

_____ JCR Green Finance Framework Evaluation by Japan Credit Rating Agency, Ltd. _____

Japan Credit Rating Agency, Ltd. (JCR) announces the following Green Finance Framework Evaluation Results.

JCR Assigns Green 1 (F) to the Green Finance Framework of Hoshino Resorts REIT, Inc.

Subject : Hoshino Resorts REIT, Inc. Green Finance Framework

<Green Finance Framework Evaluation Results>

Overall Evaluation	Green 1(F)
Greenness Evaluation (Use of Proceeds)	g1(F)
Management, Operation and Transparency Evaluation	m1(F)

Chapter 1: Evaluation Overview

Hoshino Resorts REIT, Inc. (HRR) was established in March 2013, specializing in hotels and traditional wooden Ryokans (Japanese-style inns) that was listed on the Tokyo Stock Exchange (real estate investment trust securities market) in July. The basic policy of HRR is to invest intensively in hotels, Ryokans and ancillary facilities that have become the core of the tourism industry over the medium to long term and are expected to have stable demands. HRR particularly invest in facilities that are expected to be able to ensure cash flows in the long-term stably. The shareholder of Hoshino Resorts Asset Management Co., Ltd. (HRAM), an asset management company, is Hoshino Resorts Co., Ltd. The current portfolio has a total of 62 properties and an asset size of a total acquisition price of ¥162.7 billion.

Hoshino Resorts, the sponsor of HRAM, opened its first Ryokan, Hoshino Onsen (hot spring) in Karuizawa, Nagano Prefecture, in 1904, marking its 106th year this year. Since its opening, this Ryokan has realized a reduction of environment burden through the excavation of hot springs and the installation of hydroelectric power stations. Hoshinoya Karuizawa, which is currently open on the site of the former Hoshino Onsen Ryokan, achieved its energy self-sufficiency rate at about 70 % through EIMY (Energy In My Yard), heating use of hot spring waste water, construction devised for energy conservation, and recycling using biomass. Consideration for the overall environments since Hoshino Resorts' founding are incorporated into its operations. HRAM manages and operates properties HRR owns in order to support and develop the initiatives of Hoshino Resorts. HRR established a sustainability policy as a policy for addressing environmental issues.

The scope of evaluation is the green finance framework (the “Framework”) established by HRR to limit the use of proceeds to the assets/activities with environmental improvement effects. To assess whether the Framework complies with the Green Bond Principles (2018 edition), the Green Loan Principles (2020 edition), the Green Bond Guidelines

(2020 edition) and the Green Loan Guidelines and the Sustainability Linked Loan Guidelines (2020 edition). These principles, which are not binding because they are voluntarily published principles or guidelines by the International Capital Markets Association (ICMA), the Loan Market Association (LMA), the Asia Pacific Loan Market Association (APLMA) and the Ministry of the Environment, respectively, are not regulations, but JCR evaluates the Framework by reference to these principles and guidelines as globally unified standards.¹²³

HRR defines the eligibility criteria for the use of proceeds in this framework to the acquisition of green buildings, introduction of equipment with energy-saving performance, renovation work, and introduction of renewable energy. Eligibility criteria for Green Building should be BELS three stars or higher, LEED Silver or higher and CASBEE certification B+ or higher. In case for properties with BELS two star, HRR added additional conditions which has environmental benefits. JCR evaluates that the eligibility criteria established by HRR are targeted at properties with environmental improvement effects.

HRAM is structured so that specialized departments and the managements are properly involved in the process of implementation projects and executing HRR's Green Finance. Because cash management is managed by the department in charge with internal control system, and the reporting items to be disclosed are also appropriately designed. JCR confirmed a strong management and operational system and high transparency with respect to HRR.

As a result, based on the JCR Green Finance Evaluation Methodology, JCR assigns "g1 (F)" for the "Greenness Evaluation (Use of Proceeds)" and "m1 (F)" for "Management, Operation and Transparency Evaluation." Consequently, JCR assigns "Green1 (F)" for overall "JCR Green Finance Framework Evaluation." Detailed evaluation is discussed in the next chapter.

The Framework meets the standards for items required by the Green Bond Principles, the Green Loan Principles, the Green Bond Guidelines and the Green Loan and the Sustainability Linked Loan Guidelines of the Ministry of the Environment.

¹ ICMA(International Capital Market Association) Green Bond Principles 2018
<https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

² LMA (Loan Market Association), APLMA (Asian Market Loan Association) Green Loan Principle 2020
<https://www.lsta.org/content/green-loan-principles/>

³ Ministry of the Environment's Green Bond Guidelines and Green Loan and Sustainability Link Loan Guidelines
<https://www.env.go.jp/press/files/jp/113511.pdf>

Chapter 2: Current Status of the project on each evaluation factor and JCR's Evaluations

Evaluation Phase 1: Greenness Evaluation

Based on the current status described below and JCR's evaluation of the subject, JCR evaluated 100% of the use of proceeds under the framework is green project, and assigned "g1 (F)", the highest rank for Phase 1: Greenness Evaluation.

