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REIT Financial Report for the 11th Fiscal Period

December 19, 2019

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 Securities Code: 3308
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Stock Exchange Listing: TSE
 URL: <http://www.nippon-healthcare.co.jp/>

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 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 11th Fiscal Period

11th Fiscal Period: Fiscal period ended October 2019 (from May 1, 2019, to October 31, 2019)

(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	%
11th	707	0.4	283	0.7	254	(1.1)	253	(1.1)
10th	705	1.1	281	3.4	257	5.4	256	5.5

Fiscal period	Net income per unit	Net income to unitholders' equity	Ordinary income to total assets	Ordinary income to operating revenue
	yen	%	%	%
11th	3,399	2.5	1.2	36.0
10th	3,437	2.5	1.2	36.5

(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 ratio	Distribution amount to net assets
				million yen	million yen	million yen		
	yen	yen	yen	million yen	million yen	million yen	%	%
11th	4,279	3,399	880	319	253	65	100.0	2.5
10th	4,307	3,437	870	321	256	64	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 11th Fiscal Period and the 10th Fiscal Period is 0.007 for both periods. 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) The total distribution amounts in excess of earnings for the 11th and 10th Fiscal Periods are entirely reimbursement of investments in capital which falls under the category of distribution reducing unitholders' capital for tax purpose.

(Note 3) Dividend payout ratio 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
11th	20,962	10,225	48.8	137,012
10th	21,019	10,293	49.0	137,920

(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
11th	455	(13)	(322)	1,703
10th	455	(415)	(308)	1,584

2. Management Status Forecasts for the 12th Fiscal Period (Final accounting period)

12th Fiscal Period: Fiscal period ending March 2020 (from November 1, 2019, to March 31, 2020)

[% 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	%
12th	589	(16.6)	265	(6.1)	264	3.7	263	3.7

Fiscal period	Payment on the Merger per unit
12th	yen 3,525

(Reference) Estimated net income per unit for the 12th Fiscal Period: 3,525 yen

(Note 1) The period for the Forecasts for Management Status for the Fiscal Period ending March 2020 and Payment on the Merger is the five-month period from November 1, 2019, to March 31, 2020.

(Note 2) Forecast total number of investment units issued and outstanding at end of the period: 74,632 units.

(Note 3) Nippon Healthcare Investment Corporation (hereinafter referred to as "NHI") and Japan Rental Housing Investments Inc. (hereinafter referred to as "JRH"; and together with NHI, hereinafter collectively referred to as "both REITs") resolved at their respective board of directors' meetings held on November 19, 2019, to implement an absorption-type merger (hereinafter referred to as the "Merger") with NHI as the absorbed corporation and JRH as the surviving corporation with the effective date being April 1, 2020; and entered into a merger agreement (hereinafter referred to as the "Merger Agreement") dated November 19, 2019, as described in "1. Management Status 1.1. Management Status (2) Outlook for the Next Fiscal Period C. Significant Subsequent Events" on page 10 below.

Since NHI will be absorbed when the Merger takes effect, no distribution will be paid out for the 12th Fiscal Period. Instead of the cash distribution, however, the payment on the Merger will be made by JRH, the surviving corporation after the Merger. For details, please refer to "1. Management Status 1.1. Management Status (2) Outlook for the Next Fiscal Period C. Significant Subsequent Events a. Conclusion of Merger Agreement between NHI and JRH (Payment on the Merger)" on page 10 below.

For the forecasts of operating results and distribution of JRH, the surviving corporation after the Merger, for the fiscal period ending September 2020 (29th Fiscal Period: April 1, 2020 to September 30, 2020) and the fiscal period ending March 2021 (30th Fiscal Period: October 1, 2020, to March 31, 2021), please refer to "Notice Concerning Forecasts of Operating Results and Distributions for the Fiscal Period Ending September 2020 and the Fiscal Period Ending March 2021 after the Merger of Japan Rental Housing Investments Inc. and Nippon Healthcare Investment Corporation" announced by the both REITs on November 19, 2019.

