance of buildings)," "Amenity (comfort of tenants)," "Resilience (ability to respond to crises)," "Community & Diversity (consideration for diversity and the surrounding environment)" and "Partnership (cooperation with stakeholders)" with 5 stars (the best class in Japan,) 4 stars (exceptionally high,) 3 stars (excellent,) 2 stars (high) and 1 star (satisfactory,) respectively. JCR has evaluated that DBJ Green Building Certification is equivalent to the "regionally, nationally or internationally recognized standards or certifications" in the green project classification defined in the Green Bond Principles as it has been highly recognized in Japan and has had certain evaluation items for environmental performance although it is not specific to environmental performance. JCR has however determined that it is desirable to individually confirm the evaluation for environmental performance as the certification is not exclusively limited to environmental performance.

DBJ Green Building Certification is based on an overall evaluation, including not only the environmental performance of properties to be evaluated but also the comfort of tenants, risk management, such as disaster/crime prevention, consideration for the surrounding environment/communities and collaboration with stakeholders. There are many properties that do not meet the criteria for evaluation in the real estate market as scoring is designed by consolidating specific "excellent initiatives" for the environment and society. In order to be highly rated, a building is required to appropriately consider not only the environment but also all stakeholders involved in the building.

The level of DBJ Green Building Certification is assumed to be ranked as the top 20 percent or so of the all income properties in Japan in the "concerns for the environment and society." Additionally, each rating up to 3 stars is subject to the aggregation of the top 10 percent (5 stars,) top 30 percent (4 stars) and top 60 percent (3 stars) of properties that exceed the certification level. JCR has therefore evaluated that the use of proceeds 1 of JHR has been focused on properties with high environmental performance among the buildings that are designated to obtain certification.

CASBEE (Comprehensive Assessment System for Built Environment Efficiency)

CASBEE is an acronym standing for Comprehensive Assessment System for Built Environment Efficiency and is a method to evaluate and rate the environmental performance of buildings. In April 2001, a comprehensive environmental evaluation research committee for buildings was established as an industry-academia-government collaboration project with the support of the Housing Bureau of the Ministry of Land, Infrastructure, Transport and Tourism and has been continuously developed and maintained since then. The evaluation tools include CASBEE for Construction, CASBEE for Cities or CASBEE for Real Estate that was developed for the real estate market to show environmental performance in an easy-to-understand manner.

CASBEE for Construction (New Construction) is evaluated with the value of BEE (Built Environment Efficiency) with L (L means Load) as the denominator and Q (Q refers to Quality) as the numerator after the reconfiguration from the viewpoint of environmental quality of buildings and environmental loads of buildings for the evaluation items in the four areas: energy consumption, resource recycling, regional environment and indoor environment. The evaluation results are categorized into five as follows: Rank S (excellent,) Rank A (very good,) Rank B + (good,) Rank B - (slightly inferior) and Rank C (inferior.) CASBEE for Real Estate falls under four categories as follows: Rank S (excellent,) Rank A (very good,) Rank B + (good) and Rank B (satisfactory with items required.) In order to be highly evaluated, consideration for indoor comfort or landscape is required in addition to concern for the environment, such as energy saving or using equipment with low environmental burdens, and comprehensively highly qualified buildings are required.

JCR has evaluated that buildings with Rank B + or higher set as the eligible criteria by JHR this time have had environmental benefits with the following reasons: (1) such buildings have BEE of 1.0 or higher in CASBEE for Construction (New Construction,) and their environmental quality clearly exceeds their environmental burdens and (2) such buildings are equivalent to Rank B + in the conventional CASBEE for Construction although the measurement is not based on BEE in CASBEE for Real Estate.

CASBEE (local government version) refers to the CASBEE evaluation used by some local governments when constructing buildings with a certain size or larger. The assessment has been weighted by region; however, the evaluation has been made according to the calculation results

of valuation software used for CASBEE for Construction. Accordingly, CASBEE (local government version) has the environmental benefits as same as those of CASBEE for Construction.

BELS (Building-Housing Energy-efficiency Labeling System)

BELS is an acronym standing for Building-Housing Energy-Efficiency Labeling System and is a system in which energy-saving performance is evaluated and certified by a third-party evaluation organization for new and existing buildings. The envelope performance and primary energy consumption are subject to evaluation, and it is required to have excellent energy-saving performance to be highly evaluated. The evaluation results will be indicated with the number of stars and will be ranked from one to five by BEI (Building Energy Index.) BEI is a criteria to measure energy-saving performance relative to a reference value, with design primary energy consumption as the numerator and reference primary energy consumption as the denominator. One star meets the existing energy conservation standards and two stars satisfy the energy conservation standards.