(1) JCR's Key Consideration in This Factor

In this section, JCR first assesses whether the use of proceeds set out in the Framework are green projects with clear environmental improvement effects. Next, JCR assesses whether an internal department/division which is exclusively in charge of environment issues or a third party agency prove it sufficiently and have taken necessarily workaround or mitigation measures, in case of possibility on use of proceeds have negative impact on the environment. Finally, JCR confirms consistency with the Sustainable Development Goals (SDGs).

(2) Current status of evaluation targets and JCR evaluation

<Framework for Use of Proceeds>

The funds procured from green financing will be used to newly invest in or refinancing to the acquisition of green buildings or the expenditures which meets the following eligibility criteria.

[Eligibility Criteria]

(1) Green Building

The property for which meets any of the following criteria (for criteria 1, additionally one of (i) to (v) must be met) that has been acquired or is scheduled to be acquired in the future

[Criteria 1]

Two stars for BELS certification and one or more of the following initiatives are being undertaken by HRR or operators at the relevant property.

<Additional initiatives that contribute to the environment>

- (i) Procurement of energies through EIMY(Energy In My Yard (hydroelectric power, etc.))
- (ii) Renewable energy procurement other than that defined in (i) above
- (iii) Implementation of 3R through "Zero Emissions Activities"
- (iv) To reduce the use of plastic products
 - Switch from individual packaging soap to pump bottle
 - Implementation of toothbrush recycling
 - Abolishment of the use of small size PET bottles, etc.
- (v) Conservation activity

[Criteria 2]

Three stars or the higher in BELS certification

[Criteria 3]

Silver or the higher of LEED certification

[Criteria 4]

B+ or the higher in CASBEE certification

(2) Energy-saving performance

Costs related to the introduction of energy-saving equipment, such as the replacement of air-conditioning equipment, use of LEDs for lighting equipment, and the introduction of power storage systems (which are expected to reduce consumption or emissions by 10% or more compared to the conventional system)

(3) Renovation

i. Construction that can be beneficially improved in terms of the environment, such as reducing the use or discharge of CO₂, energy, water, etc., through renovation work related to owned assets. (The amount used or discharged is expected to be 10% or more of the previous level.)

ii. Construction aimed at acquiring environmental certification, re-acquiring certification, or improving at least one stage

(4) Renewable Energy facilities

Acquisition or installation of renewable energy power generation facilities

<JCR's Evaluation of the Framework>

a. On the environmental improvement effects of the project

i. The eligible criteria set out in the Framework are (1) financing or refinancing of green buildings which meet regional, national or internationally recognized standards and certification, (2) renovation projects that contribute to reducing CO₂ emissions, energy consumption, or water consumption, or (3) facilities related to renewable energy, which are expected to have environmental improvement effects.

1. Green Building

HRR sets its eligibility criteria as the properties which have higher certification (top three levels) of either BELS, LEED or CASBEE. In case the certification is BELS two stars, it requires additional efforts that contribute to the environment.

The following is an overview of environmental certification and additional efforts contributing to the environment.

(1) Environmental certification

BELS (Building-housing Energy-efficiency Labeling System)

BELS is English acronym for Building-housing Energy-efficiency Labeling System. BELS is a building energy efficiency performance indicator system under which third-party assessment bodies evaluate and accredit the energy efficiency performance of new and existing buildings. The outer skin performance (performance standards and specification standards) and primary energy consumption (performance standards and specification standards) are subject to evaluation, and the evaluation results are expressed in stars according to the achievement values of the energy efficiency standards. High evaluation requires excellent energy-efficiency performance. In BELS, the numbers of stars are ranked from one to five, based on BEIs (Building Energy Index). BEI is a measure of energy efficiency performance that uses the designed primary energy consumption as the molecular weight and the standard primary energy consumption as the denominator, and is compared with the standard value. One star is the existing energy saving standard, two stars is the energy saving standard, and three stars are the guiding standard. Buildings with BELS 3 stars or higher specified by HRR as eligibility criteria are based on energy-saving performance (non-residential: BEI value of 0.7 or less), and are eligible for properties with energy efficiency of 30% or more compared to the standard primary energy consumption. Therefore, JCR considers buildings which are subject to use of the proceeds can be expected to have environmental improvement effects.

LEED (Leadership in Energy-and Environmental Design)

The Environmental Performance Assessment System for Construction and Urban Environments developed and operated by the U.S. Green Building Council (USGBC), a non-profit organization. As of 2019, there are buildings certified in more than 160 countries or regions.

