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## REIT Financial Report for the 4th Fiscal Period

June 21, 2016

REIT Issuer: Nippon Healthcare Investment Corporation      Stock Exchange Listing: TSE  
 Securities Code: 3308      URL: <http://www.nippon-healthcare.co.jp/>  
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 Scheduled date of submission of periodic securities report (*yuka shoken hokokusho*): July 22, 2016  
 Scheduled date of start of distribution payments: July 15, 2016  
 Preparing presentation material: Yes  
 Holding financial brief meeting: Yes (for institutional investors and analysts)

[Amounts are rounded down to the nearest million yen, except for per unit figures]

### 1. Status of Management and Assets for the 4th Fiscal Period

#### 4th Fiscal Period: Fiscal period ended April 2016 (from November 1, 2015 to April 30, 2016)

##### (1) Management

[% figures show the period-on-period increase (decrease)]

Fiscal period	Operating revenue		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
4th	667	20.1	289	28.8	261	29.9	260	30.1
3rd	555	9.4	224	(8.6)	201	23.9	200	24.0

Fiscal period	Net income per unit	Net income to unitholders' equity	Ordinary income to total assets	Ordinary income to operating revenue
	yen	%	%	%
4th	3,566	2.8	1.4	39.2
3rd	3,299	2.5	1.2	36.3

##### (2) Distributions

Fiscal period	Distribution amount per unit (including distribution amount in excess of earnings)	Distribution amount per unit (excluding distribution amount in excess of earnings)	Distribution amount in excess of earnings per unit	Total distribution amount (including distribution amount in excess of earnings)	Total distribution amount (excluding distribution amount in excess of earnings)	Total distribution amount in excess of earnings	Dividend payout	Distribution amount to net assets
	yen	yen	yen	million yen	million yen	million yen		
4th	4,295	3,495	800	320	260	59	100.0	2.5
3rd	4,067	3,299	768	247	200	46	100.0	2.5

(Note 1) The rate of decrease in surplus, etc. from implementing cash distributions in excess of earnings (reimbursement of investments in capital which falls under the category of distribution reducing unitholders' capital for tax purpose) in the 4th Fiscal Period and the 3rd Fiscal Period is 0.006 and 0.005, respectively. Furthermore, calculation of the rate of decrease in surplus, etc. is pursuant to Article 23, Paragraph 1, Item 4 of the Order for Enforcement of the Corporation Tax Act (Cabinet Order No. 97 of 1965; including amendments thereto).

(Note 2) Dividend payout for the 4th Fiscal Period is calculated by the following formula since issuance of new investment units was implemented.

$$\text{Dividend payout} = [\text{Total distribution amount (excluding distribution amount in excess of earnings)} \div \text{Net income}] \times 100$$

(Note 3) The total distribution amounts in excess of earnings for the 4th and 3rd Fiscal Periods are entirely reimbursement of investments in capital which falls under the category of distribution reducing unitholders' capital for tax purpose.

(Note 4) Dividend payout and distribution amount to net assets are calculated based on figures excluding distribution amount in excess of earnings.

### (3) Financial Position

Fiscal period	Total assets	Net assets	Unitholders' equity to total assets	Net assets per unit
	million yen	million yen	%	yen
4th	20,847	10,669	51.2	142,958
3rd	17,666	8,035	45.5	132,160

### (4) Cash Flows

Fiscal period	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
	million yen	million yen	million yen	million yen
4th	448	(2,685)	2,873	1,601
3rd	395	(2,941)	2,189	965

## 2. Management Status Forecasts for the 5th Fiscal Period and the 6th Fiscal Period

**5th Fiscal Period: Fiscal period ending October 2016 (from May 1, 2016 to October 31, 2016)**

**6th Fiscal Period: Fiscal period ending April 2017 (from November 1, 2016 to April 30, 2017)**

[% figures show the period-on-period increase (decrease)]

Fiscal period	Operating revenue		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
5th	676	1.4	271	(6.2)	244	(6.7)	243	(6.7)
6th	676	0.0	271	(0.1)	244	0.0	243	0.0

Fiscal period	Distribution amount per unit (including distribution amount in excess of earnings)	Distribution amount per unit (excluding distribution amount in excess of earnings)	Distribution amount in excess of earnings per unit
	yen	yen	yen
5th	4,060	3,260	800
6th	4,060	3,260	800

(Reference) Estimated net income per unit for the 5th Fiscal Period: 3,260 yen; 6th Fiscal Period: 3,260 yen

#### \* Other

##### (1) Changes in Accounting Policies, Changes in Accounting Estimates and Retrospective Restatement

- (i) Changes in accounting policies due to amended accounting standards, etc.: None
- (ii) Changes in accounting policies other than (i): None
- (iii) Changes in accounting estimates: None
- (iv) Retrospective restatement: None

##### (2) Total Number of Investment Units Issued and Outstanding

(i) Total number of investment units issued and outstanding (including own investment units) at end of period:	4th Fiscal Period	74,632 units
	3rd Fiscal Period	60,800 units
(ii) Number of own investment units at end of period:	4th Fiscal Period	– units
	3rd Fiscal Period	– units

(Note) Please refer to “Notes to Per Unit Information” on page 27 for the number of investment units used as the basis for calculating the net income per unit.

#### \* Presentation of the status of implementation of audit procedures

This financial report (*kessan tanshin*) is exempt from the audit procedures pursuant to the Financial Instruments and Exchange Act (Act No. 25 of 1948; including amendments thereto) (hereinafter referred to as the “Financial Instruments and Exchange Act”) and, at the time of disclosure of this financial report (*kessan tanshin*), the audit procedures pursuant to the Financial Instruments and Exchange Act have not been completed.

#### \* Explanation of the appropriate use of the management status forecasts, and other matters of special note

The forecast figures are forward-looking statements based on information currently available to Nippon Healthcare Investment Corporation and involve uncertainties. Accordingly, the actual operating revenue, operating income, ordinary income, net income and distribution amount per unit may vary due to changes in the status. In addition, the forecast is not a guarantee of the distribution amount. For details on the assumptions underlying the forecast figures above, please refer to “Assumptions for the Management Status Forecasts for the 5th Fiscal Period (from May 1, 2016 to October 31, 2016) and the 6th Fiscal Period (from November 1, 2016 to April 30, 2017)” on page 10.

## 1. Affiliated Juridical Persons of the Investment Corporation

Disclosure is omitted because there are no significant changes from the “Structure of the Investment Corporation” set out in the most recent periodic securities report (*yuka shoken hokokusho*) (submitted on January 20, 2016).

## 2. Management Policy and Management Status

### 2.1. Management Policy

Disclosure is omitted because there are no significant changes from the “Investment Policy,” “Investment Target” and “Distribution Policy” set out in the most recent periodic securities report (*yuka shoken hokokusho*) (submitted on January 20, 2016) as of the date of this document.

Nippon Healthcare Investment Corporation (hereinafter referred to as “NHI”) plans to submit the proposal to partially amend the Articles of Incorporation, including the cash distribution policy and the investment target and policies, to the Third General Meeting of Unitholders to be held on July 28, 2016.

[Cash distribution policy]

- Make amendment to allow cash distribution in excess of earnings for the purpose of reducing tax burden by NHI, when NHI judges it to be appropriate.

[Investment target and policies]

- Make amendment so that provisions will stipulate that main investment target be trust beneficiary interest only in real estate, leasehold right of real estate and surface right and these assets, among real estate and other assets.
- Add renewable energy power generation facility and right to operate public facility, etc. to types of assets identified as the investment target. Also add provisions to clarify investment restrictions concerning such.
- As the requirements for an investment corporation to apply for special taxation measures were amended due to the revisions to the Ordinance for Enforcement of the Act on Special Measures Concerning Taxation, delete provisions which were previously written requirement.

For details of partial amendment to the Articles of Incorporation, please refer to a press release “Notice concerning Amendments to the Articles of Incorporation and Appointment of Directors, Etc.” dated June 21, 2016.

### 2.2. Management Status

#### (1) Overview of the Fiscal Period under Review

##### A. Brief History of the Investment Corporation

Nippon Healthcare Investment Corporation (hereinafter referred to as “NHI”) was established on January 7, 2014 in accordance with the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951; including amendments thereto) (hereinafter referred to as the “Investment Trusts Act”) with Daiwa Real Estate Asset Management Co. Ltd. (hereinafter referred to as the “Asset Management Company”) as the organizer. After its establishment, NHI implemented an additional issuance of investment units through private placement (18,800 units) on April 3, 2014. NHI commenced actual management with the acquisition of eight properties on March 28, 2014 by using the proceeds from the concerned capital increase through private placement and borrowings.

After having built a track record of approximately seven months since commencement of management, NHI implemented an additional issuance of investment units through public offering (39,000 units) on November 4, 2014. On the following day, NHI listed on the Tokyo Stock Exchange, Inc. (hereinafter referred to as “Tokyo Stock Exchange”) Real Estate Investment Trust Securities Market (securities code: 3308), along with additionally acquiring six properties. In the previous fiscal period, NHI additionally acquired three properties with borrowings and cash on hand. In the fiscal period under review (4th Fiscal Period: fiscal period ended April 2016 (from November 1, 2015 to April 30, 2016)), NHI implemented an additional issuance of investment units through a public offering (12,130 units) on November 17, 2015, and acquired four properties. The total acquisition price at the time of listing was 13,280 million yen, but it has increased to 18,608 million yen as of April 30, 2016 with the additional acquisition of properties.

As the first Japanese REIT specializing in healthcare facilities in that it invests solely in properties of which the principal use is healthcare facilities, NHI effectively utilizes investor capital to initiate expansion of supply

of high-quality healthcare facilities that provide users with high-standard services, while at the same time produce ample and dependable returns to investors for further capital circulation. In this way, NHI aims at creating a new value cycle for healthcare facilities and the services provided, together with investors. Through these efforts, NHI would like to contribute to the realization of Japan's major policy to improve the residential environment for the elderly by effectively utilizing private sector funds.

## **B. Investment Environment and Management Performance**

### **a. Investment Environment (from November 1, 2015 to April 30, 2016)**

NHI was established to address Japan's structural problem of age demographics where the younger population is decreasing and the ratio of elderly people is increasing, and the associated social demand for the enhancement of private nursing homes and other facilities for the elderly, which are thought to be lacking.

Japan has the population of the elderly aged 65 years or over (hereinafter referred to as the "Elderly Population") accounting for over one-quarter of the total population as of December 1, 2015 (according to the Ministry of Internal Affairs and Communications' "Population Estimates" announced on May 20, 2016), and the Elderly Population as a percentage of the total population (hereinafter referred to as the "Elderly Population Percentage") is forecast to continue to rise as well as the population of the elderly living alone is forecast to continue to grow. There is thus recognized to be sufficient potential for greater development of housing for the elderly with nursing care services, etc. that are designed for the elderly to reside (referring to "silver housing" (public housing for the elderly), "good rental housing for the elderly," "elderly housing with supportive services," "fee-based homes for the elderly" and "low-cost homes for the elderly;" the same shall apply hereinafter)

The Ministry of Land, Infrastructure, Transport and Tourism has set as a policy target that the ratio of housing for the elderly to the elderly population shall 4% in 2025. In order to accomplish this policy target, new supply of housing for the elderly for approximately 770,000 people (estimated) is required by 2025.

In this manner, as social demand is mounting for healthcare facilities – particularly, private nursing homes and other facilities for the elderly – and the enhancement of private nursing homes and other facilities for the elderly is one of the priority tasks even as a national policy, NHI will focus investment for the time being on private nursing homes and other facilities for the elderly among healthcare facilities and thereby seize opportunities to earn cash flows arising from the mounting social demand.

### **b. Management Performance**

In the 4th Fiscal Period, NHI acquired a total of four properties (Alpha Living Okayama Nishigawa Ryokudokoen, Alpha Living Okayama Korakuen, Alpha Living Takamatsu Ekimae and Takamatsu Hyakkenmachi; sum total of acquisition price: 2,550 million yen).

Concerning the properties held as of the end of the 4th Fiscal Period (April 30, 2016), the leasable floor area was 65,203.04m<sup>2</sup> and the occupancy rate was 100.0%.

## **C. Overview of Capital Procurement**

### **a. Procurement of Capital for New Property Acquisitions**

In the 4th Fiscal Period, NHI conducted the following issuance of investment units and borrowing of funds for use as funds for acquisition, etc. of new properties and funds for early repayment of loans.

- Capital increases through public offering with payment on November 17, 2015 (number of investment units issued: 12,130 units, issue amount per unit: 189,440 yen, total amount of issue amount: 2,297,907,200 yen) and through third-party allotment with payment on December 16, 2015 (number of investment units issued: 1,702 units, issue amount per unit: 189,440 yen, total amount of issue amount: 322,426,880 yen), as well as short-term loan of 900 million yen on November 24, 2015 from Mizuho Bank, Ltd. based on the commitment-type term loan agreement were conducted, to be used as part of the acquisition funds, etc. of new properties that were acquired on November 24, 2015 (Alpha Living Okayama Nishigawa Ryokudokoen, Alpha Living Okayama Korakuen, Alpha Living Takamatsu Ekimae and Alpha Living Takamatsu Hyakkenmachi) and as part of the acquisition funds of specified assets in the future.
- NHI conducted borrowing of funds on April 28, 2016 from Sumitomo Mitsui Trust Bank, Limited to make early repayment on April 28, 2016 of 500 million yen (out of 900 million yen) short-term loan borrowed from Mizuho Bank, Ltd. on November 24, 2015.

NHI made early repayment on February 29, 2016 of the 400 million yen (out of 900 million yen) short-term loan borrowed from Mizuho Bank, Ltd. on November 24, 2015.