JCR has considered that buildings with 3 stars or more in the BELS, set as the eligibility criteria by JHR, have had energy-saving performance (non-residence: the BEI value of 0.8 or less) and have been appropriate as the use of the proceeds.

LEED (Leadership in Energy and Environment Design)

LEED refers to an environmental performance evaluation system for construction and urban environments developed and operated by the U.S. Green Building Council (USGBC,) a non-profit organization. LEED is an acronym standing for Leadership in Energy and Environment Design, and the draft was published in 1996 and has been updated every few years since then. The certification is categorized into six: BD+C (Building Design and Construction,) ID+C (Interior Design and Construction,) O+M (Building Operations and Maintenance,) ND (Neighborhood Development,) HOMES (Home) and CITIES (City.)

The certification levels are shown with the total points obtained for each item with Platinum (80 points or more,) Gold (60 to 79 points,) Silver (50 to 59 points) and Certified (standard certification) (40 to 49 points) from top to bottom. It is often prerequisites for evaluation, which require high scores or achievement for items on energy conservation, and high energy efficiency is necessary so as to obtain a high certification level. Therefore, the certification level, Silver or higher, which has been established as eligible criteria by JHR is deemed as a certification level that can be provided to buildings that have achieved high energy efficiency and has been evaluated as having environmental benefits.

BREEAM (Building Research Establishment Environmental Assessment Method)

BREEAM was developed by the British building research institute, BRE (Building Research Establishment) and ECD (Energy and Environment,) an energy/environmental consultancy in 1990 and its certification system has used the world's first environmental performance assessment indicator.

BREEAM is intended to raise awareness of environmental consideration among owners, residents, designers and operators by setting standards that are stricter than those of the law and regulations, to encourage best design, operation, maintenance and management, and to distinguish and recognize these buildings. Assessment is conducted on a maximum of ten category issues: management, health and wellbeing, energy, transport, water, materials, land use, waste, pollution and innovation. BREEAM has covered both existing and new buildings, and evaluation has been made per target type, such as existing residence, offices or retail stores.

Assessment results are given on a five point scale ranging from Outstanding, Excellent, Very Good, Good to Pass. Assessment is made by multiplying the raw score in each sector by a weighting coefficient set per sector and summing up the scores. The largest weighting coefficient is set for energy as well as large coefficients are established for sectors, such as materials or management although there are some differences depending upon the target type. CO₂ emissions during operation are directly evaluated, and the insulation performance or energy-saving performance of home appliances are also factored into the evaluation from the perspective of energy conservation. Therefore, the certification level of Very Good or higher, which JHR has set as the eligibility criteria, is deemed as a certification level that indicates high environmental performance and is evaluated as having environmental benefits.

Accordingly, JCR has evaluated that the use of proceeds in this framework has high environmental benefits.

(2) Use of Proceeds 2: Renovation Work

Use of proceeds 2 covers renovation work that meets certain conditions and that is carried out on assets owned by JHR. The proceeds are categorized into “Energy efficiency” in the Green Bond Principles and the Green Loan Principles and “Projects for energy efficiency” among the uses of proceeds exemplified in the Green Bond Guidelines and the Green Loan Guidelines.

JHR has defined renovation work as projects for which proceeds will be used as follows: (i) renovation work intended to reduce any of the followings: CO₂ emissions, energy consumption or water consumption by 30 percent in the real estate under management and (ii) renovation work intended to increase the number of stars or improve the rank by one or more of the certification to be provided via third party certification institutions set forth in the eligible criteria (1) in this framework.

In both cases, specific improvement effects can be expected by quantitatively showing the effects before and after construction. The reduction rate in energy consumption is comparable to global standards, and JCR has evaluated renovation work that meets the eligibility criteria as having high environmental benefits.

(3) Use of Proceeds 3: Acquisition or Installation of Renewable Energy Power Generation

Equipment

Use of Proceeds 3 is subject to the acquisition or installation of renewable energy power generation equipment for assets held by JHR. The use of proceeds falls under “Renewable energy” in the Green Bond Principles and the Green Loan Principles and “Projects for renewable energy” among the uses of proceeds exemplified in the Green Bond Guidelines and the Green Loan Guidelines.