The LEED is an acronym for Leadership in Energy and Environment Design. The draft was published in 1996 and is updated once every few years.

There are five types of certification: BD+C (Building Design and Construction), ID+C (Interior Design and Construction), O+M (Operation and Maintenance), ND (Neighborhood Development), and HOMES (Home).

The authentication level is represented by the sum of the points earned for each item and is from above Platinum (80 points or more), Gold (60-79 points), Silver (50-59 points), and Certified (40-49 points). As for items related to energy efficiency, it is often a prerequisite for the evaluation that points are high or already achieved, and energy efficiency is high, which is considered necessary in order to obtain a high certification level. Therefore, it is considered appropriate for HRR to set the standard 2. CASBEE (Comprehensive Assessment System for Built Environment Efficiency)

CASBEE (Comprehensive Assessment System for Built Environment Efficiency)

CASBEE is an acronym for the English name of Comprehensive Assessment System for Built Environment Efficiency.

This is a method for evaluating and rating the environmental performance of buildings. In April 2001, the Comprehensive Environmental Evaluation Research Committee for buildings was established as a joint project with industry, government, and academia with the support of the Housing Bureau of the Ministry of Land, Infrastructure, Transport and Tourism. Since then, the committee has been continuously conducting development and maintenance. In addition to CASBEE for Buildings and CASBEE for Urban Development, assessment tools include CASBEE for Real Estate developed to provide easy-to-understand environmental performance to the real estate market.

The evaluation results are divided into five grades: Rank S (Excellent), Rank A (Very Good), Rank B+ (Good), Rank B- (Slightly Poor), and Rank C (Poor) (CASBEE for real estate scoring has four grades: Rank S (Excellent), Rank A (Very Good), Rank B+ (Good), and Rank B (Satisfaction of mandatory items)). The evaluation method is a reconfiguration and quantification of the performance in the four fields of energy consumption, resource recycling, regional environment, and indoor environment in buildings from the viewpoints of environmental quality of buildings (Q = Quality) and environmental burden of buildings (L = Load). Evaluation is based on the value of BEE (Built Environment Efficiency) with L as the denominator and Q as the numerator. High evaluation requires Comprehensive high quality of building such as energy efficiency and the use of materials and equipment with low environmental impact, in addition to give consideration to indoor comfort and landscape. Accordingly, B+ or higher, as defined by HRR as eligible criteria, are buildings with a BEE of 1.0 or higher in CASBEE for New Construction are targeted at properties that are clearly superior in quality to environmental impact. In CASBEE for Real Estate, although the measurement criteria are not BEE, they are evaluated as having an environmental improvement effect because they cover properties equivalent to B+ in conventional CASBEE for New Constructions.

(2) Additional efforts that contribute to the environment

HRR targets properties for which one or more of the following additional initiatives (i) through (v) are subject to the use of proceeds for the properties which takes two stars in BELS certification.

BELS certification is as described above. The two stars is based on energy-saving performance (non-residential: BEI value of 0.7 to 1.0) and qualifies as buildings with energy-saving performance.

In addition to acquiring this certification level, HRR added terms to the eligibility criteria in order to contribute to the resolution of environmental problems from multiple perspectives.

(i) Procurement of energies through EIMY(Energy In My Yard (hydroelectric power, etc.)

(ii) Renewable energy procurement other than that defined in (i) above

"EIMY" is an acronym for Energy In My Yard, and refers to the self-sufficient systems used in Hoshinoya Karuizawa. It is a mechanism developed with the purpose of minimizing the burden on the rich nature of Karuizawa. It realizes the procurement of about 70% of the energy used in Hoshinoya Karuizawa through the use of two private hydroelectric power plants on the site, hot spring drainage, and underground heat. The average annual output of hydroelectric power generation in the last four years is about 760,000 kWh.

HRR is also actively considering the use of natural energy for properties other than Hoshinoya Karuizawa, mainly on photovoltaic power generation facilities.

(iii) Implementation of 3R through "Zero-Emission Activities"

The Karuizawa Office, which operates Hoshinoya Karuizawa and Karuizawa Hotel Breston Court, etc., established the Zero Committee in 1999 with the aim of achieving zero-emission at the hotels it operates. Zero emissions refers to the recycling and reuse of what is discharged without simple incineration or landfill. In November 2011, Hoshino Resorts was the first in the hotel and inn industry to achieve zero waste emissions.

Zero emission is realized through the idea of 3R. As for the reduction, the reduction of food garbage by adopting the selection system at the wedding ceremony and reception, as the reuse, the returnable containers for beverages, and the establishment of the reuse rule for goods that are no longer needed are made into fertilized garbage, used in neighboring ranches and farms, and the garbage discharged at hotels is sorted into 28 types of resources. Zero-emission has been maintained since it was realized in 2011.