(Note 4) In regard to the Merger, in order to fulfill the taxation requirements for a qualified merger, cash exceeding the cash distributions equivalent to the payment on the Merger, calculated based on NHI's distributable amount, cannot be paid out as the merger consideration. As such, payment on the Merger equivalent to the cash distributions for the Fiscal Period ending March 2020 will not include the amount equivalent to the distribution in excess of earnings which NHI has heretofore implemented interruptedly every fiscal period (cash distributions in excess of earnings 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). Moreover, as a result of discussions and negotiations among NHI, JRH, and Daiwa Real Estate Asset Management Co., Ltd. (hereinafter referred to as the "Asset Management Company"), the asset management company of both NHI and JRH, regarding the Merger and how to handle the fees and remunerations related to the set of transactions related to the Merger, it was agreed that JRH would bear all the costs related to the Merger and consideration, discussion, preparation, and execution related to the set of transactions related to the Merger, that merger fees to be paid to the Asset Management Company from NHI for the Merger and asset management fees I and II to be paid to the Asset Management Company in the Fiscal Period ending March 2020 would be waived, and that other fees related to administrative services, etc. would be reduced. As a result, the payment on the Merger is expected to be equivalent to the distribution per unit including distribution in excess of earnings for the 12th Fiscal Period ending April (after the adjustment taking into consideration the fact that the operating period is five months)

*** 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:	11th Fiscal Period	74,632 units
	10th Fiscal Period	74,632 units
(ii) Number of own investment units at end of period:	11th Fiscal Period	– units
	10th Fiscal Period	– units

(Note) Please refer to “Notes to Per Unit Information” on page 33 for the number of investment units used as the basis for calculating the net income per unit.

*** Financial reports are exempt from the audit by a certified public accountant or an auditing firm.**

*** 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 12th Fiscal Period (from November 1, 2019, to March 31, 2020)” on page 16.

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1. Management Status

1.1. 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 building a track record over 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 3rd Fiscal Period (fiscal period ended October 2015), NHI additionally acquired three properties with borrowings and cash on hand. In the 4th Fiscal Period (fiscal period ended April 2016), NHI implemented an additional issuance of investment units through public offering (12,130 units) on November 17, 2015, and additionally acquired four properties. In the 5th Fiscal Period (fiscal period ended October 2016), NHI additionally acquired one property with borrowings and cash on hand on October 6, 2016. In the 10th Fiscal Period (fiscal period ended April 2019), NHI additionally acquired one property with cash on hand on December 20, 2018. The additional acquisition of properties brought the total acquisition price to 19,712 million yen as of the end of October 2019.

As a 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 adequate returns to investors for further capital inflow. In this way, NHI aims at creating a new virtuous 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 May 1, 2019, to October 31, 2019)

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.

In Japan, where the population of the elderly aged 65 years or over (hereinafter referred to as the “Elderly Population”) accounts for a little less than 30% of the total population as of November 1, 2019 (according to the Ministry of Internal Affairs and Communications’ “Population Estimates” (announced on November 20, 2019)), the Elderly Population as a percentage of the total population (hereinafter referred to as the “Elderly Population Percentage”) is forecast to continue to rise, and 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 be 4% 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 fiscal period under review (11th Fiscal Period: fiscal period ended October 2019 (from May 1, 2018, to October 31, 2019)), there were no property acquisitions.

Concerning the properties owned as of the end of the 11th Fiscal Period (October 31, 2019), the leasable floor area was 67,903.84 m² and the occupancy rate was 100.0%.

C. Overview of Capital Procurement**a. Procurement of Funds for Loan Repayment**

In the 11th Fiscal Period, NHI conducted the following borrowing of funds for use as funds for repayment of loans.