**b. Status of Interest-Bearing Liabilities at End of the Fiscal Period under Review**

As a result of the above, the balance of interest-bearing liabilities outstanding at the end of the 4th Fiscal Period (as of April 30, 2016) totaled 9,300 million yen (all long-term loans payable) and the average remaining period at the end of the 4th Fiscal Period was 3.07 years.

None are due for repayment within one year of the end of the 4th Fiscal Period.

**List of Borrowings in the 4th Fiscal Period**

Lender	Loan amount (million yen)	Drawdown date	Repayment deadline	Loan period (years)
Mizuho Bank, Ltd. (Note)	900	November 24, 2015	May 24, 2016	0.5
Sumitomo Mitsui Trust Bank, Limited	500	April 28, 2016	April 30, 2020	4.0

(Note) Early repayment of 400 million yen out of the 900 million yen loan was made on February 29, 2016 and of 500 million yen on April 28, 2016.

**Balance of Borrowings from Each Financial Institution (as of April 30, 2016)**

Lender	End of the 4th Fiscal Period (million yen)	Share (%) (Note)
Mizuho Bank, Ltd.	2,300	24.73
Resona Bank, Limited	1,700	18.28
Sumitomo Mitsui Trust Bank, Limited	1,700	18.28
Mizuho Trust & Banking Co., Ltd.	1,200	12.90
The Musashino Bank, Ltd.	1,000	10.75
Shinkin Central Bank	900	9.68
The Dai-ichi Life Insurance Company, Limited	500	5.38
Total	9,300	100.00

(Note) Share is rounded to two decimal places.

**D. Overview of Financial Performance and Distributions**

As a result of the management described above, NHI posted financial performance for the 4th Fiscal Period of 667 million yen in operating revenue, 289 million yen in operating income, 261 million yen in ordinary income and 260 million yen in net income.

Concerning distributions, to ensure that the amount equivalent to distributions from earnings would be included in the amount of tax-deductible expenses based on application of special provisions for taxation on investment corporations (Article 67-15 of the Act on Special Measures Concerning Taxation (Act No. 26 of 1957; including amendments thereto) (hereinafter referred to as the “Special Taxation Measures Act”)), NHI decided to distribute the entire amount of unappropriated retained earnings, excluding fractions of the distribution amount per unit that are less than 1 yen. Accordingly, NHI declared a distribution amount per unit of 3,495 yen.

In addition, in principle, NHI adopts a policy of implementing cash distributions in excess of earnings uninterrupted every fiscal period in accordance with the distribution policy set out in the articles of incorporation (Note). Based on this policy, NHI decided to distribute 59,705,600 yen, which is the amount roughly equivalent to 32% of the 187 million yen in depreciation for the 4th Fiscal Period, as reimbursement of investments in capital which falls under the category of distribution reducing unitholders’ capital for tax purpose. Accordingly, NHI declared a distribution amount in excess of earnings per unit of 800 yen.

(Note) NHI adopts a policy of implementing uninterrupted cash distributions in excess of earnings (reimbursement of investments in capital which falls under the category of distribution reducing unitholders’ capital for tax purpose) in an amount not to exceed 40% of depreciation in every accounting period within the scope that would not have adverse impact on the financial position of NHI after setting aside the cash and deposits that NHI deems appropriate, taking into account the status of establishment of lines of credit, etc., in order to not affect long-term repair plans in light of the capital expenditures for each accounting period assumed based on the long-term repair plans and to meet needs for funds (new acquisition of investment assets, repairs and

capital expenditures required to maintain and enhance portfolio assets, NHI's working capital, repayment of obligations, payout of distributions, etc.).

The six-month average amount of the sum total amount of emergency repair expenses, short-term repair expenses and long-term repair expenses stated in the engineering report by Tokio Marine & Nichido Risk Consulting Co., Ltd. and Assets Research and Development Inc. for all assets held as of the end of the 4th Fiscal Period (21 properties) is 28 million yen.

## **(2) Outlook for the Next Fiscal Period**

### **A. Investment Environment**

Japan has the Elderly Population accounting for over one-quarter of the total population, and the Elderly Population Percentage is forecast to continue to rise as well as the population of the elderly living alone is forecast to continue to grow. With the development of medical technology, among other factors, record-highs were set in terms of the average life expectancy at birth for Japanese people at 80.50 years for males and 86.83 years for females according to the Ministry of Health, Labour and Welfare's "Abridged Life Tables for Japan 2014," and in terms of the Elderly Population at 34 million people and the Elderly Population Percentage at 26.8% of the total population of 127 million as of December 1, 2015 according to the Ministry of Internal Affairs and Communications' "Population Estimates" (announced on May 20, 2016).

According to the National Institute of Population and Social Security Research's "Population Projections for Japan (January 2012)," the total population will increase to 124 million people, the Elderly Population to 36 million people and the Elderly Population Percentage to 29.1% in 2020 and then, while the total population will decrease by approximately 40 million people from that at present to 86 million people, the Elderly Population will reach 34 million people and the Elderly Population Percentage to 39.9% in 2060.

To provide for future growth in demand for housing for the Elderly Population, the Ministry of Land, Infrastructure, Transport and Tourism has set as a policy target that the ratio of housing for the elderly to the elderly population shall 4% by 2025. In order to accomplish this policy target, new supply of housing for the elderly for approximately 770,000 people (estimated) is required by 2025.

In such an environment, there is recognized to be sufficient potential for greater development of housing for the elderly with nursing care services, etc. that are designed for the elderly to reside through effective utilization of private sector funds.

### **B. Future Management Policy and Tasks**

#### **a. Strategy for Managing Existing Properties**

NHI implements the following measures to earn stable revenue and serve to maintain and enhance unitholder value.

##### **(i) Stabilization of earnings**

In principle, NHI shall invest in properties with the actual remaining lease contract period at the time of acquisition of 10 years or more, taking into account also the possibility of contract renewal. In view of lease agreements concluded between NHI or trustees and operators realizing conversion of expenses borne by operators into fixed rates and stabilization of earnings of NHI, the policy shall be to make the lease agreements of content that, in principle, operators pay a fixed amount of rent. The lease agreements with operators for the assets that NHI has acquired are all fixed-rent agreements.

##### **(ii) Criteria and methods for selecting operators**

In the event of acquisition of healthcare facilities, not only the quality of the facilities as real estate, but also the creditworthiness, operational capabilities, etc. of the operators operating the facilities are regarded as important factors by NHI in realizing stable occupancy. This is because the operators being capable of providing services of a quality and type that matches the entrance fee, monthly service fee, etc. in order to be the residents' choice and the operators being capable of operating the facilities continuously are regarded as important factors in terms of also the profitability and asset value of healthcare facilities.

##### **(iii) Employment of "Backup Operator Membership"**

NHI has concluded an agreement on backup of operational management with each and every operator of acquired assets. The main purpose of said agreement is that, in the event that a lease agreement for a healthcare facility held by NHI has ended or is expected to end due to contract termination, contract cancellation or other reason, where NHI requests the operator to operate the healthcare facility by conclusion of a new lease agreement with NHI or the trustee, the operator shall sincerely discuss the request. In addition, NHI shall consider concluding a similar agreement with also the operators of healthcare facilities to be acquired in the future. Such relationship by agreement with operators is referred to as "Backup Operator Membership."

## **b. Strategy for New Property Investments**

NHI aims to realize stable external growth through not only leveraging the track record and network of the Asset Management Company, but also sourcing property information, etc. by working in collaboration with the sponsor group and the adviser.

### **(i) Track record and network of the Asset Management Company**

The Asset Management Company is striving for property acquisitions that utilize the wide range of property sourcing channels based on strong relationship building with various related parties (business companies, financial institutions, major real estate brokerage companies and real estate brokerage parties, etc.) accumulated through asset management of Daiwa Office Investment Corporation (balance of assets for which management is entrusted as of the end of May 2016: approximately 458.3 billion yen) and Daiwa Residential Private Investment Corporation (balance of assets for which management is entrusted as of the end of May 2016: approximately 84.5 billion yen). In addition, in order to expand and boost opportunities to acquire healthcare facilities in which NHI invests, the Asset Management Company has installed an investment team specializing in healthcare facilities and is promoting also the building of relationships with new suppliers and sources of property information (healthcare facility operators, developers, etc.) other than existing property sourcing channels to collect property information.

### **(ii) Sourcing of property information, etc. by working in collaboration with the sponsor group**

The Asset Management Company believes that leveraging the network of branches and clients possessed by the sponsor group, the Daiwa Securities Group, as needed will enable a search across Japan for operators that meet the selection criteria set forth by the Asset Management Company and consideration of the feasibility of collaboration in property acquisition and development, commissioning of facility operation, etc., and thinks that expansion of property acquisition opportunities can thus be expected.

### **(iii) Sourcing of property information, etc. by working in collaboration with the adviser**

The Asset Management Company has concluded an advisory agreement with AIP Healthcare Japan GK, which implements an investment strategy that has been focused on the healthcare sector (hospitals and nursing care facilities) since 2001 and has been engaged in investment specializing in private nursing homes and other facilities for the elderly since 2008. Based on this agreement, the Asset Management Company receives advice on information provision, management and operation of healthcare facilities that are the investment assets of NHI, collaboration with operators, etc. The Asset Management Company believes that this would contribute to realization of stable performance in the medium to long term of NHI.

In the 4th Fiscal Period (the fiscal period ended April 2016), NHI acquired a total of four properties (Alpha Living Okayama Nishigawa Ryokudokoen, Alpha Living Okayama Korakuen, Alpha Living Takamatsu Ekimae and Takamatsu Hyakkenmachi; sum total of acquisition price: 2,550 million yen) on November 24, 2015.

### **c. Financial Strategy**

NHI will procure and manage funds in accordance with the following policy in pursuit of realization of stable revenue and steady growth and efficient management of assets under management.

#### **(i) Additional issuance of investment units**

Additional issuance of investment units shall be implemented with agility, while comprehensively taking into account the timing of acquisition of real estate that are to be newly acquired, ratio of interest-bearing liabilities to total assets (hereinafter referred to as "LTV"), economic and market conditions, etc. and also taking into consideration the dilution of investment units.

#### **(ii) Borrowing of funds and issuance of investment corporation bonds**

LTV shall be set at a level that takes heed of securing of financing capacity and, in principle, no higher than 60%. However, LTV may temporarily exceed 60% for such purposes as acquisition of new investment assets and reduction of refinancing risk.

In order to build a stable financial base and underpin future growth strategies, NHI shall not only establish a so-called main-bank system of having leading financial institutions as its main banks of account, but also make proactive efforts to diversify fund procurement sources through such means as borrowing from multiple lenders and issuing investment corporation bonds.

Funds shall be procured appropriately by negotiating with several financial institutions over borrowing costs, loan period, whether or not collateral is provided and other terms and conditions upon the borrowing of funds, and comprehensively considering the terms and conditions while taking into consideration interest rate trends, market level, financial agility and security, the balance of lender composition and other factors.

In order to reduce the risk of interest rate increases and refinancing risk, NHI shall consider extending financing periods, converting interest rates to fixed rates, staggering repayment dates, introducing highly-flexible financial covenants, etc. as needed.

NHI shall consider securing committed, revolving or other lines of credit as needed for agile procurement of various required funds.

#### **(iii) Fund management**

NHI shall retain at all times the cash and deposits that NHI deems appropriate, taking into account also the status of establishment of lines of credit, etc., in order to meet needs for funds (new acquisition of investment assets, repairs and capital expenditures required to maintain and enhance portfolio assets, NHI's working capital, repayment of obligations, payout of distributions, etc.).

NHI shall pursue efficient fund management whereby, of the amount equivalent to depreciation, the amount remaining after setting aside cash and deposits shall be allocated to implement cash distributions in excess of earnings to unitholders uninterruptedly every fiscal period in an amount not to exceed 40% of depreciation in every accounting period, comprehensively taking into account NHI's surrounding economic environment and real estate market trends, the status of portfolio assets and financial status of NHI and other factors.

There may be cases where surplus funds will be invested into securities and monetary claims that are highly secure and liquid.

Derivative transactions (Article 2, Paragraph 6 of the Investment Trusts Act) shall be limited to those managed for the purpose of hedging the risk of fluctuations in interest rates on the liabilities of NHI.



### C. Significant Subsequent Events

Not applicable.

### D. Outlook for Management Status

NHI forecasts the following management status for the 5th Fiscal Period (from May 1, 2016 to October 31, 2016) and the 6th Fiscal Period (from November 1, 2016 to April 30, 2017). For the assumptions underlying the management status forecasts, please refer to the “Assumptions for the Management Status Forecasts for the 5th Fiscal Period (from May 1, 2016 to October 31, 2016) and the 6th Fiscal Period (from November 1, 2016 to April 30, 2017)” on page 10.

#### 5th Fiscal Period (from May 1, 2016 to October 31, 2016)

Operating revenue	676 million yen
Operating income	271 million yen
Ordinary income	244 million yen
Net income	243 million yen
Distribution amount per unit (excluding distribution amount in excess of earnings)	3,260 yen
Distribution amount in excess of earnings per unit	800 yen
Distribution amount per unit (including distribution amount in excess of earnings)	4,060 yen

#### 6th Fiscal Period (from November 1, 2016 to April 30, 2017)

Operating revenue	676 million yen
Operating income	271 million yen
Ordinary income	244 million yen
Net income	243 million yen
Distribution amount per unit (excluding distribution amount in excess of earnings)	3,260 yen
Distribution amount in excess of earnings per unit	800 yen
Distribution amount per unit (including distribution amount in excess of earnings)	4,060 yen

(Note) Discrepancies between the forecast figures above and the assumptions may arise due to future additional acquisition or sale of real estate, etc., real estate market and other developments, fluctuation in interest rates, change in other circumstances surrounding NHI and other factors. Accordingly, the actual operating revenue, operating income, ordinary income, net income, distribution amount per unit and distribution amount in excess of earnings per unit may vary as a result. In addition, the forecast is not a guarantee of the distribution amount and distribution amount in excess of earnings.