(iv) To reduce the use of plastic products

In order to reduce the use of plastic products, the Hoshino Group hotels offer all their cabin shampoo and body soaps in a pumped bottle format in 2019, rather than in an individual packaging format. As a result, about 49t/year of plastic containers and about 73kl/year of disposal reduction of soaps have been realized. In addition, all toothbrushes used by guests (more than one million per year) are corrected and recycled. Furthermore, at RISONARE Nasu and some other hotels, Hoshino Resorts is eliminating the provision of PET bottled mineral water in guest rooms and installing water servers in public spaces, thereby realizing PET bottle-free and promoting the reduction of plastic waste.

(v) Conservation activity

Based on surveys and research on nature and ecosystems, mainly targeting accommodations in Karuizawa, ecotourism is being developed to convey its attractiveness and importance and make guests enjoy it. Since 1992, Picchio, a group company of Hoshino Resorts, has been conducting nature tours such as wild birds and flying squirrel watching, and is enjoying promoting awareness of the surrounding natural environment.

2. Energy-saving performance and renovation work

HRR includes installation or renovation of facilities with 10% or more of energy-saving benefits (such as CO2 emissions, energy consumption, or water consumption) into the eligibility criteria. JCR evaluates that the target of a reduction of at least 10% is not an extremely ambitious target, but an initiative with a certain degree of environmental improvement effect.

3. Renewable Energy facilities

HRR includes the cost of installing renewable energy power generation facilities, mainly solar power generation facilities on the rooftops of its properties into one of the eligibility criteria in the Framework. JCR evaluates that this eligible criteria to be more effective in improving the environment by reducing CO₂ emissions.

< Evaluation of JCR for the Framework >

Hoshino Resorts has been promoting environmental management since 1993 with the aim of sustainable resort management with reduced environmental impact. Environmental management consists of EIMY, zero-emission, and ecotourism (nature conservation activities) among the added efforts contributing to the above environmental conservation. Regarding zero waste emissions, the activities of the Zero Committee received the Minister of the Environment's Award at the Sixth Green Purchasing Grand Prize in 2003 for the Green Purchasing Network. Regarding ecotourism, Picchio Corporation, a Hoshino Resorts Group, received the first Eco-Tourism Grand Prize from the Ministry of the Environment in 2005. The award has also been highly evaluated by external parties. In this way, Hoshino Resorts and HRR have established the Framework with the aim of solving various types of environmental problems in a multifaceted manner by incorporating not only hard aspects of buildings with low environmental impact, but also soft aspects, including initiatives by employees and services for guests.

Based on the above, JCR has evaluates the use of proceeds stipulated in this framework as having environmental improvement effects.

- ii. **The use of proceeds fall under the green category of "Green Buildings Which Meet Regional, National or Internationally Recognised Standards or Certifications", "Energy Efficiency" and "Renewable Energy" in the Green Bond Principle and the Green Loan Principle and "Green Building Projects", "Energy Efficiency Projects" and "Renewable Energy Projects" in the Green Bond Guidelines and the Green Loan and the Sustainable Linked Loan Guidelines**

b. Negative impact on the environment

At the time of acquisition of assets, HRAM conducts due diligence and investigations of properties according to a checklist to confirm the negative impact on the environment, and in principle, only those properties that are determined to have no problems are targeted for acquisition. If there is a risk that a negative impact may occur as a result of due diligence, it forgo property acquisitions or attempt to avoid the risk by additional construction, etc.

Based on the above, JCR confirmed that HRAM is giving due consideration to the negative impact on the environment.

c. Consistency with SDGs goals and Targets

The projects are classified as "Energy Efficiency" "Green Building which meet regional/national or internationally recognized standards or certifications" and "Renewable Energy" among the green projects defined in the Green Bond Principles, Green loan Principle, Green Bond Guidelines and Green Loan and Sustainability Linked Loan Guidelines. While referring to ICMA's SDGs mapping, JCR evaluated that it would contribute to the following SDGs goals and targets.



Goal 3: Ensure healthy lives and promote well-being for all at all ages

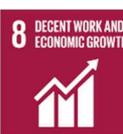
Target 3.9. By 2030 substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil contamination.



Goal 7: Ensure access to affordable, reliable, sustainable, and modern energy for all.

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 8: Promote sustained inclusive and sustainable economic growth, full and productive employment and decent work for all

Target 8.2. Achieve high levels of economic productivity through diversification, technology improvement and innovation, including through a focus on high-value added and labor-intensive sectors.



Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

Target 9.1. Develop quality, reliable, sustainable and resilient infrastructure, including regional and transboundary infrastructure, to support economic development and human welfare with a focus on affordable and equitable access for all.