In this framework, JHR has specified the acquisition or installation of renewable energy power generation equipment (solar power generation, wind power generation, biomass power generation) with hotel premises or rooftops as projects for which the proceeds will be used.

JHR has established appropriate criteria for each asset type. The use of fossil fuels can be reduced through generating electricity with renewable energy. Accordingly, JCR has evaluated the acquisition or installation of renewable energy power generation equipment that meets the eligibility criteria as having high environmental benefits.

2. Negative Impacts on the Environment and Society

JHRA has assumed that the negative impacts that may bring about on the environment and society by projects for which proceeds will be used as follows: defects of properties acquired (using environment/soil pollutants) for green buildings and noise/vibration along with construction for renovation work and renewable energy. JHRA has confirmed negative impacts on the properties to be acquired through due diligence when acquiring properties. JHRA assumes that risks will be managed by complying with laws and regulations for renovation work. In cases where hotels are continuously opened under construction, sufficient consideration is given to curing construction, taking into account general guests. JHRA will install renewable energy power generation facilities after identifying risks assumed per asset type to ensure that such risks do not occur.

Accordingly, JCR has confirmed that JHR has been taking negative impacts on the environment into account.

3. Alignment with SDGs

JCR has evaluated that the use of proceeds set out in the Framework will contribute to the following goals and targets in SDGs by referring to ICMA's SDGs mapping.



Goal 7: Affordable and Clean Energy

Target 7.2. By 2030, increase substantially the share of renewable energy in the global energy mix
Target 7.3. By 2030, double the global rate of improvement in energy efficiency



Goal 9: Industry, Innovation and Infrastructure

Target 9.4. By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities



Goal 11: Sustainable Cities and Communities

Target 11.3. By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries
Target 11.6. By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management

Evaluation Phase 2: Management, Operation and Transparency Evaluation

m1(F)

I. Selection Criteria and Processes of the Use of Proceeds

JCR's Key Consideration in this Factor

In this section, JCR will confirm that the objectives to be achieved through green financing, the appropriateness of green project selection criteria and processes, and whether a series of processes are properly disclosed to investors.

▶▶▶ Current Status of Evaluation Targets and JCR Evaluation

JCR has determined that departments with specialized knowledge and the management have been appropriately involved in the goals, green project selection criteria and processes in this framework and that transparency has been kept.

1. Goals

JHR has determined that it will contribute to "monitoring and improvement of environmental performance in its portfolio" in its policy on sustainability by referring to this framework and executing green financing.

Policies on Sustainability (Excerpt)⁵

JHR and JHRA established a Sustainability Policy in December 2017 and are pursuing a series of measures relating to ESG, including reduction of their environmental impacts or consideration of all their stakeholders. In December 2021, in order to further enhance ESG initiatives, JHR and JHRA defined their materiality and are promoting measures to address various issues. Moreover, JHR and JHRA believe that appropriate disclosure of these initiatives and building a relationship of trust with their stakeholders will lead to JHR's growth over the medium to long term.

- Monitoring and improvement of environmental performance in our portfolio

We promote monitoring environmental performance such as energy consumption, etc. in our portfolio. Also, we share our goals with hotel lessees and operators, and strive to continuously improve environmental performance through optimizing operations and management as well as through facility renovation, etc. Furthermore, we seek assessment from third-party institutions where appropriate.

We take environmental risks into consideration to make investment decisions and to monitor operations of our portfolio.

- Promotion of comfortable, healthy, secure and safe hotels

⁵ Source: Japan Hotel REIT Investment Corporation, "2023 ESG Report" at jhrth.co.jp

We care safety, health and barrier-free access etc. of our hotels and promote initiatives to have stronger resilience against natural disaster, etc.

We take safety, health and well-being factors into consideration upon making investment decisions and monitoring operations of hotels in our portfolio.

- Promotion of ESG in value chains

We ask our hotels to understand and to cooperate on sustainability initiatives. At the same time, we promote procurement of products and services with environmental and social considerations.

- Consideration for and contribution to local communities

We strive to contribute to the sustainable development of local community through cooperation with hotel lessees and operators as well as communication and collaboration with local residents and local governments in surrounding communities where hotels are located.