**Assumptions for the Management Status Forecasts for the 5th Fiscal Period (from May 1, 2016 to October 31, 2016) and the 6th Fiscal Period (from November 1, 2016 to April 30, 2017)**

Item	Assumption
Calculation period	<ul style="list-style-type: none"> <li>• 5th Fiscal Period Fiscal period ending October 2016: from May 1, 2016 to October 31, 2016 (184 days)</li> <li>• 6th Fiscal Period Fiscal period ending April 2017: from November 1, 2016 to April 30, 2017 (181 days)</li> </ul>
Assets under management	<ul style="list-style-type: none"> <li>• 5th Fiscal Period and 6th Fiscal Period: The assumption is that the 21 properties held as of April 30, 2016 will continue to be held and there will be no other acquisition of new property through to the end of the 6th Fiscal Period.</li> <li>• The actual number of properties may vary due to acquisition of new property, or disposition of portfolio property, etc.</li> </ul>
Operating revenue	<ul style="list-style-type: none"> <li>• Real estate rent revenue of acquired assets is calculated on the basis of the rent stated in lease agreements that have been concluded. Furthermore, the period-end occupancy rate for each property is expected to be 100.0% at the end of the 5th Fiscal Period and 100.0% at the end of the 6th Fiscal Period.</li> <li>• The assumption is that there will be no gain (loss) on sales of real estate properties.</li> </ul>
Operating expenses	<ul style="list-style-type: none"> <li>• Expenses related to rent business, which constitute a major component of operating expenses, are calculated on the basis of historical data and by taking into consideration the factors causing fluctuation in expenses.</li> <li>• Operating income from property leasing (excluding gain on sales of real estate properties) after deduction of expenses related to rent business (including depreciation) is assumed to be 407 million yen in the 5th Fiscal Period and 400 million yen in the 6th Fiscal Period.</li> <li>• Consignment expenses are assumed to be 12 million yen in the 5th Fiscal Period and 12 million yen in the 6th Fiscal Period.</li> <li>• Taxes and dues (fixed property tax, city planning tax, etc.) are assumed to be 47 million yen in the 5th Fiscal Period and 47 million yen in the 6th Fiscal Period.</li> <li>• In general, fixed property tax, city planning tax, etc. upon transactions of real estate, etc. are calculated on a pro rata basis and reimbursed at the time of acquisition with the current owner, but the amount equivalent to the reimbursement is included in the cost of acquisition and thus not recognized as expenses at the time of acquisition of the property at NHI. Accordingly, in the case of the assets acquired in 2015, fiscal 2016 fixed property tax, city planning tax, etc. are recognized as expenses starting from the 4th Fiscal Period (fiscal period ended April 2016).</li> <li>• Depreciation, which is calculated using the straight-line method, is assumed to be 187 million yen in the 5th Fiscal Period and 188 million yen in the 6th Fiscal Period.</li> <li>• Repair expenses for buildings are assumed based on medium- to long-term repair plans formulated by the Asset Management Company to be 18 million yen in the 5th Fiscal Period and 24 million yen in the 6th Fiscal Period. However, repair expenses possibly increasing in amount or additionally arising from unforeseeable causes may result in repair expenses differing materially from the forecast amount.</li> </ul>
Non-operating expenses	<ul style="list-style-type: none"> <li>• 27 million yen is assumed as interest expenses and other borrowing related expenses for the 5th Fiscal Period.</li> <li>• 27 million yen is assumed as interest expenses and other borrowing related expenses for the 6th Fiscal Period.</li> </ul>
Interest-bearing liabilities	<ul style="list-style-type: none"> <li>• The assumption is that total interest-bearing liabilities will be 9,300 million yen at the end of the 5th Fiscal Period and 9,300 million yen at the end of the 6th Fiscal Period.</li> <li>• The assumption is that there will be no change in loan balance in the 5th and 6th Fiscal Periods.</li> </ul>
Total number of investment units issued and outstanding	<ul style="list-style-type: none"> <li>• 74,632 units, which is the total number of investment units issued and outstanding as of April 30, 2016.</li> <li>• It is assumed that there will be no change to the number of investment units due to issuance of new investment units, etc. in addition to the above, through to the end of the 6th Fiscal Period.</li> </ul>

Item	Assumption
Distribution amount per unit (excluding distribution amount in excess of earnings)	<ul style="list-style-type: none"> <li>• Distribution amount per unit (excluding distribution amount in excess of earnings) is calculated based on the assumption that the entire amount of earnings will be distributed in accordance with the cash distribution policy set forth in the articles of incorporation of NHI.</li> <li>• Distribution amount per unit (excluding distribution amount in excess of earnings) may vary due to various factors, including fluctuation in real estate rent revenue accompanying change in assets under management, change in tenants, etc., or incurrence of unexpected repairs.</li> </ul>
Distribution amount in excess of earnings per unit	<ul style="list-style-type: none"> <li>• Distribution amount in excess of earnings per unit is calculated in accordance with the cash distribution policy set forth in the articles of incorporation of NHI. The total distribution amount in excess of earnings is assumed to be 59 million yen in the 5th Fiscal Period and 59 million yen in the 6th Fiscal Period. The concerned total distribution amount in excess of earnings is respectively the amount equivalent to 31.8 and 31.6% of the depreciation that is expected to arise in the concerned calculation period.</li> <li>• NHI adopts a policy of implementing uninterrupted cash distributions in excess of earnings (reimbursement of investments in capital which falls under the category of distribution reducing unitholders' capital for tax purpose) in an amount not to exceed 40% of depreciation in every accounting period within the scope that would not have adverse impact on the financial position of NHI after setting aside the cash and deposits that NHI deems appropriate, taking into account the status of establishment of lines of credit, etc., in order to not affect long-term repair plans in light of the capital expenditures for each accounting period assumed based on the long-term repair plans and to meet needs for funds (new acquisition of investment assets, repairs and capital expenditures required to maintain and enhance portfolio assets, NHI's working capital, repayment of obligations, payout of distributions, etc.).</li> <li>• However, regardless of the policy described above, distributions in excess of earnings mentioned above may vary in amount or may not be implemented at all in light of the economic environment, real estate market trends, status of portfolio assets and financial status. In addition, accompanied by decrease in cash on hand, the implementation of distributions in excess of earnings mentioned above may cause a shortage of cash on hand in the event that need arises for capital expenditures, etc. beyond that assumed by NHI due to sudden events, etc. or may cause financial constraints in agile property acquisition.</li> </ul>
Other	<ul style="list-style-type: none"> <li>• The assumption is that there will be no revision of laws and regulations, tax systems, accounting standards, listing regulations, rules of The Investment Trusts Association, Japan, etc. that will impact the forecast figures above.</li> <li>• The assumption is that there will be no unforeseen serious change in general economic trends and real estate market conditions, etc.</li> </ul>

### 2.3. Investment Risks

Disclosure is omitted because there are no significant changes from “Part I: Fund Information; Section 1: Fund Status; 3. Investment Risks” set out in the most recent periodic securities report (*yuka shoken hokokusho*) (submitted on January 20, 2016).

### 3. Financial Statements

#### 3.1. Balance Sheets

(Unit: thousand yen)

	3rd Fiscal Period (As of Oct. 31, 2015)	4th Fiscal Period (As of Apr. 30, 2016)
<b>Assets</b>		
Current assets		
Cash and deposits	550,649	1,193,867
Cash and deposits in trust	*1 414,549	*1 407,627
Prepaid expenses	19,141	15,341
Deferred tax assets	14	14
Consumption taxes receivable	2,068	2,190
Other	873	378
Total current assets	987,297	1,619,421
Non-current assets		
Property, plant and equipment		
Construction in progress	1,909	—
Buildings in trust	10,291,446	11,988,964
Accumulated depreciation	(379,019)	(563,511)
Buildings in trust, net	*1 9,912,426	*1 11,425,453
Structures in trust	182,611	200,246
Accumulated depreciation	(4,576)	(6,948)
Structures in trust, net	*1 178,034	*1 193,297
Equipment in trust	1,324	3,914
Accumulated depreciation	(32)	(254)
Equipment in trust, net	*1 1,291	*1 3,660
Land in trust	*1 6,504,957	*1 7,528,824
Total property, plant and equipment	16,598,619	19,151,236
Intangible assets		
Leasehold rights in trust	*1 40,886	*1 40,886
Trademark right	187	177
Software	2,952	2,585
Total intangible assets	44,026	43,648
Investments and other assets		
Lease and guarantee deposits	10,000	10,000
Long-term prepaid expenses	26,635	23,577
Total investments and other assets	36,635	33,577
Total non-current assets	16,679,282	19,228,462
Total assets	17,666,579	20,847,883

(Unit: thousand yen)

	3rd Fiscal Period (As of Oct. 31, 2015)		4th Fiscal Period (As of Apr. 30, 2016)	
<b>Liabilities</b>				
Current liabilities				
Operating accounts payable		16,385		23,861
Accounts payable – other		98,115		57,957
Advances received		69,127		74,027
Deposits received		597		303
Income taxes payable		896		909
Other		869		1,640
Total current liabilities		185,990		158,699
Non-current liabilities				
Long-term loans payable	*1	8,800,000	*1	9,300,000
Tenant leasehold and security deposits		645,231		719,884
Total non-current liabilities		9,445,231		10,019,884
Total liabilities		9,631,222		10,178,583
<b>Net assets</b>				
Unitholders' equity				
Unitholders' capital		7,884,000		10,504,334
Deduction from unitholders' equity		(49,248 )		(95,942)
Unitholders' capital, net		7,834,752		10,408,391
Surplus				
Unappropriated retained earnings (undisposed loss)		200,605		260,908
Total surplus		200,605		260,908
Total unitholders' equity		8,035,357		10,669,300
Total net assets	*3	8,035,357	*3	10,669,300
Total liabilities and net assets		17,666,579		20,847,883

### 3.2. Statements of Income

(Unit: thousand yen)

	3rd Fiscal Period (From: May 1, 2015 To: Oct. 31, 2015)		4th Fiscal Period (From: Nov. 1, 2015 To: Apr. 30, 2016)	
Operating revenue				
Rent revenue – real estate	*1	555,588	*1	667,161
Total operating revenue		555,588		667,161
Operating expenses				
Expenses related to rent business	*1	208,265	*1	258,084
Asset management fee		49,037		58,121
Asset custody fee		554		629
Administrative service fees		8,162		8,595
Trust fee		4,908		6,251
Directors' compensations		3,600		3,600
Audit fee		4,400		6,000
Other operating expenses		51,729		36,203
Total operating expenses		330,657		377,487
Operating income		224,931		289,673
Non-operating income				
Interest income		26		33
Other		4		2
Total non-operating income		30		36
Non-operating expenses				
Interest expenses		18,012		21,447
Borrowing expenses		5,391		5,784
Investment unit issuance expenses		—		681
Other		61		—
Total non-operating expenses		23,465		27,913
Ordinary income		201,496		261,796
Income before income taxes		201,496		261,796
Income taxes – current		901		914
Income taxes – deferred		(0)		(0)
Total income taxes		901		914
Net income		200,595		260,882
Retained earnings brought forward		10		26
Unappropriated retained earnings (undisposed loss)		200,605		260,908

### 3.3. Statements of Unitholders' Equity

3rd Fiscal Period (from May 1, 2015 to October 31, 2015)

(Unit: thousand yen)

	Unitholders' equity						Total net assets
	Unitholders' capital			Surplus		Total unitholders' equity	
	Unitholders' capital	Deduction from unitholders' equity	Unitholders' capital, net	Unappropriated retained earnings (undisposed loss)	Total surplus		
Balance at beginning of current period	7,884,000		7,884,000	161,798	161,798	8,045,798	8,045,798
Changes of items during period							
Distribution in excess of earnings		(49,248)	(49,248)			(49,248)	(49,248)
Dividends of surplus				(161,788)	(161,788)	(161,788)	(161,788)
Net income				200,595	200,595	200,595	200,595
Total changes of items during period	—	(49,248)	(49,248)	38,806	38,806	(10,441)	(10,441)
Balance at end of current period	7,884,000	(49,248)	7,834,752	200,605	200,605	8,035,357	8,035,357

4th Fiscal Period (from November 1, 2015 to April 30, 2016)

(Unit: thousand yen)

	Unitholders' equity						Total net assets
	Unitholders' capital			Surplus		Total unitholders' equity	
	Unitholders' capital	Deduction from unitholders' equity	Unitholders' capital, net	Unappropriated retained earnings (undisposed loss)	Total surplus		
Balance at beginning of current period	7,884,000	(49,248)	7,834,752	200,605	200,605	8,035,357	8,035,357
Changes of items during period							
Issuance of new investment units	2,620,344		2,620,344			2,620,344	2,620,344
Distribution in excess of earnings		(46,694)	(46,694)			(46,694)	(46,694)
Dividends of surplus				(200,579)	(200,579)	(200,579)	(200,579)
Net income				260,882	260,882	260,882	260,882
Total changes of items during period	2,620,334	(46,694)	2,573,639	60,303	60,303	2,633,942	2,633,942
Balance at end of current period	10,504,334	(95,942)	10,408,391	260,908	260,908	10,669,300	10,669,300