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: Make cities and human settlements inclusive, safe, resilient and sustainable.

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. Reduce per capita environmental impacts of cities, including by paying special attention to air quality and general and other waste management, by 2030.



Goal 12: Ensure sustainable consumption and production patterns

Target 12.4. By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water, and soil in order to minimize their adverse impacts on human health and the environment



Goal 13: Take urgent action to combat climate change and its impacts

Target 13.1. Strengthen resilience and adaptation capability to climate-related and natural disasters in all countries.

Evaluation Phase 2: Management, Operations and Transparency Evaluation

Based on the current status described below and the JCR's evaluation, JCR assessed that the management and operation system was well established, that the transparency was extremely high, and that the implementation of projects as planned and the appropriation of funding could be sufficiently expected. JCR assigned "m1 (F)" as the highest ranking to the evaluation phase 2: Management, Operation, and Transparency Evaluation.

1. Appropriateness and Transparency Concerning Selection Standard and Processes of the Use of Proceeds

(1) JCR's Key Consideration in This Factor

In this section JCR confirms the goals to be achieved through green bonds, the selection criteria for green projects and the appropriateness of the process, and whether the process is properly disclosed to investors and others.

(2) Current Status of Evaluation Targets and JCR's Evaluation

a. Goal

<Framework for implementing Green Investment Policy>

As HRAM together with the Hoshino Resorts Group, has taken into account "the utility of travel to enhance human creativity and motivation," and has worked together to maintain a natural environment in which both living things and people coexist. Since the time of its establishment, when the environment and the nature of human society had been causing serious problems to the earth, Hoshino Resorts has established communities such as free education seminars for the art, in addition to the self-sufficiency of hydroelectric power plants and the maintenance and development of the Karuizawa National Wild Bird Sanctuary Forest. In addition, in recent years, as a "Hoshino Resorts Way of SDGs," Hoshino Resorts was the first in the accommodation business to implement "recycling of used toothbrushes"*1 and to reduce plastic emissions through the pumpbottling of amenities (shampoos, conditioners, and body soap)*2).

HRAM also inherits this DNA as an ESG. In order to minimize the burden on nature, it operates properties that are environmentally friendly, such as "Hoshinoya Karuizawa," which possesses unique technologies capable of self-sustaining nearly 70% of energy through the use of hydroelectric and geothermal power generation, heating of hot springs and hot springs, and energy conservation.

To protect the environment and coexist and co-prosper with local communities in concrete terms, it establishes the following policies and promotes agreements with the aim of "building environmentally conscious facilities." "1. Reducing the environmental impact of energy consumption, GHG emissions, water consumption, and waste emissions, etc.; 2. Improving resilience by considering the introduction of renewable energy; 3. Promoting the reduction of plastics; and 4. Promoting green lease contracts."

At the same time, HRAM takes into consideration wellness, including periodic medical checkups to promote the health of our executives and employees and tenants, and we also maintain a highly productive and creative working environment.

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HRAM will establish the above content through the decision-making structure of the Investment Management Committee, the Compliance Committee, the Board of Directors, and other bodies, to ensure thorough risk management and compliance in businesses, and to continuously improve corporate governance, while managing appropriate real estate based on the Sustainability Policy.

Notes: 1. Used toothbrushes at Hoshino Resorts that are discarded in more than 1 million trees per year are collected and recycled.

2) Eliminated individual packaging soaps (shampoos, conditioners, and body soaps) at all operating facilities in 2019, and changed to a pumpbottle-type refill operation. Reduced the disposal of plastic containers and soaps by approximately 49 tons/year and 73 kl/year, respectively, compared with the use of individual packaged soaps.

<JCR's Evaluation of the Framework>

In the "Sustainability Policy", HRR aims at reduction of environmental load, improvement of resilience by examination of introduction of renewable energy, promotion of reduction of plastics, and "environmental architecture" by promotion of green lease contract. Funds procured through green finance are to be used for the acquisition of accommodation facilities that have been granted environmental certification at a certain level or for the refinancing of the funds, which is an effort to contribute to "environmental building."

Based on the above, JCR has evaluated the implementation of green finance based on the Framework as consistent with HRR's goals.

b. Selection Standard

HRR's "Eligibility Criteria" in the Framework are as previously described in Phase 1 of this evaluation report. JCR evaluates the eligibility criteria as covering projects with environmental improvement effects.

c. Processes

<The Framework for Processes>

(Selection Process for Projects)

Projects that conform to eligible criteria for use of green finance are selected by the Sustainability Project Leader, and are evaluated and discussed by the ESG Committee, which is composed of the President and Representative Director of the Asset Management Company, General Manager of the Asset Management Division, General Manager of the Financial Management Division, General Manager of the Planning and Management Department, Compliance Officer, and Sustainability Project Leader. Then, they are decided by the Board of Directors and reported to the Board of Directors.