- Initiatives for our officers and employees

We establish work environment that allows diverse ways of working with work-life balance into consideration. We also consistently provide opportunities of professional education and training, with the aim to improve abilities and skills of our employees and raise awareness on sustainability.

- Compliance as corporate citizens

We comply with related laws and regulations as well as social norms, etc. and promote ethical and sincere business activities. Additionally, we strive to reduce governance risks through respecting fundamental human rights at our business and through establishing a proper compliance system.

- Improvement of transparency and engagement with our stakeholders

We disclose financial information as well as ESG related information in a timely and appropriate manner. We will sincerely listen to voices and opinions from our stakeholders through interactive communication, and utilize them to improve our initiatives.

Accordingly, JCR has evaluated that the implementation of green finance based on this framework is aligned with the goals set forth by JHR.

2. Selection Criteria

The eligibility criteria in this framework are described in Evaluation Phase 1 in this report. JCR has evaluated that the selection criteria for the project are appropriate.

3. Processes

The Framework for Processes

Candidates for the projects for which the proceeds will be used will be selected by JHRA's Finance Group and ESG Team and will be decided by the Investment and Operation Committee, the Board of Directors and JHR Board of Directors.

Evaluation by JCR to the Framework

The selection of projects for which green finance proceeds will be used and the financing for such projects will be decided with the involvement of the management centered on JHRA's Finance Group and ESG Team. Additionally, a system has been established to share information with ESG Promotion Committee, a collegial body that has discussed sustainability.

JCR has evaluated that the project selection processes stipulated in this framework have been adequate with the management and specialized departments appropriately involved.

JHR's project selection criteria and processes will be disclosed on any of the JHR's website, press release in shelf registration supplement or this evaluation report. Accordingly, JCR has evaluated that transparency for investors has been kept.

II. Management of Proceeds

JCR's Key Consideration in this Factor

It is usually assumed that how to manage the proceeds varies widely depending upon fundraisers. JCR will confirm whether the proceeds are surely appropriated to green projects and whether a mechanism and internal system are in place to enable easy tracking and managing allocation of proceeds.

JCR will also give importance to whether proceeds financed through this evaluation target will be used for green projects at an early stage and to the evaluation of management and operation methods for unallocated proceeds.

▶▶▶ Current Status of Evaluation Targets and JCR Evaluation

JCR has evaluated that JHR has established an appropriate proceeds management system and how to manage proceeds financed will be disclosed in this evaluation report as well as the framework on the website; therefore, the transparent will be highly kept.

This Framework for Management of Proceeds

Allocation Plan for Proceeds

The total proceeds financed will be promptly allocated to projects that meet the eligibility criteria.

How to Track and Manage Proceeds Financed

The proceeds financed through green finance will be tracked and managed with media such as internal electronic files.

Internal Control and External Audit on Tracking Management

The management process for proceeds financed is subject to internal audit by an external audit firm or an administrative inspection by Compliance Office, and overall accounting is subject to external audit by the audit firm.

How to Manage Unallocated Proceeds

The proceeds financed will be managed in cash or cash equivalents until the appropriation of proceeds is determined.

In cases where assets that meet the eligibility criteria fall outside of the eligibility criteria due to sale or damage by the time of repayment even after the full amount has been allocated, the temporal unallocated proceeds will be managed on a portfolio basis as follows:

- Portfolio Management

(1) The amount calculated by multiplying a total acquisition value of green buildings that meet the eligibility criteria 1 held by JHR at the end of each fiscal period, by the ratio of interest-bearing debt to total assets (LTV) calculable when confirmed, (2) the amount of expenditure required for renovation work that satisfies the eligibility criteria 2 and (3) the sum of proceeds

for acquisition and installation for renewable energy power generation facilities that meet the eligibility criteria 3 (hereinafter referred to as "an amount of eligible green debt") will be set as the upper limit amount of green finance and managed so that the balance of green finance does not exceed the amount of eligible green debts.

Evaluation by JCR to the Framework

The proceeds financed through green finance will be allocated to projects that meet the eligibility criteria immediately after the financing. The proceeds will be tracked by JHRA's Finance Group with electronic files.

The management of proceeds financed is subject to internal audit and accounting audit. Documents on financing will be permanently stored.