- As funds for repayment of the 2,900 million yen in total borrowed from Resona Bank, Limited, Mizuho Bank, Ltd. and Mizuho Trust & Banking Co., Ltd. due for repayment on October 31, 2019, the same amount was borrowed from those banks, respectively, on that date.

b. Status of Interest-Bearing Liabilities at the 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 11th Fiscal Period (October 31, 2019) totaled 9,800 million yen (all are long-term loans payable). Of the long-term loans payable, 3,000 million yen is due for repayment within one year. The average remaining years to maturity as at the end of the 11th Fiscal Period was 3.0 years.

At the end of the 11th Fiscal Period, unitholders' capital in the net amount was 9,971 million yen and the total number of investment units issued and outstanding was 74,632 units.

Balance of Borrowings from Each Financial Institution at the End of the Fiscal Period under Review

Lender	End of the 11th Fiscal Period (October 31, 2019) (million yen)	Share (%) (Note)
Mizuho Bank, Ltd.	2,300	23.47
Resona Bank, Limited	1,700	17.35
Sumitomo Mitsui Trust Bank, Limited	1,700	17.35
Mizuho Trust & Banking Co., Ltd.	1,200	12.24
The Musashino Bank, Ltd.	1,000	10.20
Shinkin Central Bank	900	9.18
Shinsei Bank, Limited	800	8.16
The Dai-ichi Life Insurance Company, Limited	200	2.04
Total	9,800	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 11th Fiscal Period of 707 million yen in operating revenue, 283 million yen in operating income, 254 million yen in ordinary income and 253 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 from earnings per unit of 3,399 yen.

In addition, in principle, NHI adopts a policy of implementing cash distributions in excess of earnings uninterruptedly 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 65,676,160 yen, which is the amount roughly equivalent to 32% of the 203 million yen in depreciation for the 11th 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 880 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 not to 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., Assets Research and Development Inc. and ERI Solution Co., Ltd. for all assets owned as of the end of the 11th Fiscal Period (23 properties) is 37 million yen.

(2) Outlook for the Next Fiscal Period

A. Investment Environment

In Japan, where the Elderly Population accounts for a little less than 30% of the total population, the Elderly Population Percentage is expected to continue to rise and the population of the elderly living alone is expected to continue to grow. With the development of medical technology, among other factors, record-high-level figures were set in terms of the average life expectancy at birth for Japanese people at 81.25 years for males and 87.32 years for females according to the Ministry of Health, Labour and Welfare’s “Abridged Life Tables for Japan 2018,” and in terms of the Elderly Population at 35.78 million people and the Elderly Population Percentage at 28.3%, the highest ever among the total population of 126.18 million people as of November 1, 2019, according to the Ministry of Internal Affairs and Communications’ “Population Estimates” (announced on November 20, 2019).

According to the National Institute of Population and Social Security Research’s “Population Projections for Japan (2017),” the total population at 122.54 million people and the Elderly Population at 36.77 million people will increase the Elderly Population Percentage to 30.0% by 2025, and while the total population will decrease by approximately 38.43 million people to 88.07 million people, the Elderly Population will become 33.81 million people and the Elderly Population Percentage will reach 38.4% by 2065.

To provide for future growth in demand for housing for the elderly, 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 be 4% 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 operators. The main purpose of said agreement is to provide to the effect that, in the event that a lease agreement for a healthcare facility owned by NHI has ended or is expected to end due to contract termination, contract cancellation or other reason, where NHI requests another operator of acquired assets to conclude a new lease agreement with NHI and to operate the healthcare facility, 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 strives for property acquisitions capitalizing on 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 performed by Daiwa Office Investment Corporation (balance of assets for which management is entrusted as of the end of November 2019: approximately 461 billion yen), Japan Rental Housing Investments Inc. (balance of assets for which management is entrusted as of the end of November 2019: approximately 227.8 billion yen), Daiwa Residential Private Investment Corporation (balance of assets for which management is entrusted as of the end of November 2019: approximately 121.8 billion yen) and Daiwa Hotel Private Investment Corporation (balance of assets for which management is entrusted as of the end of November 2019: approximately 40.7 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. Furthermore, in order to expand property acquisition opportunities, NHI and the Asset Management Company have concluded a pipeline support agreement with Daiwa ACA HealthCare Inc. (66% stake held by Daiwa Securities Group Inc.) which invests in care facilities/hospitals in Japan.