<JCR's Evaluation of the Framework>

HRAM operates the ESG Committee as a consultative body to promote the sustainability of HRR. The committee is composed mainly of the President, the General Manager of the Asset Management Division, the General Manager of the Financial Management Division, the manager of the Planning and Administration Division, the leader of the Sustainability Project, and the management team. The targets of the use of proceeds are determined by the Board of Directors after evaluation by the ESG Committee, and are structured so that specialized departments and management are appropriately involved. From this, JCR evaluates that the selection process of the project of HRR as appropriate.

Targets, selection criteria, and processes specified in the Framework are disclosed through this evaluation report. In addition to press releases by HRR at the time of implementation of Green Finance, in the case of procurement through green finance, revised issuance registration statements for issuance of Investment Corporation Bonds, supplementary documents for issuance registration, etc. are scheduled to be disclosed. Accordingly, JCR evaluates that transparency to investors is ensured.

2. Appropriateness and Transparency of Management of the Proceeds

(1) JCR's Key Consideration in This Factor

It is generally assumed that the methods of managing procurement funds vary widely among issuers, but it is necessary to confirm that funds procured through the implementation of green finance are appropriated for green projects, and that mechanisms and internal systems are in place to easily track and manage the appropriations.

In addition, it is important that funds procured through green finance be allocated to green projects at an early stage, and that the management and operation of unappropriated funds be evaluated.

(2) Current Status of Evaluation Targets and JCR's Evaluation

<The Framework for proceeds management>

(The allocation plan)

The proceeds will be allocated to fund the acquisition of eligibility criteria without delay or to refinance loans required to acquire eligible assets after they have been deposited into an account.

(Method of Tracking and Management of Proceeds)

Funds procured through Green Finance are managed by the Finance & Accounting Department using internal electronic files and other media, and are checked by the General Manager of the Finance & Accounting Department and reported regularly to the Board of Directors and Board of Directors as necessary.

(Internal and External Audits for Tracking Management)

The allocation status will be reported to the Board of Directors, as necessary, and internal audits will be conducted by the Compliance Division and audits by the Audit Corporation as necessary.

(Method of Management of Unallocated funds)

Unallocated funds will be managed in cash or cash equivalents until fully allocated.

Even after the full allocation, if assets subject to the use of proceeds are not eligible for the use of proceeds due to sell or impairment before the redemption of the bonds subject to the evaluation are removed from the scope of use of proceeds, unallocated funds that arise temporarily will be managed by Portfolio Management(*).

※ This is a management method for confirming that the total amount of Green Finance outstanding does not exceed the maximum amount of green eligible liabilities (total amount of assets that satisfy eligible criteria × total amount allocated to LTV + eligible criteria 2 to 4) for each accounting period.

<JCR's Evaluation of the Framework>

The management of proceeds shall be conducted by the Finance and Accounting Department of HRAM using a dedicated electronic file. Such fund management is scheduled to be regularly confirmed by the General Manager of the Finance and Accounting Department. It is also subject to internal and external audits, and adequate controls are in place.

In the Framework, proceeds procured through green finance are fully linked to individual projects. Meanwhile, the management of balances and unallocated funds until the redemption or repayment applies portfolio management system (a management method that confirms that the total amount of Green Finance balances does not exceed the maximum outstanding of green eligible liabilities (total assets meeting eligible criteria (acquisition amount) × total assets LTV + total amount allocated for eligible assets which meet eligibility criteria 2 to 4).

HRAM scheduled to allocate the funds promptly. It also applies portfolio management system for the remaining term of green finance. As a result, there will be no unallocated funds in the beginning of the Framework.

From the above consideration, JCR evaluates the management of proceeds are appropriately designed.

3. Reporting

(1) JCR's Key Consideration in This Factor

In this section JCR assesses whether the system for disclosing green finance to investors before and after implementation is planned in a detailed and effective manner by referring to the framework.