On one hand, there will be, in principle, no unallocated proceeds as the proceeds through green finance will be promptly allocated to the projects for which proceeds will be used. On the other hand, in cases where there are any unallocated proceeds as (1) assets eligible for green finance are sold or (2) assets eligible for green finance no longer meet the conditions as green eligible assets, JHR will manage the unallocated proceeds with the portfolio management. In particular, the amount of debt calculated by multiplying the total amount of acquisition value of green buildings that satisfy green eligibility criteria at the latest fiscal period, by LTV (loan to value/interest-bearing debt ratio) and the total amount of proceeds for renovation work that meets the eligibility criteria, will be set as the upper limit amount for green finance and managed so that that balance of green finance does not exceed the amount of eligible green debts.

Accordingly, JCR has evaluated that how to manage proceeds by JHR is adequate.

III. Reporting

JCR's Key Consideration in this Factor

In this section, JCR will evaluate whether the disclosure system for investors before and after financing based on the framework is planned in detail and in an effective manner.

▶▶▶ Current Status of Evaluation Targets and JCR Evaluation

JCR has evaluated in terms of JHR's reporting that both the allocation of proceeds and the environmental benefits have been appropriately disclosed to investors.

The Framework for Reporting

Disclosure on Allocation of Proceeds

The following information will be annually disclosed on JHR's website or in materials published to the extent practicable until all proceeds financed are allocated to projects that meet the eligibility criteria.

1. Allocation of Proceeds
2. Balance of unallocated proceeds and allocation schedule if there are any

Periods and how to manage proceeds when there are any unappropriated amount

3. The green finance balance shall not exceed the green eligible debt amount as long as there is a green finance balance

In cases where the initial allocation of the proceeds significantly changes ex post facto and there are any unallocated amount, that effect will be disclosed on the JHR's website or in materials published.

How to Disclose Impact Reporting and its Frequency

The items in "KPI in impact reporting" listed below will be annually disclosed on the JHR's website or in materials published.

KPI in Impact Reporting

The following information will be disclosed to the extent practicable until the proceeds are repaid.

1. Reporting on green buildings
 - (1) Property name and the number of properties
 - (2) Total floor area
 - (3) Certification type
 - (4) Certification rank
 - (5) CO₂ emissions (t-CO₂) electricity usage (MW/h) and water usage (m³) of all properties owned
2. Reporting on renovation work

(1) Target project or property name

(2) Value or reduction rates of any of the following indicators: CO₂ emissions (t-CO₂) electricity usage (MW/h) and water usage (m³) before and after renovation work

3. Reporting on renewable energy

(1) Annual power generation amount (t-CO₂)/CO₂ emission reduction amount (MW/h) (estimated value)

Evaluation by JCR to the Framework

Reporting on Allocation of Proceeds

JHR will annually disclose the contents stipulated in the framework on JHR website. In cases where there is any major change in the financial situation after all of the proceeds are allocated, JHR will disseminate that fact by disclosing it on its website.

Reporting on Environmental Benefits

JHR will annually disclose the contents stipulated in this framework on its website as reporting on the environmental benefits of eligible green projects. These disclosure items include quantitative indicators, such as energy consumption, CO₂ emissions or water consumption.

Accordingly, JCR has evaluated that the reporting by JHR is adequate.

IV. Organizational Sustainability Initiatives

JCR's Key Consideration in this Factor

In this section, JCR will evaluate whether the management of fundraisers has positioned sustainability issues as highly prioritized management challenges, has established a department that specializes in sustainability sectors or in collaboration with external organizations, or has clearly positioned implementation policies/processes for sustainable finance or selection criteria for green projects.

▶▶▶ Current Status of Evaluation Targets and JCR Evaluation

JCR has highly evaluated that JHR has positioned sustainability issues as important management challenges, has had a meeting body for sustainability issues and has incorporated the knowledge of internal and external experts from the practical and management perspective.

JHRA has set forth "Connecting hotels, people and the future" as a mission statement when operating JHR and has established "Challenge" and "Teamwork" as its behavioral guidelines. JHR and JHRA, believing that sound management which enabling them to co-exist in harmony with the society and environment will contribute to improving unitholder value over the medium to long term, have been making efforts to enhance sustainability through consideration of ESG (Environment, Social and Governance) issues.