### 3.4. Statements of Cash Distributions

Item	3rd Fiscal Period (From: May 1, 2015 To: Oct. 31, 2015)	4th Fiscal Period (From: Nov. 1, 2015 To: Apr. 30, 2016)
	Amount (yen)	Amount (yen)
I. Unappropriated retained earnings	200,605,559	260,908,644
II. Addition of distribution amount in excess of earnings		
Deduction from unitholders' capital	46,694,400	59,705,600
III. Distribution amount	247,273,600	320,544,440
[Distribution amount per unit]	[4,067]	[4,295]
<i>Of which,</i>		
Distribution amount from earnings	200,579,200	260,838,840
[Distribution amount from earnings per unit]	[3,299]	[3,495]
Distribution amount in excess of earnings	46,694,400	59,705,600
[Distribution amount in excess of earnings per unit]	[768]	[800]
IV. Retained earnings carried forward	26,359	69,804
Method of calculating distribution amount	<p>In accordance with the policy that “NHI shall distribute an amount in excess of the amount equivalent to 90% of its distributable earnings as defined in Article 67-15 of the Act on Special Measures Concerning Taxation” but no more than the amount of earnings pursuant to the cash distribution policy set forth in Article 33, Paragraph 1, Item 1 of its articles of incorporation, NHI decided the distributions from earnings that it shall pay out shall be the maximum value of the integral multiple of the total number of investment units issued and outstanding (60,800 units) in an amount that is not in excess of unappropriated retained earnings. Accordingly, NHI declared a distribution amount of 200,579,200 yen.</p> <p>Furthermore, NHI shall implement cash distributions in excess of earnings (reimbursement of investments in capital which falls under the category of distribution reducing unitholders' capital for tax purpose) uninterruptedly every fiscal period pursuant to the cash distribution policy set forth in Article 33, Paragraph 1, Item 2 of its articles of incorporation.</p> <p>Based on this policy, NHI decided to distribute 46,694,400 yen, which is the amount roughly equivalent to 31% of the 151,776,702 yen in depreciation for the 3rd Fiscal Period, as cash distributions in excess of earnings (reimbursement of investments in capital).</p>	<p>In accordance with the policy that “NHI shall distribute an amount in excess of the amount equivalent to 90% of its distributable earnings as defined in Article 67-15 of the Act on Special Measures Concerning Taxation” but no more than the amount of earnings pursuant to the cash distribution policy set forth in Article 33, Paragraph 1, Item 1 of its articles of incorporation, NHI decided the distributions from earnings that it shall pay out shall be the maximum value of the integral multiple of the total number of investment units issued and outstanding (74,632 units) in an amount that is not in excess of unappropriated retained earnings. Accordingly, NHI declared a distribution amount of 260,838,840 yen.</p> <p>Furthermore, NHI shall implement cash distributions in excess of earnings (reimbursement of investments in capital which falls under the category of distribution reducing unitholders' capital for tax purpose) uninterruptedly every fiscal period pursuant to the cash distribution policy set forth in Article 33, Paragraph 1, Item 2 of its articles of incorporation.</p> <p>Based on this policy, NHI decided to distribute 59,705,600 yen, which is the amount roughly equivalent to 32% of the 187,085,173 yen in depreciation for the 4th Fiscal Period, as cash distributions in excess of earnings (reimbursement of investments in capital).</p>

(Note) NHI adopts a policy of implementing uninterrupted distributions in excess of earnings (reimbursement of investments in capital) in an amount not to exceed 40% of depreciation in every accounting period within the scope that would not have adverse impact on the financial position of NHI after setting aside the cash and deposits that NHI deems appropriate, taking into account the status of establishment of lines of credit, etc., in order to not affect long-term repair plans in light of the capital expenditures for each accounting period assumed based on the long-term repair plans and to meet needs for funds (new acquisition of investment assets, repairs and capital expenditures required to maintain and enhance portfolio assets, NHI's working capital, repayment of obligations, payout of distributions, etc.).



### 3.5. Statements of Cash Flows

(Unit: thousand yen)

	3rd Fiscal Period (From: May 1, 2015 To: Oct. 31, 2015)	4th Fiscal Period (From: Nov. 1, 2015 To: Apr. 30, 2016)
Cash flows from operating activities		
Income before income taxes	201,496	261,796
Depreciation	152,154	187,463
Investment unit issuance expenses	—	681
Interest income	(26)	(33)
Interest expenses	18,012	21,447
Decrease (increase) in consumption taxes refund receivable	1,072	(121)
Decrease (increase) in prepaid expenses	(7,865)	3,799
Increase (decrease) in operating accounts payable	6,662	3,283
Increase (decrease) in accounts payable – other	30,593	(17,546)
Increase (decrease) in advances received	15,092	4,900
Decrease (increase) in long-term prepaid expenses	(3,874)	3,058
Increase (decrease) in deposits received	84	(294)
Other, net	836	2,377
Subtotal	414,239	470,811
Interest income received	26	33
Interest expenses paid	(17,902)	(21,329)
Income taxes paid	(905)	(901)
Net cash provided by (used in) operating activities	395,458	448,614
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,909)	—
Purchase of property, plant and equipment in trust	(3,005,699)	(2,760,002)
Proceeds from tenant leasehold and security deposits	66,108	74,652
Net cash provided by (used in) investing activities	(2,941,501)	(2,685,349)
Cash flows from financing activities		
Increase in short-term loans payable	—	900,000
Decrease in short-term loans payable	—	(900,000)
Proceeds from long-term loans payable	2,400,000	500,000
Proceeds from issuance of investment units	—	2,619,652
Earnings dividends paid	(161,239)	(200,063)
Distribution in excess of earnings paid	(49,038)	(46,556)
Net cash provided by (used in) financing activities	2,189,722	2,873,031
Net increase (decrease) in cash and cash equivalents	(356,320)	636,296
Cash and cash equivalents at beginning of period	1,321,519	965,198
Cash and cash equivalents at end of period	* <sub>1</sub> 965,198	* <sub>1</sub> 1,601,495

### 3.6. Notes to the Going Concern

Not applicable.

### 3.7. Notes to Significant Accounting Policies

1. Depreciation method for non-current assets	(1) Property, plant and equipment (including assets in trust) The straight-line method is adopted. The useful life of principal property, plant and equipment is as follows: Buildings 4~58 years Structures 10~49 years Equipment 3~10 years (2) Intangible assets The straight-line method is adopted. (3) Long-term prepaid expenses The straight-line method is adopted.
2. Accounting for deferred assets	Investment unit issuance expenses The entire amount is expensed as incurred.
3. Standards for revenue and expense recognition	Accounting for fixed property tax, etc. Concerning fixed property tax, city planning tax, depreciated asset tax, etc. on owned real estate or trust beneficiary interests that have real estate as assets in trust, of the tax amount assessed and determined, the method of accounting for the amount corresponding to the concerned fiscal period as expenses related to rent business is adopted. Concerning the amount equivalent to fixed property tax, etc. in the initial fiscal year that shall be borne by NHI in correlation with acquisitions of real estate or trust beneficiary interests that have real estate as assets in trust, the amount is not expensed but is rather included in the cost of acquisition of the concerned real estate property. The amount equivalent to fixed property tax, etc. that was included in the cost of acquisition of real estate properties in the 3rd Fiscal Period is 6,876 thousand yen and 4th Fiscal Period is 1,345 thousand yen.
4. Hedge accounting	(1) Hedge accounting approach Deferral hedge accounting is applied. However, special accounting is applied to interest rate swaps that meet the criteria for special accounting. (2) Hedging instruments and hedged items Hedging instruments: Interest rate swap transactions Hedged items: Interest on loans (3) Hedging policy NHI conducts derivative transactions for the purpose of hedging the risks set forth in its articles of incorporation based on its risk management policy. (4) Method for assessing the effectiveness of hedging The effectiveness of hedging is assessed by comparing the accumulated cash-flow changes of hedged items with that of hedging instruments and verifying the ratio of both amounts of changes. However, interest rate swaps that meet the criteria for special accounting are omitted from assessment of the effectiveness.
5. Scope of funds in the statements of cash flows	The funds (cash and cash equivalents) in the statements of cash flows consist of cash on hand and cash in trust; deposits that can be withdrawn at any time and deposits in trust; and short-term investments with a maturity of 3 months or less from the date of acquisition, which are readily convertible to cash and bear only an insignificant risk of price fluctuation.

<p>6. Other significant matters serving as basis for preparation of financial statements</p>	<p>(1) Accounting method for trust beneficiary interests in real estate properties Concerning owned trust beneficiary interests that have real estate properties as assets in trust, all accounts of assets and liabilities within assets in trust, as well as all accounts of revenue generated and expenses incurred from assets in trust, are recorded in the relevant account item of the balance sheets and statements of income. The following material items of the assets in trust recorded in the relevant account item are separately listed on the balance sheets.</p> <ul style="list-style-type: none"> <li>(i) Cash and deposits in trust</li> <li>(ii) Buildings in trust, structures in trust, and land in trust</li> <li>(iii) Leasehold rights in trust</li> </ul> <p>(2) Accounting method for consumption taxes Consumption tax and local consumption tax are accounted for by excluding from transaction amounts. Non-deductible consumption taxes on acquisition of assets are included in the cost of acquisition of the relevant asset.</p>
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### 3.8. Notes to Financial Statements

#### [Omission of Disclosure]

Concerning notes to lease transactions, securities, retirement benefits, tax-effect accounting and asset retirement obligations, disclosure is omitted because there is thought to be no substantial need for such disclosure in the financial report (*kessan tanshin*).

#### [Notes to Balance Sheets]

##### \*1. Assets pledged as collateral and secured liabilities

The following are the assets pledged as collateral.

	(Unit: thousand yen)	
	3rd Fiscal Period (As of Oct. 31, 2015)	4th Fiscal Period (As of Apr. 30, 2016)
Cash and deposits in trust	414,549	407,627
Buildings in trust	9,912,426	11,425,453
Structures in trust	178,034	193,297
Equipment in trust	1,291	3,660
Land in trust	6,504,957	7,528,824
Leasehold rights in trust	40,886	40,886
Total	17,052,145	19,599,749

The following are the secured liabilities.

	(Unit: thousand yen)	
	3rd Fiscal Period (As of Oct. 31, 2015)	4th Fiscal Period (As of Apr. 30, 2016)
Long-term loans payable	8,800,000	9,300,000
Total	8,800,000	9,300,000

##### \*2. In the 3rd Fiscal Period, NHI concluded a commitment-type term loan contract with one of its banks. Furthermore, there is no outstanding borrowings at the end of the 3rd Fiscal Period.

	(Unit: thousand yen)	
	3rd Fiscal Period (As of Oct. 31, 2015)	4th Fiscal Period (As of Apr. 30, 2016)
Total amount of commitment-type term loan	1,200,000	—
Outstanding borrowings	—	—
Balance	1,200,000	—

##### \*3. Minimum net assets as provided in Article 67, Paragraph 4 of the Act on Investment Trusts and Investment Corporations

	(Unit: thousand yen)	
	3rd Fiscal Period (As of Oct. 31, 2015)	4th Fiscal Period (As of Apr. 30, 2016)
	50,000	50,000

**[Notes to Statements of Income]****\*1. Breakdown of property-related operating income (loss)**

(Unit: thousand yen)

	3rd Fiscal Period (From: May 1, 2015 To: Oct. 31, 2015)	4th Fiscal Period (From: Nov. 1, 2015 To: Apr. 30, 2016)
A. Property-related operating revenue		
Rent revenue – real estate	555,588	667,161
Total property-related operating revenue	555,588	667,161
B. Property-related operating expenses		
Consignment expenses	9,821	11,574
Taxes and dues	30,607	36,901
Non-life insurance expenses	1,184	1,483
Repair expenses	13,675	19,494
Depreciation	151,776	187,085
Leasehold and office rents	1,200	1,200
Other lease business expenses	—	346
Total property-related operating expenses	208,265	258,084
C. Property-related operating income (loss) [A – B]	347,323	409,076

**[Notes to Statements of Unitholders' Equity]**

	3rd Fiscal Period (From: May 1, 2015 To: Oct. 31, 2015)	4th Fiscal Period (From: Nov. 1, 2015 To: Apr. 30, 2016)
1. Total number of investment units authorized and total number of investment units issued and outstanding		
Total number of investment units authorized	10,000,000 units	10,000,000 units
Total number of investment units issued and outstanding	60,800 units	74,632 units

**[Notes to Statements of Cash Flows]****\*1. Reconciliation of balance sheet items to cash and cash equivalents at end of period in the statements of cash flows**

(Unit: thousand yen)

	3rd Fiscal Period (From: May 1, 2015 To: Oct. 31, 2015)	4th Fiscal Period (From: Nov. 1, 2015 To: Apr. 30, 2016)
Cash and deposits	550,649	1,193,867
Cash and deposits in trust	414,549	407,627
Cash and cash equivalents	965,198	1,601,495

**[Notes to Financial Instruments]****(1) Matters concerning status of financial instruments****(a) Policy for financial instruments**

NHI procures funds through borrowing from financial institutions, issuance of new investment units, etc. for asset acquisitions, repairs and maintenance, distribution payouts, loan repayments, etc. In debt financing, NHI takes heed of extending loan periods, converting interest rates to fixed rates, staggering repayment dates, etc. in order to secure financial stability and hedge future interest rate fluctuation risk.

NHI manages surplus funds through deposits, safe and liquid monetary claims and securities, etc. (in principle, deposits).

Derivative transactions are limited to those that are for the purpose of hedging the risk of fluctuations in interest rates on the liabilities of NHI.

**(b) Contents and risks of financial instruments and related risk management system**

The funds from debt financing are used mainly for acquisition of assets (such as real estate trust beneficiary interests). These are exposed to liquidity risk upon repayment, but the risk is managed by maintaining LTV at low levels, staggering repayment dates, maintaining the ratio of long-term interest-bearing liabilities to total

interest-bearing liabilities at high levels, and diversifying lenders centering on domestic financial institutions. Loans with floating interest rates are exposed to the risk of fluctuations in the interest rate payable, but derivative transactions (interest rate swap transactions) are used as a hedging instrument for hedging the risk of fluctuations in the interest rate payable and converting interest expenses to fixed rates for all or some of those floating-rate loans of which are long-term loans.