(2) Current Status of Evaluation Targets and JCR's Evaluation

<Framework for Reporting>

1. Reporting on the status of allocation of funds

The following will be disclosed on HRR's website each fiscal year

- Allocation plan if there are unallocated funds at the time of procurement through green financing
- The fact that the balance is managed by portfolio management if assets subject to the use of proceeds are sold before the redemption and repayment period, the green finance balance and the maximum amount of green eligible liabilities

2. Reporting on the Effectiveness of Environmental Improvements

Scheduled to disclose the following details on HRR's website annually

- Number and type of environmental certification of acquisition assets
- (for renovation work) Energy consumption before and after renovation/Water consumption
- Annual energy generation and CO² reductions (estimates) of generating equipment subject to investment (for renewable energy)
- Annual power generation by EIMY(Energy In My Yard (hydroelectric power generation, etc.))
- Volume of energies procured outside EIMY
- Continued composting of raw garbage (since 2011)
- Reduction in plastic containers
 1. Continue to convert shampoos, conditioners, and body soaps into pump bottles (since 2019)
 2. Switch of PET bottled mineral water to others
- The number of toothbrushes recycled

<JCR's Evaluation of the Framework>

a. Reporting on the status of allocation of funds

The use of proceeds procured through green finance will be disclosed in HRR's press release, and in the case of the green bond, the details will also be disclosed in the Issue Registration Addendum. In addition, if a property subject to the use of proceeds is no longer subject to the use of proceeds due to a sale or other reasons, it is assumed that this will also be disclosed in the press release of HRR.

b. Reporting on environmental improvement effects

HRR will disclose each of the items of eligibility criteria and reports on the environmental improvement effects of additional efforts that contribute to the environment. Appropriately quantitative data is listed as an item for disclosure.

JCR has evaluated the reporting system of HRR as a plan to appropriately disclose both the allocation of funds and the effects of environmental improvement to investors and others.

JCR evaluates the allocation status and the impact reporting of environmental improvement effects to be properly disclosed to investors and others.

4. Organization's Environmental Activities

(1) JCR's key consideration in this factor

This section evaluates whether the issuer's management positions environmental issues as a high priority issue for management, and whether the implementation policy of Green Finance and process, Green Project selection criteria, etc. are clearly positioned by establishing a department that specializes in the environmental field or by cooperating with external organizations.

(2) Current status of evaluation targets and JCR evaluation

Hoshino Resorts, the sponsor of HRAM, opened its first Japanese style inn (Hoshino hot spring) in Karuizawa, Nagano Prefecture, in 1904, marking its 106th year this year. Since its opening, it has been operating a pavilion that has realized a reduction in the burden on the environment through the excavation of hot springs and the installation of hydroelectric power stations. In addition, when the founder of the Wild Birds Association of Japan stayed at Hoshino Hot Spring, it was designated as the "Karuizawa Wild Bird Sanctuary Forest" as a result of ecosystem protection activities in the national forest, which is the treasure house of adjacent wild birds. From long before environmental protection is conscious, until now, efforts are being made to give consideration to the surrounding environment in which hotels are operated. Hoshinoya Karuizawa, which is currently open on the site of the former Hoshino hot spring site, has achieved self-sufficiency of about 70% of its energy through EIMY, heating use of hot spring wastes, building devised for energy conservation, and recycling of biomass. Consideration for the overall environment since Hoshino Resorts' founding has been incorporated into its operations. Other facilities are also promoting initiatives such as reducing plastics and protecting nature.

Yoshiharu Hoshino, President of Hoshino Resorts set a vision in 1992 of becoming a "resort operator," and operates hotels with the goal of "consistently generating the best customer satisfaction and operating incomes by expressing the appeal of resorts to customers while minimizing the burden on the environment."

HRR manages and operates properties it owns in order to support and develop the initiatives of Hoshino Resorts. The following sustainability policy has been established as a policy for addressing environmental issues.

Hoshino Resorts REIT, Inc. Sustainability Policy

1. Shifting to a green building approach: We aim to increasingly shift to a green building approach with respect to our facility holdings with the aim of helping to mitigate climate change and major natural disasters. To such ends, when engaging in new construction, renovation, or repairs, we consider and implement options that will decrease environmental loads in areas such as energy consumption, greenhouse gas (GHG) emissions, water consumption, and waste reduction. At the same time, we strive to achieve greater energy resilience which involves considering options for adopting renewable energy.
 2. Discarded plastics: We strive to avoid use of plastics to the extent possible in order to help reduce volumes of micro-plastics in the ocean and PET bottle waste on land. Through such initiatives, we will build relationships conducive to enabling cooperation with our suppliers in terms of having a positive impact on lifestyles of our customers. We will furthermore coordinate efforts with all of our operators in addressing not only plastics but also general waste management, and will accordingly enter into green lease agreements with them.
 3. Tourism and geographic locations: Whereas tourism and geographic regions are inextricably linked, we are committed to the notion of stimulating the economy while concurrently valuing attributes of our geographic locations. This calls for us to develop workplace environments that embrace the notion of wellness, particularly in the form of providing regular health checkups to improve the health of our executives and employees who conduct our business affairs.
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HARAM has established the ESG Committee as a specialized consultative body for environmental and other sustainability issues. The ESG Committee aims to realize the CSV of HRR and increase awareness of sustainability among executives, employees and stakeholders. In addition, HRR has been evaluated for its sustainability initiatives using external consulting companies, and is objectively promoting initiatives related to the environment.