(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.

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.

d. Merger of NHI and JRH

NHI and Japan Rental Housing Investments Inc. (hereinafter referred to as “JRH”; and together with NHI, hereinafter collectively referred to as the “both REITs”) resolved at their respective board of directors’ meetings held on November 19, 2019, to implement an absorption-type merger (hereinafter referred to as the “Merger”) with NHI as the absorbed corporation and JRH as the surviving corporation with the effective date being April 1, 2020; and entered into a merger agreement (hereinafter referred to as the “Merger Agreement”) dated November 19, 2019, based on the judgement that the Merger will enable the both REITs to further grow in the future and thereby maximize unitholders’ value by securing earnings and stabilizing and improving distribution.

C. Significant Subsequent Events

a. Conclusion of Merger Agreement between NHI and JRH (Payment on the Merger)

The both REITs resolved at their respective board of directors’ meetings held on November 19, 2019, to implement the Merger with the effective date being April 1, 2020, and entered into the Merger Agreement dated November 19, 2019.

(i) Purpose of the Merger

To date, both REITs have taken the following measures to ensure stable income over the medium to long term and steady expansion of their assets, taking advantage of their respective characteristics. At the same time, both REITs are also aware of the challenges they face.

JRH has achieved sustained dividend growth by taking advantage of steady demand for rental housing with a focus on the three major metropolitan areas including the 23 wards of Tokyo, as well as other regions, and by establishing a stable portfolio of 227.8 billion yen based on the total acquisition price. However, JRH is affected by changes in the supply-demand conditions in the rental housing investment market, as is the case with other residential J-REITs. For instance, the competition for acquisition of superior properties has intensified under the continued low interest rate environment. In such situation, JRH has adopted a property replacement strategy with a view to improve the quality of its portfolio as the top priority under the new medium-term target announced by JRH in May 2019, and has been replacing its owned properties steadily thereafter, but expects that it will take some period of time (approximately three to five years) to complete the strategy.

NHI has developed its expertise on healthcare assets, a growing market, has established good relationships with operators by engaging in numerous transactions with operators, and has accumulated a track record of asset management under the backdrop of social demand for the enhancement of private nursing homes and other facilities for the elderly under the macro environment of age demographics where the youth population is decreasing and the ratio of elderly people is increasing. On the other hand, there are constraints on opportunities for external growth due to factors such as stagnation in its investment unit price due to the small scale of its portfolio assets.

Under such circumstances, given that both REITs are managed by the same asset manager and sponsored by the same company and that both REITs manage assets that can be considered as having a certain degree of affinity in the framework of “places where people live and reside” for a wide range of age groups from single-person households, DINKS (double-income households with no kids), and families to senior households, expansion of their current respective investment targets from rental housing/healthcare facilities to those with a certain degree of affinity in the above framework through the Merger would enable JRH to secure investment opportunities in other asset classes when property acquisition opportunities decrease due to changes in the supply-demand conditions in the rental housing investment market, as well as to secure opportunities to acquire healthcare facilities warehoused by the same sponsor after the Merger. This would enable NHI to secure large-scale external growth opportunities and improve stability in its portfolio income and risk diversification by increasing the likelihood of equity financing through future issuance of new investment units as a result of expansion of asset size and market capitalization. Therefore, both REITs believe that the Merger would contribute to resolving the challenges they face as stated above. In addition, both REITs share the view that as a result of industry reorganization and new entries led by major companies in the healthcare industry, the credit risk of healthcare operators, which had been an issue of concern, has declined and thereby the cap rates of rental housing and healthcare facilities are now considered to be almost converging. Accordingly, both REITs reached the conclusion that the Merger would combine the characteristics and strengths of the two and recharacterize them as a REIT that “comprehensively provides comfortable living spaces suited to each life stage” and it would therefore contribute to ensuring further growth in the future and thereby maximize unitholders’ value by securing earnings and stabilizing and improving distribution. Accordingly, both REITs entered into the Merger Agreement as of today.