The effectiveness of hedging is assessed by comparing the accumulated cash-flow changes of hedged items with that of hedging instruments and verifying the ratio of both amounts of changes. However, interest rate swaps that meet the criteria for special accounting are omitted from assessment of the effectiveness.

Execution and management of derivative transactions are carried out based on the regulations defining the basic policy of risk management.

Tenant leasehold and security deposits are deposits received from tenants and are exposed to liquidity risk at the time that the deposits are to be returned to tenants when they vacate the property, but the risk is limited by retaining a certain percentage of that amount.

Deposits are used for investing NHI's surplus funds and are exposed to credit risk, such as bankruptcy of the depository financial institutions, but the risk is managed by restricting the tenor of the deposit relatively short, setting a minimum credit rating requirement for the depository financial institutions (excluding checkable deposits), etc.

(c) Supplementary explanation for fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if applicable. When there is no quoted market price available, fair value is reasonably estimated. As certain assumptions are used for the estimation of fair value, the result of such estimation may differ if, for example, different assumptions are used. Also, the contract amount, etc. of derivative transactions do not itself represent the market risk involved in these derivative transactions.

(2) Matters concerning fair value, etc. of financial instruments

The following is the carrying amount, fair value and difference between the two. The financial instruments for which fair value is extremely difficult to estimate are excluded from the following tables (please refer to (Note 2)).

3rd Fiscal Period (as of October 31, 2015)

(Unit: thousand yen)

	Carrying amount	Fair value	Difference
(1) Cash and deposits	550,649	550,649	–
(2) Cash and deposits in trust	414,549	414,549	–
Total assets	965,198	965,198	–
(3) Long-term loans payable	8,800,000	8,789,863	(10,136)
Total liabilities	8,800,000	8,789,863	(10,136)
Derivative transactions	–	–	–

4th Fiscal Period (as of April 30, 2016)

(Unit: thousand yen)

	Carrying amount	Fair value	Difference
(1) Cash and deposits	1,193,867	1,193,867	–
(2) Cash and deposits in trust	407,627	407,627	–
Total assets	1,601,495	1,601,495	–
(3) Long-term loans payable	9,300,000	9,363,560	63,560
Total liabilities	9,300,000	9,363,560	63,560
Derivative transactions	–	–	–

(Note 1) Methods to estimate fair value of financial instruments and matters concerning derivative transactions

Assets

(1) Cash and deposits; (2) Cash and deposits in trust

As these instruments are settled in a short period of time, their fair value and book value are nearly identical. Therefore, for these items, their book value is assumed as their fair value.

Liabilities

(3) Long-term loans payable

As those with floating interest rates reflect market interest rates in a short period of time and there are no significant changes in NHI's credit risk after borrowing, their fair value and book value are nearly identical. Therefore, for these items, their book value is assumed as their fair value. For those with fixed interest rates, their fair value is based on the sum total amount of principle and interest (\*) discounted at the interest rate reasonably estimated to be applied if similar new borrowing is entered into.

(\*) For those long-term loans payable qualifying for special accounting of interest rate swaps (please refer to "Derivative transactions" below), the sum total amount of principle and interest by the rate of the interest rate swap

Derivative transactions

Please refer to "Notes to Derivative Transactions" later in this document.

(Note 2) Financial instruments for which fair value is extremely difficult to estimate

	(Unit: thousand yen)	
	3rd Fiscal Period (As of Oct. 31, 2015)	4th Fiscal Period (As of Apr. 30, 2016)
Tenant leasehold and security deposits	645,231	719,884
Total	645,231	719,884

Tenant leasehold and security deposits that have been deposited from tenants of rental properties are not subject to disclosure of market price, because these are not marketable and the actual deposit period from when tenants move in to when tenants move out cannot be reliably determined, thus making it impossible to reasonably estimate their future cash flows, and therefore, it is considered to be extremely difficult to estimate their fair value.

(Note 3) Redemption schedule for monetary claims due after the settlement of accounts

3rd Fiscal Period (as of October 31, 2015)

	(Unit: thousand yen)					
	Due within 1 year	Due after 1 year, but within 2 years	Due after 2 years, but within 3 years	Due after 3 years, but within 4 years	Due after 4 years, but within 5 years	Due after 5 years
Cash and deposits	550,649	-	-	-	-	-
Cash and deposits in trust	414,549	-	-	-	-	-
Total	965,198	-	-	-	-	-

4th Fiscal Period (as of April 30, 2016)

	(Unit: thousand yen)					
	Due within 1 year	Due after 1 year, but within 2 years	Due after 2 years, but within 3 years	Due after 3 years, but within 4 years	Due after 4 years, but within 5 years	Due after 5 years
Cash and deposits	1,193,867	-	-	-	-	-
Cash and deposits in trust	407,627	-	-	-	-	-
Total	1,601,495	-	-	-	-	-

(Note 4) Repayment schedule for long-term loans payable due after the settlement of accounts

3rd Fiscal Period (as of October 31, 2015)

	(Unit: thousand yen)					
	Due within 1 year	Due after 1 year, but within 2 years	Due after 2 years, but within 3 years	Due after 3 years, but within 4 years	Due after 4 years, but within 5 years	Due after 5 years
Long-term loans payable	-	1,800,000	2,100,000	2,900,000	2,000,000	-
Total	-	1,800,000	2,100,000	2,900,000	2,000,000	-

4th Fiscal Period (as of April 30, 2016)

(Unit: thousand yen)

	Due within 1 year	Due after 1 year, but within 2 years	Due after 2 years, but within 3 years	Due after 3 years, but within 4 years	Due after 4 years, but within 5 years	Due after 5 years
Long-term loans payable	–	1,800,000	2,100,000	3,400,000	2,000,000	–
Total	–	1,800,000	2,100,000	3,400,000	2,000,000	–

**[Notes to Derivative Transactions]**

(1) Derivative transactions to which hedge accounting is not applied

3rd Fiscal Period (as of October 31, 2015)

Not applicable.

4th Fiscal Period (as of April 30, 2016)

Not applicable.

(2) Derivative transactions to which hedge accounting is applied

3rd Fiscal Period (as of October 31, 2015)

The following is the contract amount, amount equivalent to the principal provided in the contract, etc. as of the settlement of accounts for each hedge accounting approach for derivative transactions to which hedge accounting is applied.

(Unit: thousand yen)

Hedge accounting approach	Type, etc. of derivative transaction	Main hedged item	Contract amount, etc.		Fair value	Method of estimation of that fair value
				Of which, due after 1 year		
Special accounting for interest rate swaps	Interest rate swap transactions Receive floating and pay fixed	Long-term loans payable	7,800,000	7,800,000	(*)	–

(\*) The fair value of derivative transactions qualifying for special accounting of interest rate swaps is included in that of related long-term loans payable. This is because such interest rate swaps are handled together with hedged long-term loans payable. (Please refer to “Notes to Financial Instruments; (2) Matters concerning fair value, etc. of financial instruments (Note 1); Liabilities (3)” earlier in this document.)

4th Fiscal Period (as of April 30, 2016)

The following is the contract amount, amount equivalent to the principal provided in the contract, etc. as of the settlement of accounts for each hedge accounting approach for derivative transactions to which hedge accounting is applied.

(Unit: thousand yen)

Hedge accounting approach	Type, etc. of derivative transaction	Main hedged item	Contract amount, etc.		Fair value	Method of estimation of that fair value
				Of which, due after 1 year		
Special accounting for interest rate swaps	Interest rate swap transactions Receive floating and pay fixed	Long-term loans payable	7,800,000	7,800,000	(*)	–

(\*) The fair value of derivative transactions qualifying for special accounting of interest rate swaps is included in that of related long-term loans payable. This is because such interest rate swaps are handled together with hedged long-term loans payable. (Please refer to “Notes to Financial Instruments; (2) Matters concerning fair value, etc. of financial instruments (Note 1); Liabilities (3)” earlier in this document.)



**[Notes to Transactions with Related Parties]**

3rd Fiscal Period (from May 1 to October 31, 2015)

Not applicable.

4th Fiscal Period (from November 1, 2015 to April 30, 2016)

Classification	Name of company, etc.	Location	Capital stock or investments in capital	Business description	Percentage of voting rights, etc. held by/in NHI	Relationship with related parties	Nature of transaction	Amount of transaction	Account	Balance at end of period
Subsidiary of a major unitholder	GK DA Healthcare Alpha	Minato-ku, Tokyo	300 thousand yen	Real estate Business	-	Interested parties, etc.	Purchase of real estate trust beneficiary interests (Note 1, 2 and 3)	2,550,000 thousand yen	-	-

Of the amounts above, consumption taxes are not included in transaction amounts.

(Note 1) The purchase of real estate trust beneficiary interests described above are for Alpha Living Okayama Nishigawa Ryokudokoen, Alpha Living Okayama Korakuen, Alpha Living Takamatsu Ekimae and Alpha Living Takamatsu Hyakkenmachi. The amount of transaction indicates the amount that does not include expenses required for the acquisition of the said real estate, etc. (taxes and dues, etc.) (the purchase price of real estate, etc. stated in the purchase and sale agreement of trust beneficiary interests).

(Note 2) Terms of transaction with interested parties, etc. are determined based on the internal rules against conflict of interests set forth by the asset management company.

(Note 3) Terms of transaction are based on the actual conditions of the market.

**[Notes to Investment and Rental Properties]**

NHI owns fee-based homes for the elderly, etc. (including land) in the three major metropolitan areas and core cities. The carrying amount, net change in the carrying amount during period and fair value of the investment and rental properties are as follows:

(Unit: thousand yen)

	3rd Fiscal Period (From: May 1, 2015 To: Oct. 31, 2015)	4th Fiscal Period (From: Nov. 1, 2015 To: Apr. 30, 2016)
Carrying amount		
Balance at beginning of period	13,760,948	16,637,595
Net change during period	2,876,647	2,554,526
Balance at end of period	16,637,595	19,192,122
Fair value at end of period	20,410,000	23,215,000

(Note 1) The carrying amount is the amount after accumulated depreciation is deducted from the cost of acquisition.

(Note 2) Significant changes during period

For the 3rd Fiscal Period, the major reason of increase is acquisition of three properties (2,778,000 thousand yen). The major reason of decrease is depreciation (151,776 thousand yen).

For the 4th Fiscal Period, the major reason of increase is acquisition of four properties (2,550,000 thousand yen). The major reason of decrease is depreciation (187,085 thousand yen).

(Note 3) The fair value at end of period represents the sum of appraisal values estimated by external real estate appraisers.

Income and loss from investment and rental properties are disclosed in “Notes to Statements of Income.”

**[Segment Information, etc.]**

(1) Segment information

Segment information is omitted because NHI has no segment except the property leasing business.

(2) Related information

3rd Fiscal Period (from May 1, 2015 to October 31, 2015)

① Information about products and services

Information about products and services is omitted because net sales to external customers for a single product and service category are in excess of 90% of the operating revenue on the statements of income.

② Information about geographic areas

A. Net sales

Information about net sales is omitted because net sales to external customers in Japan are in excess of 90% of the operating revenue on statements of income.

B. Property, plant and equipment

Information about property, plant and equipment is omitted because the amount of property, plant and equipment located in Japan is in excess of 90% of the amount of property, plant and equipment on the balance sheets.

③ Information about major customers

Information about major customers is omitted because consent for information about net sales to a single external customer has not been obtained from tenants.

4th Fiscal Period (from November 1, 2015 to April 30, 2016)

① Information about products and services

Information about products and services is omitted because net sales to external customers for a single product and service category are in excess of 90% of the operating revenue on the statements of income.

② Information about geographic areas

A. Net sales

Information about net sales is omitted because net sales to external customers in Japan are in excess of 90% of the operating revenue on statements of income.

B. Property, plant and equipment

Information about property, plant and equipment is omitted because the amount of property, plant and equipment located in Japan is in excess of 90% of the amount of property, plant and equipment on the balance sheets.

③ Information about major customers

Information about major customers is omitted because consent for information about net sales to a single external customer has not been obtained from tenants.

**[Notes to Per Unit Information]**

	3rd Fiscal Period (From: May 1, 2015 To: Oct. 31, 2015)	4th Fiscal Period (From: Nov. 1, 2015 To: Apr. 30, 2016)
Net assets per unit	132,160 yen	142,958 yen
Net income per unit	3,299 yen	3,566 yen

(Note 1) Net income per unit is calculated by dividing the net income by the daily weighted average number of investment units.

The diluted net income per unit is not stated as there are no diluted investment units.

(Note 2) The basis for calculating the net income per unit is as follows:

	3rd Fiscal Period (From: May 1, 2015 To: Oct. 31, 2015)	4th Fiscal Period (From: Nov. 1, 2015 To: Apr. 30, 2016)
Net income (thousand yen)	200,595	260,882
Amount not attributable to common unitholders (thousand yen)	—	—
Net income attributable to common investment units (thousand yen)	200,595	260,882
Average number of investment units during period	60,800	73,144

**[Notes to Significant Subsequent Events]**

Not applicable.

### 3.9. Increase (Decrease) in Total Number of Investment Units Issued and Outstanding

The following is the increase (decrease) in the total number of investment units issued and outstanding and unitholders' capital since the establishment of NHI through to the end of the 4th Fiscal Period.