JHR and JHRA established a Sustainability Policy in December 2017 and are pursuing a series of measures relating to ESG, including reduction of its environmental impact or consideration of all their stakeholders. In December 2021, in order to further enhance ESG initiatives, JHR and JHRA defined their materiality and are promoting measures to address various issues. Moreover, JHR and JHRA believe that appropriate disclosure of these initiatives and building a relationship of trust with their stakeholders will lead to JHR's growth over the medium to long term. Establishing this framework and procuring green finance will contribute to the materiality of "Tackling climate change" and "Proactive information disclosure and dialogue".

As for initiatives in the environmental sector, JHRA has expressed its support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD,) has joined "TCFD Consortium," an organization of Japanese companies that support recommendations of the TCFD, and JHRA has been striving to disclose information; for instance, it disclosed its efforts on the four disclosure themes recommended by the TCFD such as the financial impact by climate change scenario analysis in August, 2022. Through such appropriate information disclosure, JHR and JHRA have disseminated information including the environmental aspects of hotels to a wide range of investors such as overseas investors.

JHR's long-term goal by 2050 is a 30 percent reduction of GHG emissions intensity per floor area in its portfolio from FY 2017. In general, hotels are not included in asset classes that make it easy to proactively take measures to combat climate change from the perspective of providing guests with hospitality. Under such a circumstance, JHRA has set the aforementioned goals, bearing in mind both the vision of JHR and its feasibility in light of the characteristics of the assets held. In the future, JHRA aims to achieve its goals through measures, such as hotel renovation work and installation of renewable energy generation equipment in hotel premises.

The specific details of efforts to promote sustainability by JHR will be discussed in the ESG team meeting in JHRA and reported to the ESG Promotion Committee. This ESG team meeting is a cross-organizational initiative in which ESG team members from each department and members in the ESG team's Planning Group participate. The detailed discussion will be reported to the ESG Promotion Committee in which the management such as President & CEO of JHR participates for decisions to be made. The ESG Promotion Committee is held roughly four times a year, indicating that the management is clearly and regularly involved in decision-making on sustainability.

When discussing support for sustainability policies, environmental targets and recommendations of the TCFD, JHR and JHRA have been promoting sustainability initiatives while taking in external knowledge; for instance, discussion is made by referring to advice from external consultants.

Accordingly, JCR has evaluated that JHR has positioned sustainability issues as important management challenges, has a meeting body on sustainability issues and has taken in the knowledge of experts while making efforts from the practical and management perspectives.

Evaluation Phase 3: Evaluation Results (Conclusions)

Green 1(F)

JCR assigned "g1(F)" to the "Green Evaluation (Uses of Proceeds)" and "m1(F)" to "Management, Operation and Transparency Evaluation" based on JCR Green Finance Evaluation Methodology. Accordingly, JCR assigned "Green 1(F)" to "JCR Green Finance Framework Evaluation." This Framework meets the criteria for the items required in the Green Bond Principles, the Green Loan Principles, the Green Bond Guidelines and the Green Loan Guidelines.

		Management, Operation and Transparency Evaluation				
		m1(F)	m2(F)	m3(F)	m4(F)	m5(F)
Green Evaluation	g1(F)	Green 1(F)	Green 2(F)	Green 3(F)	Green 4(F)	Green 5(F)
	g2(F)	Green 2(F)	Green 2(F)	Green 3(F)	Green 4(F)	Green 5(F)
	g3(F)	Green 3(F)	Green 3(F)	Green 4(F)	Green 5(F)	N/A
	g4(F)	Green 4(F)	Green 4(F)	Green 5(F)	N/A	N/A
	g5(F)	Green 5(F)	Green 5(F)	N/A	N/A	N/A

(Responsible Analysts for this Evaluation) Rieko Kikuchi and Satoshi Aiba

Important Explanation on this Evaluation

1. Assumptions, Significance and Limitations of JCR Green Finance Framework Evaluation

JCR Green Finance Framework Evaluation, which is granted and assigned by Japan Credit Rating Agency, Ltd. (hereinafter referred to as "JCR") is a comprehensive statement of JCR's current opinion on the alignment with green projects as defined by JCR and the extent of the initiatives to ensure management, operations and transparency on the use of proceeds with policies set forth by the Green Finance Framework as the target evaluation. Therefore, it is not intended to evaluate the specific environmental benefits, management/operation systems and transparency of individual bonds or borrowings to be executed based on these policies concerned. In cases where a green finance evaluation is granted or assigned to an individual bond or borrowing based on the said framework, a separate evaluation is required. JCR Green Finance Framework Evaluation neither proves environmental benefits from the individual bond or borrowing executed based on the framework concerned nor does it assume responsibility for any environment benefits. JCR, in principle, will not directly measure environmental benefits of proceeds financed through the Green Finance Framework although JCR will confirm the items measured quantitatively and qualitatively by the issuer and/or borrower (hereinafter an issuer and borrower are collectively referred to as "a fundraiser") or a third party requested by the fundraiser. Green equity may also be included in the evaluation only if all assets, in case of investment corporations, fall under green projects.