(ii) Method of Merger

JRH will be the surviving corporation under the absorption-type merger and NHI will be dissolved upon the Merger.

(iii) Merger Ratio

	JRH (Surviving corporation in the absorption-type merger)	NHI (Absorbed corporation in the absorption-type merger)
Allocation of units upon the Merger	1	2.05

(Note 1) The number of new JRH investment units to be issued upon the Merger: 152,995 investment units (scheduled)

(Note 2) Fractions of less than one unit will arise with respect to the number of investment units to be allotted to the unitholders of NHI through the allotment of 2.05 units of JRH per unit of NHI. These fractional units will be sold through a market transaction in accordance with statutory provisions, and the proceeds from the sale will be delivered to the unitholders who are allocated fractions in proportion to the size of their fractional units to be allocated.

(iv) Payment on Merger

After the Merger, in lieu of cash distributions to the unitholders of NHI for NHI's final accounting period from November 1, 2019, to March 31, 2020, JRH, the surviving corporation, will, within a reasonable period after the effective date of the Merger, make a payment on the Merger based on the distributable amount of NHI to the unitholders of NHI (the unitholders listed or recorded on the final unitholders register of NHI as of the day immediately prior to the effective date of the Merger (excluding the unitholders of NHI who have demanded the purchase of their investment units pursuant to the provisions of Article 149-3 of the Act on Investment Trusts and Investment Corporations (hereinafter referred to as the "Allotted Unitholders"))) or the registered pledgees of investment units held by Allotted Unitholders, in an amount equivalent to the cash distributions for the above mentioned period (the payment will be the amount of distributable profit of NHI as of the day immediately prior to the effective date of the Merger divided by the number of investment units that is obtained by deducting (a) the number of investment units held by the unitholders other than the Allotted Unitholders of NHI from (b) the total number of investment units issued and outstanding of NHI, as of the day immediately prior to the effective date of the Merger (rounded down to the nearest yen). The same applies hereinafter.)

(v) Overview of the fiscal period immediately preceding the merger (fiscal period ended September 2019) of the surviving corporation (JRH)

Business activities: Managing assets of investment corporations by investing mainly in real estate, etc. among other specified assets, based on the Investment Trusts Act

Operating revenue: 8,460 million yen

Net income: 3,364 million yen

Assets: 227,187 million yen

Liabilities: 118,740 million yen

Net assets: 108,447 million yen

(vi) Date of the Merger

The Merger is scheduled to take effect on April 1, 2020.

b. Decision on Acquisition of Assets

NHI concluded sales and purchase agreements concerning acquisition of the following assets on November 19, 2019, and decided on the acquisition of the assets contingent upon the effectuation of the Merger, etc. The position as well as the rights and obligations of the buyer in the sales and purchase agreement for the Assets to be Acquired are scheduled to be succeeded from NHI to JRH on April 1, 2020, which is the effective date of the Merger.