Payment date	Description	Total number of investment units issued and outstanding (units)		Unitholders' capital (million yen) (Note 1)		Remarks
		Increase (Decrease)	Balance	Increase (Decrease)	Balance	
Jan. 7, 2014	Establishment through private placement	1,000	1,000	100	100	(Note 2)
Apr. 3, 2014	Capital increase through private placement	18,800	19,800	1,880	1,980	(Note 3)
Nov. 4, 2014	Capital increase through public offering	39,000	58,800	5,616	7,596	(Note 4)
Dec. 3, 2014	Capital increase by way of third-party allotment	2,000	60,800	288	7,884	(Note 5)
July 17, 2015	Cash distributions in excess of earnings (reimbursement of investments in capital which falls under the category of distribution reducing unitholders' capital for tax purpose)	–	60,800	(49)	7,834	(Note 6)
Nov. 17, 2015	Capital increase through public offering	12,130	72,930	2,297	10,132	(Note 7)
Dec. 16, 2015	Capital increase by way of third-party allotment	1,702	74,632	322	10,455	(Note 8)
Jan. 21, 2016	Cash distributions in excess of earnings (reimbursement of investments in capital which falls under the category of distribution reducing unitholders' capital for tax purpose)	–	74,632	(46)	10,408	(Note 9)

- (Note 1) Figures indicate amounts obtained by subtracting deduction from unitholders' equity from unitholders' capital.
- (Note 2) NHI was established at an issue price of 100,000 yen per unit. The subscriber for underwriting of investment units at establishment was Daiwa Real Estate Asset Management Co. Ltd.
- (Note 3) Investment units were additionally issued to JHC-LPS and ASIA CUATRO-LPS at an issue price of 100,000 yen per unit for the purpose of procuring funds for acquisition of acquisition properties and other funds.
- (Note 4) New investment units were issued through public offering at an issue price of 150,000 yen (issue amount of 144,000 yen) per unit for the purpose of procuring funds for acquisition of acquisition properties and other funds.
- (Note 5) New investment units were issued by way of third-party allotment at an issue amount of 144,000 yen per unit for the purpose of procuring funds for acquisition of acquisition properties and other funds.
- (Note 6) NHI resolved cash distributions in excess of earnings (reimbursement of investments in capital which falls under the category of distribution reducing unitholders' capital for tax purpose) in amount of 810 yen per unit at its Board of Directors Meeting held on June 19, 2015 as cash distribution for the 2nd fiscal period (fiscal period ended April 2015), and started the payout from July 17, 2015.
- (Note 7) New investment units were issued through public offering at an issue price of 196,570 yen (issue amount of 189,440 yen) per unit for the purpose of procuring funds for acquisition of acquisition properties and other funds.
- (Note 8) New investment units were issued by way of third-party allotment at an issue amount of 189,440 yen per unit for the purpose of procuring funds for acquisition of acquisition properties and other funds.
- (Note 9) NHI resolved cash distributions in excess of earnings (reimbursement of investments in capital which falls under the category of distribution reducing unitholders' capital for tax purpose) in amount of 768 yen per unit at its Board of Directors Meeting held on December 18, 2015 as cash distribution for the 3rd fiscal period (fiscal period ended October 2015), and started the payout from January 21, 2016.

#### 4. Changes in Directors

##### 4.1. Changes in Directors at the Investment Corporation

Not applicable.

Executive Director Hiroshi Fujioka will retire on July 28, 2016 by resignation.

In addition, NHI plans to submit the proposal to elect Executive Director as follows to the Third General Meeting of Unitholders to be held on July 28, 2016. When the proposal is approved and passed, the following candidate will assume the office on the same day.

Candidate for Executive Director Hiroshi Takeuchi

Name	Brief profile		Number of shares owned (shares)
Hiroshi Takeuchi	Apr. 1975	Joined Daiwa Securities Co. Ltd. (currently, Daiwa Securities Group Inc.)	—
	Apr. 1995	Branch Manager of Morioka Branch of Daiwa Securities Group Inc.	
	Oct. 1997	Manager of Security Department of Daiwa Securities Group Inc.	
	Apr. 1999	Manager of Financial Market Department of Daiwa Securities SB Capital Markets Co., Ltd. (currently, Daiwa Securities Co. Ltd.)	
	Jun. 2001	Executive Director, in charge of Corporate and Private Banking of Daiwa Securities Co. Ltd.	
	Jun. 2003	Executive Director, in charge of Securities, Financial Commodity and Financial Commodity Development of Daiwa Securities SMBC Co., Ltd. (currently, Daiwa Securities Co. Ltd.)	
	May 2004	Managing Officer, in charge of Securities, of Daiwa Securities SMBC Co., Ltd.	
	Apr. 2005	Senior Managing Officer and Senior Managing Executive Officer of Daiwa SB Investments Ltd.	
	Apr. 2012	Advisor of Daiwa SB Investments Ltd.	
	Jun. 2012	Auditor of Daiwa SB Investments Ltd.	

**4.2 Changes in Directors at the Asset Management Company**

There were changes in Directors at the Asset Management Company on March 31, 2016 and on April 1, 2016.

The directors of the Asset Management Company as of the date of this document are as follows:

Title	Name	Brief profile		Number of shares owned (shares)
President and Representative Director	Akira Yamauchi	Apr. 1986 Apr. 2002 May 2002 Mar. 2003 Aug. 2004 Feb. 2008 Feb. 2009 Jul. 2009 Apr. 2010 May 2010	Joined Marubeni Corporation Joined Pacific Management Corporation Temporarily transferred to Pacific Investment Advisors Corporation (currently, AD Investment Management Co., Ltd.) President and Representative Director of Pacific Investment Advisors Corporation (with employment transfer) Executive Director of Nippon Residential Investment Corporation (currently, Advance Residence Investment Corporation) President and Representative Director of Pacific Investment Partners Inc. (currently, Cushman & Wakefield Asset Management K.K.) Representative Director (part-time basis) of Pacific Holdings, Inc. Executive Managing Director of Cushman & Wakefield Asset Management K.K. Advisor of Daiwa Real Estate Asset Management Co., Ltd President and Representative Director of Daiwa Real Estate Asset Management Co., Ltd. (current position)	—
Vice President and Representative Director  Head of Corporate Planning Department	Yuji Shinotsuka	Apr. 1989 Jun. 2009 Jul. 2009  Nov. 2009 Apr. 2011 Oct. 2012 Dec. 2012 Jan. 2014 Aug. 2014 Apr. 2016	Joined Daiwa Securities Co., Ltd. (currently, Daiwa Securities Group Inc.) Head of Corporate Planning Department Temporarily transferred to Daiwa Real Estate Asset Management Co. Ltd. Vice President and Representative Director (Head of IR & Planning Department) Vice-President and Representative Director (Head of Corporate Planning Department) Vice-President and Representative Director (Head of Corporate Planning Department and Finance Department) Vice-President and Representative Director (Head of Corporate Planning Department) Executive Director of Daiwa Residential Private Investment Corporation (current position) Executive Director of Japan Health Care Investment Corporation Resigned from Executive Director of Japan Health Care Investment Corporation Vice President and Representative Director and Head of Corporate Planning Department of Daiwa Real Estate Asset Management Co., Ltd. (with employment transfer) (current position)	—
Vice President and Representative Director  Head of Fund Management Department	Yoshiki Nishigaki	Apr. 1992 May 2004 Feb. 2006  Mar. 2007 Mar. 2008 Nov. 2008 May 2010  Aug. 2010 Feb. 2011 Apr. 2012  Oct. 2013 Apr. 2014	Joined Cititrust & Banking Corporation Joined K.K. daVinci Advisors Transferred to K.K. daVinci Select (currently, Daiwa Real Estate Asset Management Co. Ltd.) Head of IR & Business Planning Department President and Representative Director Executive Director, DA Office Investment Corporation Vice President and Representative Director, Daiwa Real Estate Asset Management Co. Ltd. Resigned from Executive Director, Daiwa Office Investment Corporation Vice-President and Representative Director (Head of Advisory Department) Vice-President and Representative Director (Head of Fund Management Department) Vice-President and Representative Director (Head of Customer Relations and Fund Management Department) Vice-President and Representative Director (Head of Fund Management Department) (current position)	—

Nippon Healthcare Investment Corporation (3308) Financial Report for the 4th Fiscal Period

Title	Name	Brief profile		Number of shares owned (shares)
Director Head of Administration Department	Naoyuki Owa	Apr. 1986 Apr. 1990 Jun. 2006  Oct. 2006 Jul. 2009	Joined Tokyo High Court as Court Administrative Official Joined Daiwa Securities Co., Ltd. (currently, Daiwa Securities Group Inc.) Head of Corporate Planning Department and Treasury Department of Daiwa Securities SMBC Co., Ltd (currently, Daiwa Securities Co., Ltd.) Head of Corporate Planning Department of Daiwa Securities Group Inc. Temporarily transferred to Daiwa Real Estate Asset Management Co. Ltd. Director (Head of Administration Department) (current position)	—
Director (non-executive)	Mikita Komatsu	Apr. 1985 Oct. 2005  Oct. 2008  Apr. 2010 Apr. 2011 Apr. 2012  Apr. 2013 Apr. 2016	Joined Daiwa Securities Co., Ltd. (currently Daiwa Securities Group Inc.) Head of Finance Department, Daiwa Securities Group Inc.  President of Daiwa Securities SMBC Europe Limited (currently Daiwa Capital Markets Europe Limited) Senior Managing Director, Daiwa Securities Capital Markets Co., Ltd. Senior Managing Director , Daiwa Securities Group Inc. Director (non-executive) of Daiwa Real Estate Asset Management Co. Ltd. (current position) Executive Managing Director of Daiwa Securities Group Inc. Senior Managing Director of Daiwa Securities Group Inc. (current position)	—
Director (non-executive)	Akihiko Ogino	Apr. 1989 Oct. 2008  Apr. 2010 Apr. 2011  Jul. 2011  Apr. 2014 Apr. 2016	Joined Daiwa Securities Co. Ltd. (currently, Daiwa Securities Group Inc.) Managing Director of Secretariat Office of Daiwa Securities Group Inc.  Managing Director of Corporate Planning Department Managing Director of Corporate Planning Department and Legal Department of Daiwa Securities Group Inc. Managing Director of Corporate Planning Department of Daiwa Securities Group Inc. Executive Officer of Daiwa Securities Group Inc. (current position) Director of Daiwa Real Estate Asset Management Co. Ltd. (non-executive) (current position)	—
Auditor	Tamaki Shibayama	Apr. 1982 Sep. 1986 Apr. 1999 Apr. 2002  Oct. 2010  Apr. 2012  Apr. 2015	Joined the Japan Chamber of Commerce and Industry Joined Daiwa Securities Co. Ltd. (currently, Daiwa Securities Group Inc.) Transferred to Daiwa Securities SB Capital Markets Co., Ltd. General Manager of Initial Public Department of Daiwa Securities SMBC Co. Ltd. Head of Auditor's Office of Daiwa Securities Capital Markets Co., Ltd. Managing Director of Corporate Clients Banking Department (VII) of Daiwa Securities Co. Ltd. Auditor of Daiwa Real Estate Asset Management Co. Ltd. (current position)	—
Auditor (non-executive)	Morimasa Matsuda	Apr. 1989 Apr. 1999 Jun. 2000 Feb. 2003  Jun. 2007  Dec. 2009  Apr. 2011  Apr. 2013 Apr. 2016	Joined Daiwa Securities Co. Ltd. (currently, Daiwa Securities Group Inc.) Transferred to Daiwa Securities SB Capital Markets Co., Ltd. Transferred to Daiwa Securities Group Inc. Transferred to Daiwa Securities SMBC Co., Ltd. (currently Daiwa Securities Co. Ltd.) Head of Corporate Planning Department of Daiwa Securities SMBC Co. Ltd. Managing Director of Asia Strategic Planning Department of Daiwa Securities SMBC Co. Ltd. Managing Director of Investor Relations Office of Daiwa Securities Group Inc. Managing Director of Internal Audit Department of Daiwa Securities Group Executive Director (current position) Auditor of Daiwa Real Estate Asset Management Co. Ltd. (non-executive) (current position)	—

Nippon Healthcare Investment Corporation (3308) Financial Report for the 4th Fiscal Period

Title	Name	Brief profile		Number of shares owned (shares)
Auditor (non-executive)	Shinji Kiso	Apr. 2001	Joined Daiwa Securities SMBC Co. Ltd. (currently, Daiwa Securities Co. Ltd.)	—
		Dec. 2009	Corporate Planning Department of Daiwa Securities Group Inc. (current position)	
		Jul. 2011	Corporate Planning Department of Daiwa Securities Co. Ltd. (current position)	
		Jun. 2013	Director of Astmax Co., Ltd. (non-executive) (current position)	
		May 2014	Auditor of Daiwa Real Estate Asset Management Co. Ltd. (non-executive) (current position)	
		Jun. 2015	Director of Money Partners Group Co., Ltd. (non-executive) (current position)	
		Jan. 2016	Auditor of IDI Infrastructures, Inc. (non-executive) (current position)	

(Note 1) Toshihiro Matsui retired as director (non-executive), effective March 31, 2016.

(Note 2) Masaru Shirataki retired as auditor (non-executive), effective March 31, 2016.

(Note 3) Akihiko Ogino assumed the office of director (non-executive), effective April 1, 2016.

(Note 4) Morimasa Matsuda assumed the office of auditor (non-executive), effective April 1 2016.



**5. Reference Information****5.1. Investment Status**

Type of asset	Use		Region	4th Fiscal Period (as of April 30, 2016)	
				Total amount held (million yen) (Note 1)	As a percentage of total assets (%) (Note 2)
Real estate trust beneficiary interests	Private nursing homes and other facilities for the elderly	Fee-based homes for the elderly	Three major metropolitan areas (Note 3)	11,348	54.4
			Core city areas (Note 4)	7,197	34.5
			Other (Note 5)	—	—
		Elderly housing with supportive services	Three major metropolitan areas (Note 3)	—	—
			Core city areas (Note 4)	646	3.1
			Other (Note 5)	—	—
	Other private nursing homes and other facilities for the elderly	—	—		
	Subtotal			19,192	92.1
	Medical facilities			—	—
	Other			—	—
Total			19,192	92.1	
Deposits and other assets				1,655	7.9
Total assets (Note 6)				20,847	100.0
				[19,192]	[92.1]

(Note 1) “Total amount held” is the carrying amount (book value after deducting depreciation in the case of real estate trust beneficiary interests).