2. Methodology Used in this Evaluation

The methodology used to make this evaluation is posted as "JCR Green Finance Evaluation Methodology" in the "Sustainable Finance/ESGs" section on the JCR's website at <https://www.jcr.co.jp/en/>.

3. Relation with Conduct of Credit Rating Activities

The conduct of assigning and providing JCR Green Finance Framework Evaluation is performed by JCR as its related business and is different from the conduct of credit rating activities.

4. Relation with Credit Rating

This evaluation is different from a credit rating and is not committed to providing a predetermined credit rating or making available for inspection.

5. Impartiality in Evaluating JCR Green Finance Framework

There are neither capital ties nor personnel relationships that could create a conflict of interest between this evaluation and JCR.

■Disclaimer

The information contained in this document was obtained by JCR from fundraisers and accurate and reliable sources. Such information however may be mistaken for artificial, mechanical or other reasons. Therefore, JCR does not make any representation or warranties, express or implied, as to the accuracy, result, eligibility, timeliness, completeness, marketability or fitness for any particular purpose of such information, and JCR assumes no responsibility for any errors, omissions or consequences using such information. JCR shall not be liable for any loss of opportunity and extraordinary, indirect, incidental or consequential damages of any kind including any loss of money, which may result from any use of such information under any circumstances, whether contractual liability, tort liability, negligence or other causes of liability, and whether such damage is foreseeable or unforeseeable. JCR Green Finance Evaluation does not express any opinion on various risks (credit risk, price fluctuation risk or market liquidity risk) on the green finance that is subject to evaluation. JCR Green Finance Evaluation is a comprehensive statement of JCR's current opinion and does neither represent facts nor make any recommendation regarding risk assessments or decision on the purchase, sale or holding of individual bonds or commercial papers. JCR Green Finance Evaluation may be modified, suspended or withdrawn due to changes in information or lack of information. All rights pertaining to this document including data from JCR Green Finance Evaluation are reserved by JCR. All or part of this document including data from JCR Green Finance Evaluation is prohibited from being reproduced, modified or otherwise altered without the permission of JCR.

■Terminology

JCR Green Finance Framework Evaluation: The assessment of the extent to which proceeds financed based on the Green Finance Framework are allocated to green projects as defined by JCR and of the degree of management, operation and transparency on the use of proceeds for the said Green Finance. The evaluation is made on a scale of five in the order from top to bottom with evaluation symbols of Green 1 (F.) Green 2 (F.) Green 3 (F.) Green 4 (F) and Green 5 (F.)

■Status of Registration as an External Evaluator of Sustainability Finance

- Ministry of the Environment: Registered as an external reviewer for Green Finance
- ICMA (observer registration as an external evaluator with the International Capital Markets Association)
- UNEP FI Positive Impact Financial Principles Working Group Member
- Climate Bonds Initiative Approved Verifier

■Other Registration Status as Credit Rating Agency

- Credit Rating Agency: the Commissioner of Financial Services Agency (Credit Rating) No. 1
- EU Certified Credit Rating Agency
- NRSRO: JCR has registered with the following four of the five credit rating classes of Nationally Recognized Statistical Rating Organization ("NRSRO") as defined by the U.S. Securities and Exchange Commission: (1) financial institutions, broker/dealers, (2) insurance companies, (3) general business corporations and (4) government and local governments. In cases where disclosure is required based on Rule 17g-7(a) of the Securities and Exchange Act, such disclosure is attached to News Release posted on the JCR's home page at <https://www.jcr.co.jp/en/>.

■For all other inquiries, please contact us below

TEL: 03-3544-7013 FAX: 03-3544-7026

Information Service Department

Japan Credit Rating Agency, Ltd.

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

Copyright © Japan Credit Rating Agency, Ltd. All rights reserved.