From the above, JCR evaluated that the management has positioned environmental issues as a high priority issue, and that it has properly put in place a system to tackle environmental issues by utilizing the know-how of external experts with expert knowledge.

■ Evaluation result

As a result, based on the JCR Green Finance Evaluation Methodology, JCR assigns "g1 (F)" for the "Greenness Evaluation (Use of Proceeds)" and "m1 (F)" for "Management, Operation and Transparency Evaluation." Consequently, JCR assigns "Green1 (F)" for overall "JCR Green Finance Framework Evaluation." The Framework is considered to meet the criteria for items in Green Bond Principle, Green Loan Principle and MOE's Green Bond Guidelines and Green Loan and Sustainability Linked Loan Guidelines.

[JCR Green Finance Framework Evaluation Matrix]

		Management, Operation and Transparency Evaluation				
		m1(F)	m2(F)	m3(F)	m4(F)	m5(F)
Greenness 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)	Not qualified
	g4(F)	Green 4(F)	Green 4(F)	Green 5(F)	Not qualified	Not qualified
	g5(F)	Green 5(F)	Green 5(F)	Not qualified	Not qualified	Not qualified

■ Subject

Issuer: Hoshino Resorts REIT, Inc.. (Security code: 3287)

[Assignment]

Subject	Evaluation
Green Finance Framework	JCR Green Finance Framework Evaluation : Green 1 (F) Greenness Evaluation :g1(F) Management, Operation and Transparency Evaluation: m1(F)

(Responsible analysts for this evaluation) Atsuko Kajiwara, Rieko Kikuchi

Important explanation regarding the evaluation of the Green Finance Framework

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

JCR Green Finance Framework Evaluation, which is granted and provided by Japan Credit Rating Agency, Ltd. (JCR), covers the policies set out in the Green Finance Framework, and expresses the overall opinion of JCR at this time regarding the appropriateness of the Green Project as defined by JCR and the degree of management, operation and transparency initiatives related to the use of proceeds and other matters. Accordingly, it does not undertake specific environmental improvement effects, management and operation systems, and transparency assessments of the use of proceeds for individual bonds and borrows implemented in accordance with this policy. In the event that green finance assessments are granted for individual bonds or individual borrowings based on this framework, such assessments need to be conducted separately. Furthermore, the JCR Green Finance Framework Evaluation does not demonstrate the improvement effect on the environment of individual bonds or borrows implemented under this Framework and does not assume any responsibility for the environmental improvement effect. In principle, JCR does not directly measure the environmental improvement effects of funds procured under the Green Finance Framework, although JCR confirms the quantitative and qualitative measures by the issuer or a third party requested by the issuer.

2. Methods used in the conduct of this evaluation

The methods used in this evaluation are listed on JCR website (Sustainable Finance and ESG in <https://www.jcr.co.jp/en>) as JCR Green Finance Evaluation Method.

3. Relationship with Acts Related to Credit Rating Business

The JCR Green Finance Framework Evaluation is determined and provided by JCR as a related business, which is different from the activities related to the credit rating business.

4. Relationship with Credit Ratings

The Evaluation differs from the Credit Rating and does not promise to provide or make available for inspection a predetermined Credit Rating.

5. Independence in JCR Green Finance Framework Evaluation

There is no conflicts of interest related to capital or human resources relationships between the subject of this evaluation and JCR.

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■ Glossary

JCR Green Finance Framework Evaluation is an assessment of the extent to which funds procured through Green Finance are appropriated for Green Projects as defined by JCR and the extent to which such funds are used for management, operation, and transparency of the Green Finance. Evaluations are performed on a five-point scale, from the top to the bottom using the Green1 (F), Green2 (F), Green3 (F), Green4 (F), and Green5 (F) signs.

■ Status of registration as an external assessor of green finance

- Ministry of the Environment's external green bond reviewer registration
- ICMA (registered as an observer with the International Capital Markets Association)
- Climate Bonds Initiative Approved Verifier (Climate Change Initiative Accreditation Verification Organization)

■ Status of registration as a credit rating agency, etc.

- Credit Rating Agency: the Commissioner of the Financial Services Agency (Rating) No.1
- EU Certified Credit Rating Agency
- NRSRO: JCR has registered with the following four of the five credit rating classes of the Securities and Exchange Commission's NRSRO (Nationally Recognized Statistical Rating Organization). (1) Financial institutions, broker dealers, (2) insurance companies, (3) general business corporations, and (4) government and local governments. If the disclosure is subject to Section 17 g-7(a) of the Securities and Exchange Commission Rule, such disclosure is attached to the news releases posted on the JCR website (<https://www.jcr.co.jp/en>).

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