(Note 2) “As a percentage of total assets” is rounded to one decimal place.

(Note 3) “Three major metropolitan areas” refers to the greater Tokyo area (Tokyo, Kanagawa, Chiba and Saitama prefectures), the Chukyo area (Aichi, Mie and Gifu prefectures) and the Kinki area (Osaka, Kyoto, Hyogo, Nara and Shiga prefectures). The same shall apply hereinafter.

(Note 4) “Core city areas” refers to cities (outside the three major metropolitan areas) with populations of 200,000 or more. The same shall apply hereinafter.

(Note 5) “Other” refers to cities (outside the three major metropolitan areas and the core city areas) with populations under 200,000. The same shall apply hereinafter.

(Note 6) The figure in brackets [ ] under “Total assets” is the portion of the applicable assets that, in effect, corresponds to the holding of real estate properties. The amount of construction in progress (including construction in progress in trust) is not included in the amount of real estate trust beneficiary interests.

**5.2. Investment Real Estate Properties****5.2.1. Price and Investment Ratio of Investment Real Estate Properties**

The following is an overview of the real estate in trust of trust beneficiary interests held as of April 30, 2016 by NHI.

Type of specified asset	Region	Property name	Acquisition price (million yen) (Note 1)	Carrying amount (million yen) (Note 2)	Estimated price at end of period (million yen) (Note 3)	Investment ratio (%) (Note 4)		
Real estate trust beneficiary interests	Three major metropolitan areas	Sompo Care LAVIER Sagamihara Chuo (Note 5)	1,170	1,176	1,720	6.3		
		Charm Suite Ryokuchi Koen	1,950	1,958	3,030	10.5		
		Sawayaka Heart Life Nishikyogoku	750	759	1,210	4.0		
		Verger Hirakata	950	952	1,570	5.1		
		Sompo Care LAVIER Kinugasayama Koen (Note 5)	1,839	1,895	2,030	9.9		
		La'nassica Arakogawa	1,279	1,305	1,410	6.9		
		Super Court JR Nara-Ekimae	1,569	1,616	1,720	8.4		
		Mina-no-ie Omiya Yoshinocho	740	789	785	4.0		
		Mina-no-ie Chuo-ku En'nami	838	894	885	4.5		
		Subtotal	11,085	11,348	14,360	59.6		
	Core city areas	Nichii Care Center Fukushima Omori	265	264	349	1.4		
		Sompo Care LAVIER Hiroshima Hikarigaoka (Note 5)	960	971	1,220	5.2		
		Sawayaka Kaikyokan	630	637	886	3.4		
		Sawayaka Meisuikan	590	594	802	3.2		
		Sawayaka Hinodekan	773	789	924	4.2		
		Sawayaka Riverside Kurinoki	266	275	319	1.4		
		Sawayaka Obatake Sanbankan	289	300	350	1.6		
		Silver Heights Hitsujigaoka No. 3	1,200	1,304	1,320	6.4		
		Alpha Living Okayama Nishigawa Ryokudokoen	730	778	776	3.9		
		Alpha Living Okayama Korakuen	610	635	661	3.3		
		Alpha Living Takamatsu Ekimae	605	645	631	3.3		
		Alpha Living Takamatsu Hyakkenmachi	605	646	617	3.3		
		Subtotal	7,523	7,843	8,855	40.4		
		Total (17 properties)			18,608	19,192	23,215	100.0

(Note 1) "Acquisition price" is excluding acquisition costs, fixed property tax, city planning tax, consumption tax and local consumption tax.

(Note 2) "Carrying amount" is the book value after deducting depreciation as of April 30, 2016.

(Note 3) "Estimated price at end of period" is the price with April 30, 2016 stated in the appraisal report prepared by Japan Real Estate Institute, Daiwa Real Estate Appraisal Co., Ltd. or The Tanizawa Sōgō Appraisal Co., Ltd. in accordance with the articles of incorporation of NHI and the rules of The Investment Trusts Association, Japan.

(Note 4) "Investment ratio" is the respective property acquisition price expressed as a percentage of the total amount of the acquisition prices, rounded to one decimal place.

(Note 5) As to property names, Rest Villa Sagamihara Chuo was changed to Sompo Care LAVIER Sagamihara Chuo, Rest Villa Kinugasayama Koen to Sompo Care LAVIER Kinugasayama Koen, and Rest Villa Hiroshima Hikarigaoka to Sompo Care LAVIER Hiroshima Hikarigaoka on April 1, 2016. The same shall apply hereinafter in this document.

**5.2.2. Summary of Building and Leasing of Investment Real Estate**

The respective property annual rent is not disclosed because consent for disclosure has not been obtained from tenants. Annual rent of real estate in trust held as of April 30, 2016 by NHI totaled 1,351 million yen (Note).

(Note) The amount obtained by adding up the monthly rent in the respective lease agreement valid as of April 30, 2016 in the annualized amount calculated by multiplying by 12, rounded down to the nearest million yen.

Region	Property name	Structure / Floors (Note 1)	Construction completion (Note 2)	Total leasable area (m <sup>2</sup> ) (Note 3)	Total leased area (m <sup>2</sup> ) (Note 4)	Total number of tenants (Note 5)	Occupancy rate (%) (Note 6)	Appraisal NO (million yen) (Note 7)
Three major metropolitan areas	Sompo Care LAVIER Sagamihara Chuo	RC / 5F	Mar. 31, 2008	3,732.95	3,732.95	1	100.0	88
	Charm Suite Ryokuchi Koen	RC / B1/5F	Sept. 20, 2006	5,329.73	5,329.73	1	100.0	143
	Sawayaka Heart Life Nishikyogoku	RC / 6F	Aug. 6, 2007	2,459.19	2,459.19	1	100.0	60
	Verger Hirakata	RC / 5F	Feb. 26, 2007	2,925.25	2,925.25	1	100.0	85
	Sompo Care LAVIER Kinugasayama Koen	RC / B1/5F	Mar. 3, 2011	4,265.88	4,265.88	1	100.0	100
	La'nassica Arakogawa	S / 4F	Apr. 17, 2008	3,590.40	3,590.40	1	100.0	74
	Super Court JR Nara-Ekimae	RC / 7F	June 17, 2009	5,057.07	5,057.07	1	100.0	91
	Mina-no-ie Omiya Yoshinocho	RC / 4F	April 3, 2012	1,800.03	1,800.03	1	100.0	40
	Mina-no-ie Chuo-ku En'nami	RC / 3F	Feb. 27, 2014	1,963.03	1,963.03	1	100.0	45
	Subtotal				31,123.53	31,123.53	9	100.0
Core city areas	Nichii Care Center Fukushima Omori	S / 3F	Mar. 30, 2007	1,964.68	1,964.68	1	100.0	22
	Sompo Care LAVIER Hiroshima Hikarigaoka	RC / 7F	Dec. 15, 2005	4,133.82	4,133.82	1	100.0	69
	Sawayaka Kaikyokan	RC / 6F	Oct. 23, 2003	2,694.42	2,694.42	1	100.0	50
	Sawayaka Meisuikan	RC / B1/6F	Mar. 25, 2005	4,553.67	4,553.67	1	100.0	47
	Sawayaka Hinodekan	S / 3F	July 11, 2007	2,674.37	2,674.37	1	100.0	47
	Sawayaka Riverside Kurinoki	S / 4F	Oct. 20, 2009	1,349.39	1,349.39	1	100.0	17
	Sawayaka Obatake Sanbankan	S / 3F	Sept. 13, 2011	1,411.78	1,411.78	1	100.0	18
	Silver Heights Hitsujigaoka No. 3	RC / 3F	April 18, 2003	7,267.56	7,267.56	1	100.0	70
	Alpha Living Okayama Nishigawa Ryokudokoen	RC/7F	August 18, 2014	2,124.16	2,124.16	1	100.0	37
	Alpha Living Okayama Korakuen	RC/4F	May 25, 1988	2,128.44	2,128.44	1	100.0	32
	Alpha Living Takamatsu Ekimae	RC/6F	June 9, 2014	1,848.06	1,848.06	1	100.0	30
	Alpha Living Takamatsu Hyakkenmachi	RC/10F	June 28, 2010	1,929.16	1,929.16	1	100.0	31
	Subtotal				34,079.51	34,079.51	12	100.0
Total (17 properties)				65,203.04	65,203.04	21	100.0	1,207

(Note 1) "Structure / Floors" is the entry in the real estate registry of the building of the respective property. "S" refers to steel-framed structure, "RC" refers to reinforced concrete structure, "B" refers to floors below ground and "F" refers to floors above ground.

(Note 2) "Construction completion" is the entry in the real estate registry of the building of the respective property.

- (Note 3) “Total leasable area,” which is the floor area available for leasing of the building of the respective property, is the area indicated in the lease contract, etc. (including store compartments and office compartments), excluding the total leasable area of land (including level parking space).
- (Note 4) “Total leased area” is the sum total of the area that is actually leased based on a lease agreement concluded with end-tenants as of April 30, 2016.
- (Note 5) “Total number of tenants” is the number of end-tenants. When there is a tenant occupying multiple buildings, the concerned tenant is counted and stated for each individual building.
- (Note 6) “Occupancy rate” is the figure obtained by dividing total leased area by leasable area, rounded down to one decimal place.
- (Note 7) “Appraisal NOI” is the net operating income obtained by subtracting operating expenses from operating revenue appraised by real estate appraisers as stated in the appraisal report as of April 30, 2016. The appraisal NOI above is the NOI derived by the direct capitalization method. “Appraisal NOI” is rounded down to the nearest million yen.

## 5.2.3. Summary of Appraisal Report

Property name	Appraisal firm	Appraisal value (million yen)	Summary of appraisal report					Appraisal NOI (million yen)
			Direct capitalization method		DCF method			
			Indicated value (million yen)	Cap rate (%)	Indicated value (million yen)	Discount rate (%)	Terminal cap rate (%)	
Nichii Care Center Fukushima Omori	Japan Real Estate Institute	349	352	5.8	345	5.6	6.0	22
Sompo Care LAVIER Hiroshima Hikarigaoka	Japan Real Estate Institute	1,220	1,230	5.3	1,200	5.1	5.5	69
Sompo Care LAVIER Sagamihara Chuo	Daiwa Real Estate Appraisal Co., Ltd.	1,720	1,740	5.0	1,710	4.8	5.2	88
Charm Suite Ryokuchi Koen	Daiwa Real Estate Appraisal Co., Ltd.	3,030	3,070	4.7	3,010	4.5	4.9	143
Sawayaka Kaikyokan	Japan Real Estate Institute	886	894	5.4	877	5.2	5.6	50
Sawayaka Meisuikan	Japan Real Estate Institute	802	808	5.4	795	5.2	5.6	47
Sawayaka Heart Life Nishikyogoku	Daiwa Real Estate Appraisal Co., Ltd.	1,210	1,220	4.9	1,210	4.7	5.1	60
Verger Hirakata	Daiwa Real Estate Appraisal Co., Ltd.	1,570	1,580	5.3	1,560	5.1	5.5	85
Sompo Care LAVIER Kinugasayama Koen (Note 2)	The Tanizawa Sōgō Appraisal Co., Ltd.	2,030	2,050	4.9	2,020	5.0	5.1	100
La'nassica Arakogawa (Note 3)	The Tanizawa Sōgō Appraisal Co., Ltd.	1,410	1,420	5.2	1,400	5.3	5.4	74
Sawayaka Hinodekan	Daiwa Real Estate Appraisal Co., Ltd.	924	935	5.0	919	4.8	5.2	47
Sawayaka Riverside Kurinoki	Daiwa Real Estate Appraisal Co., Ltd.	319	325	5.1	316	4.9	5.3	17
Sawayaka Obatake Sanbankan	Daiwa Real Estate Appraisal Co., Ltd.	350	355	5.2	348	5.0	5.4	18
Super Court JR Nara-Ekimae (Note 4)	The Tanizawa Sōgō Appraisal Co., Ltd.	1,720	1,740	5.1	1,710	5.2	5.3	91
Mina-no-ie Omiya Yoshinocho	The Tanizawa Sōgō Appraisal Co., Ltd.	785	794	5.0	781	5.1	5.2	40
Mina-no-ie Chuo-ku En'nami	Japan Real Estate Institute	885	894	5.0	875	4.8	5.2	45
Silver Heights Hitsujiagaoka No. 3	Daiwa Real Estate Appraisal Co., Ltd.	1,320	1,330	5.0	1,310	4.8	5.2	70
Alpha Living Okayama Nishigawa Ryokudokoen	Daiwa Real Estate Appraisal Co., Ltd.	776	791	4.6	770	4.4	4.8	37
Alpha Living Okayama Korakuen	Daiwa Real Estate Appraisal Co., Ltd.	661	672	4.7	656	4.5	4.9	32
Alpha Living Takamatsu Ekimae	Daiwa Real Estate Appraisal Co., Ltd.	631	642	4.7	626	4.5	4.9	30
Alpha Living Takamatsu Hyakkenmachi	Daiwa Real Estate Appraisal Co., Ltd.	617	625	4.8	614	4.6	5.0	31
Total		23,215	23,467	—	23,052	—	—	1,207

(Note 1) The summary is based on the appraisal report with April 30, 2016 as the date of value.

(Note 2) The discount rate for Sompo Care LAVIER Kinugasayama Koen is the discount rate for the 11th and subsequent fiscal years (discount rate up to the 10th fiscal year: 4.9%).

(Note 3) The discount rate for La'nassica Arakogawa is the discount rate for the 11th and subsequent fiscal years (discount rate up to the 10th fiscal year: 5.2%).

(Note 4) The discount rate for Super Court JR Nara-Ekimae is the discount rate for the 10th and subsequent fiscal years (discount rate up to the 9th fiscal year: 5.1%).

#### 5.2.4. Capital Expenditures for Assets under Management

##### A. Schedule of Capital Expenditures

Major capital expenditures in line with repair work, etc. currently planned for existing owned properties are as follows. Planned construction amount includes portion that is categorized as expense in accounting.

Name of real estate property (Location)	Purpose	Planned period	Planned construction amount (million yen)		
			Total amount	Amount to be paid in 4th FP	Total amount paid
Charm Suite Ryokuchi Koen (Toyonaka-shi, Osaka)	Upgrading of water heater	From: October 2016 To: October 2016	8	—	—
Silver Heights Hitsujigaoka No. 3 (Sapporo-shi, Hokkaido)	Replacement of batteries of guide lights and emergency lighting	From: October 2016 To: October 2016	3	—	—
Sawayaka Kaikyokan (Kitakyushu-shi, Fukuoka)	Installment of rooftop water-proof floors	From: October 2016 To: October 2016	1	—	—

##### B. Capital Expenditures during the 4th Fiscal Period

The following summarizes the main construction work that constitutes capital expenditures conducted during the 4th Fiscal Period. Capital expenditures in the 4th Fiscal Period was 10 million yen. Combined with 19 million yen of repair expenses categorized as expense for the 4th Fiscal Period, 29 million yen of work has been implemented.

Name of real estate property (Location)	Purpose	Period	Construction amount (million yen)
Sawayaka Kaikyokan (Kitakyushu-shi, Fukuoka)	Replacement of high-voltage lead-in cable	From: December 2015 To: December 2015	2
Sompo Care LAVIER Hiroshima Hikarigaoka (Hiroshima-shi, Hiroshima)	Repair of slope surface in bicycle parking space	From: April 2016 To: April 2016	1
Other	—	From: November 2015 To: April 2016	6
Total			10

##### C. Reserve Amount for Long-Term Repair Plans (Reserve for Repairs)

NHI sets aside the following reserve for repairs from cash flows during the fiscal period for future payment of large-scale repairs and other funds.

(Unit: million yen)

Fiscal period	1st Fiscal Period (From: Jan. 7, 2014 To: Oct. 31, 2014)	2nd Fiscal Period (From: Nov. 1, 2014 To: Apr. 30, 2015)	3rd Fiscal Period (From: May 1, 2015 To: Oct. 31, 2015)	4th Fiscal Period (From: Nov. 1, 2015 To: Apr. 30, 2016)
Balance of reserve at beginning of period	—	19	47	63
Provision of reserve during period	19	28	15	28
Reversal of reserve during period	—	—	—	58
Reserve carried forward	19	47	63	33

(Note) In principle, NHI adopts a policy of implementing cash distributions in excess of earnings (reimbursement of investments in capital which falls under the category of distribution reducing unitholders' capital for tax purpose) uninterruptedly every fiscal period. Upon deciding on the implementation and amount of such, NHI shall give due consideration to the amount of capital expenditures required to maintain and enhance the competitiveness of portfolio assets.

**5.2.5. Status of Pledged Collateral**

The following outlines the collateral on acquired assets as of April 30, 2016.

Property name	Status of collateral	Type of collateral	Appraisal value (million yen)	Security interests holder
Nichii Care Center Fukushima Omori Sompo Care LAVIER Hiroshima Hikarigaoka Sompo Care LAVIER Sagamihara Chuo Charm Suite Ryokuchi Koen Sawayaka Kaikyokan Sawayaka Meisuikan Sawayaka Heart Life Nishikyogoku Verger Hirakata Sompo Care LAVIER Kinugasayama Koen La'nassica Arakogawa Sawayaka Hinodekan Sawayaka Riverside Kurinoki Sawayaka Obatake Sanbankan Super Court JR Nara-Ekimae Mina-no-ie Omiya Yoshinocho Mina-no-ie Chuo-ku En'nami Silver Heights Hitsujigaoka No. 3 Alpha Living Okayama Nishigawa Ryokudokoen Alpha Living Okayama Korakuen Alpha Living Takamatsu Ekimae Alpha Living Takamatsu Hyakkenmachi	Pledged as collateral (joint collateral)	Revolving pledge	23,215	Mizuho Bank, Ltd. Resona Bank, Limited Sumitomo Mitsui Trust Bank, Limited Mizuho Trust & Banking Co., Ltd. The Musashino Bank, Ltd. Shinkin Central Bank The Dai-ichi Life Insurance Company, Limited

**5.2.6. Matters Concerning Entire Portfolio (Status of Leasing)****A. Diversification by Rent-Paying Capacity**

Rent-paying capacity (Note 1)	Annual rent (million yen) (Note 2)	Share (%) (Note 3)
More than 2.0x	197	14.6
More than 1.5x, but 2.0x or less	505	37.5
More than 1.2x, but 1.5x or less	277	20.6
1.2x or less	366	27.2
Total	1,345	100.0

(Note 1) "Rent-paying capacity" refers to the multiple obtained by dividing the respective real estate in trust's most recent EBITDAR by rent (monthly rent in the respective lease agreement with operators in the annualized amount calculated by multiplying by 12; the same shall apply hereinafter).

"EBITDAR" refers to the respective real estate in trust's operating income, plus depreciation and rent. However, in the case of operators adopting the method of accounting as a finance lease, the amount equivalent to lease payments is taken into consideration. Furthermore, operating income and depreciation are based on information on business income and expenditures from April 2015 to March 2016 disclosed by the respective operator. Exceptions are Nichii Care Center Fukushima Omori, in which case these are based on information on business income and expenditures from January 2015 to December 2015, and Silver Heights Hitsujigaoka No.3, in which case these are based on information on business income and expenditures from March 2015 to February 2016. The same shall apply hereinafter in this "A. Diversification by Rent-Paying Capacity."

(Note 2) "Annual rent" is the amount obtained by adding up the monthly rent in the respective lease agreement with operators per rent-paying capacity in the annualized amount calculated by multiplying by 12, rounded down to the nearest million yen.

(Note 3) "Share" is the sum total of annual rent per rent-paying capacity expressed as a percentage of the total of annual rents for real estate in trust, rounded to one decimal place.

Average rent-paying capacity (Note)
1.4x

(Note) “Average rent-paying capacity” is the multiple obtained by dividing the total of EBITDAR by the total of rents for real estate in trust, rounded to one decimal place.

### B. Diversification by Appraisal Rent-Paying Capacity

Appraisal Rent-paying capacity (Note 1)	Annual rent (million yen) (Note 2)	Share (%) (Note 3)
More than 2.0x	166	12.3
More than 1.5x, but 2.0x or less	823	61.2
More than 1.2x, but 1.5x or less	310	23.0
1.2x or less	45	3.3
Total	1,345	100.0

(Note 1) “Appraisal Rent-paying capacity” refers to the multiple obtained by dividing the respective acquired asset’s assumed EBITDAR (figures that are calculated based on information on business income and expenditure provided by the respective operator, under the same conditions for EBITDAR calculation standards described in A above), which is calculated by Japan Real Estate Institute, Daiwa Real Estate Appraisal Co., Ltd. and The Tanizawa Sōgō Appraisal Co., Ltd., by rent.

(Note 2) “Annual rent” is the amount obtained by adding up the monthly rent in the respective lease agreement with operators per rent-paying capacity in the annualized amount calculated by multiplying by 12, rounded down to the nearest million yen.

(Note 3) “Share” is the sum total of annual rent per rent-paying capacity expressed as a percentage of the total of annual rents for real estate in trust, rounded to one decimal place.

Average Appraisal rent-paying capacity (Note)
1.7x

(Note) “Average Appraisal rent-paying capacity” is the multiple obtained by dividing the total of EBITDAR by the total of rents for real estate in trust, rounded to one decimal place.

### C. Diversification by Proportion of Long-Term Care Fee

Proportion of long-term care fee (Note 1)	Annual rent (million yen) (Note 2)	Share (%) (Note 3)
50% or less	642	47.7
More than 50%, but 60% or less	646	48.1
More than 60%, but 70% or less	57	4.2
More than 70%	–	–
Total	1,345	100.0

(Note 1) “Proportion of long-term care fee” refers to the proportion of the respective real estate in trust’s net sales that is accounted for by long-term care fee (including residents’ co-payment portion).

Furthermore, net sales and long-term care fee are based on information on business income and expenditures from April 2015 to March 2016 disclosed by the respective operator. Exceptions are Nichii Care Center Fukushima Omori, in which case these are based on information on business income and expenditures from January 2015 to December 2015, and Silver Heights Hitsujigaoka No.3, in which case these are based on information on business income and expenditures from March 2015 to February 2016. The same shall apply hereinafter in this “C. Diversification by Proportion of Long-Term Care Fee.”

(Note 2) “Annual rent” is the amount obtained by adding up the monthly rent in the respective lease agreement per proportion of long-term care fee in the annualized amount calculated by multiplying by 12, rounded down to the nearest million yen.

(Note 3) “Share” is the sum total of annual rent per proportion of long-term care fee expressed as a percentage of the total of annual rents for real estate in trust, rounded to one decimal place.



Average proportion of long-term care fee (Note )
50.1%

(Note) “Average proportion of long-term care fee” is the proportion of the total of net sales that is accounted for by long-term care fee (including residents’ co-payment portion) for real estate in trust, rounded to one decimal place.

#### D. Diversification by Proportion of One-Time Entrance Fee Amortization Income

Proportion of one-time entrance fee amortization income (Note 1)	Annual rent (million yen) (Note 2)	Share (%) (Note 3)
5% or less	798	59.4
More than 5%, but 15% or less	351	26.1
More than 15%, but 25% or less	195	14.5
More than 25%	–	–
Total	1,345	100.0

(Note 1) “Proportion of one-time entrance fee amortization income” refers to the proportion of the real estate in trust’s net sales that is accounted for by one-time entrance fee amortization income.

Furthermore, net sales and one-time entrance fee amortization income are based on information on business income and expenditures from April 2015 to March 2016 disclosed by the respective operator. Exceptions are Nichii Care Center Fukushima Omori, in which case these are based on information on business income and expenditures from January 2015 to December 2015, and Silver Heights Hitsujigaoka No.3, in which case these are based on information on business income and expenditures from March 2015 to February 2016. The same shall apply hereinafter in this “D. Diversification by Proportion of One-Time Entrance Fee Amortization Income.”

(Note 2) “Annual rent” is the amount obtained by adding up the monthly rent in the respective lease agreement per proportion of one-time entrance fee amortization income in the annualized amount calculated by multiplying by 12, rounded down to the nearest million yen.

(Note 3) “Share” is the sum total of annual rent per proportion of one-time entrance fee amortization income expressed as a percentage of the total of annual rents for real estate in trust, rounded to one decimal place.

Average proportion of one-time entrance fee amortization income (Note)
5.3%

(Note) “Average proportion of one-time entrance fee amortization income” is the proportion of the total of net sales that is accounted for by one-time entrance fee amortization income for real estate in trust, rounded to one decimal place.

#### 5.2.7. Information about Major Assets

“Major assets” refers to those assets of which the concerned asset’s total rent income accounts for 10% or more of the entire portfolio’s total rent income as at the end of the 4th Fiscal Period (April 30, 2016). This is the following for the portfolio of 21 investment real estate properties. Annual rent is not disclosed because consent for disclosure has not been obtained from tenants.

Property name	Number of tenants	Appraisal NOI (million yen)	Total leasable area (m <sup>2</sup> )	Total leased area (m <sup>2</sup> )	Occupancy rate (%)
Charm Suite Ryokuchi Koen	1	143	5,329.73	5,329.73	100.0

**5.2.8. Information about Major Tenants**

“Major tenants” refers to those tenants of which the area leased to the concerned tenant accounts for 10% or more of the entire portfolio’s total leased area as at the end of the 4th Fiscal Period (April 30, 2016). This is the following for the portfolio of 21 investment real estate properties. Annual rent and lease and guarantee deposits are not disclosed because consent for disclosure has not been obtained from tenants.

Name of major tenant	Property name	Date of contract expiration	Appraisal NOI (million yen)	Total leased area (m <sup>2</sup> )	Share (%) (Note 1)
Sawayaka Club Co., Ltd.	Sawayaka Kaikyokan	March 27, 2034	243	15,142.82	23.2
	Sawayaka Meisuiikan				
	Sawayaka Heart Life Nishikyogoku				
	Sawayaka Hinodekan	November 30, 2034			
	Sawayaka Riverside Kurinoki				
	Sawayaka Obatake Sanbankan				
SOMPO Care Next Inc.	Sompo Care LAVIER Hiroshima Hikarigaoka	March 28, 2034	258	12,132.65	18.6
	Sompo Care LAVIER Sagamihara Chuo				
	Sompo Care LAVIER Kinugasayama Koen	September 11, 2034			
Anabuki Medical Care Inc.	Alpha Living Okayama Nishigawa Ryokudokoen	June 30, 2035	132	8,029.82	12.3
	Alpha Living Okayama Korakuen				
	Alpha Living Takamatsu Ekimae				
	Alpha Living Takamatsu Hyakkenmachi				
Silver Heights Sapporo Co., Ltd.	Silver Heights Hitsujigaoka No.3	November 30, 2035	70	7,267.56	11.1

(Note 1) “Share” is the area leased to major tenants expressed as a percentage of the total leased area, rounded to one decimal place.