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Property name	Type of asset	Location	Scheduled acquisition price (thousand yen) (Note 1)	Date of conclusion of sale and purchase agreement	Scheduled acquisition date	Seller
AIP Kachidoki-Ekimae	Trust beneficiary interests	Chuo-ku, Tokyo	8,150,000	November 19, 2019	April 2, 2020	(Note 6)
PLAISANT GRAND MINAMI YUKIGAYA	Trust beneficiary interests	Ota-ku, Tokyo	3,380,000			(Note 8)
Aira no mori Higashi-Ofuna	Trust beneficiary interests	Yokohama-shi, Kanagawa	2,271,195			(Note 9)
Aira no mori Shakujiko	Trust beneficiary interests	Nerima-ku, Tokyo	2,070,000			(Note 7)
Aira no mori Edogawa-Shinozaki	Trust beneficiary interests	Edogawa-ku, Tokyo	1,499,307			(Note 7)
Senior Forest Yokohama-Tsuzuki	Trust beneficiary interests	Yokohama-shi, Kanagawa	1,202,000			(Note 10)
Sompo no ie Toyonaka-Minamisone	Trust beneficiary interests	Toyonaka-shi, Osaka	825,000			(Note 5)
Irise Komae Bettei (additional acquisition)	Trust beneficiary interests	Komae-shi, Tokyo	920,500			(Note 5)
Alpha Living Takamatsu Konyamachi	Trust beneficiary interests	Takamatsu-shi, Kagawa	1,225,000			(Note 5)
Good Time Living Center-Minami, Platesia Center-Minami	Trust beneficiary interests	Yokohama-shi, Kanagawa	11,150,000			(Note 11)
Good Time Living Chibaminato-Kaigandori · Platesia Chibaminato	Trust beneficiary interests	Chiba-shi, Chiba	4,516,000			(Note 11)
Good Time Living Yokohama-Tsuzuki	Trust beneficiary interests	Yokohama-shi, Kanagawa	4,064,000			(Note 11)
Good Time Living Senri-Hinatagaoka	Trust beneficiary interests	Suita-shi, Osaka	2,800,000			(Note 11)
Good Time Living Nakamozu	Trust beneficiary interests	Sakai-shi, Osaka	2,180,000			(Note 11)
Good Time Living Kourigaoka	Trust beneficiary interests	Hirakata-shi, Osaka	2,120,000			(Note 11)
Good Time Living Kameido	Trust beneficiary interests	Koto-ku, Tokyo	1,860,000			(Note 11)
Good Time Living Mikage	Trust beneficiary interests	Kobe-shi, Hyogo	1,820,000			(Note 11)
Good Time Living Amagasaki-Shintoshin	Trust beneficiary interests	Amagasaki-shi, Hyogo	1,585,000			(Note 11)
Good Time Living Minami Senri	Trust beneficiary interests	Suita-shi, Osaka	1,430,000			(Note 11)
Good Time Living Kobe-Tarumi	Trust beneficiary interests	Kobe-shi, Hyogo	1,370,000			(Note 11)

Nippon Healthcare Investment Corporation (3308) Financial Report for the 11th Fiscal Period

Property name	Type of asset	Location	Scheduled acquisition price (thousand yen) (Note 1)	Date of conclusion of sale and purchase agreement	Scheduled acquisition date	Seller
Good Time Living Chibaminato-Ekimaedori	Trust beneficiary interests	Chiba-shi, Chiba	1,320,000	November 19, 2019	April 2, 2020	(Note 11)
Good Time Living Senboku-Izumigaoka	Trust beneficiary interests	Sakai-shi, Osaka	980,000			(Note 11)
Good Time Living Ikeda-Midorigaoka	Trust beneficiary interests	Ikeda-shi, Osaka	920,000			(Note 11)
Good Time Living Nagatsuta-Minamidai	Trust beneficiary interests	Yokohama-shi, Kanagawa	850,000			(Note 11)
Good Time Living Saitama-Hasuda	Trust beneficiary interests	Hasuda-shi, Saitama	659,000			(Note 11)
Good Time Living Nagareyama-Ichibankan	Trust beneficiary interests	Nagareyama-shi, Chiba	610,000			(Note 11)
Good Time Living Nagareyama-Nibankan	Trust beneficiary interests	Nagareyama-shi, Chiba	563,000			(Note 11)
Good Time Living Amagasaki-Ekimaie	Trust beneficiary interests	Amagasaki-shi, Hyogo	320,000			(Note 11)
Total	—	—	62,660,002			—

(Note 1) Scheduled acquisition price indicates an amount excluding expenses required for the acquisition of the real estate (intermediary fees, taxes and public dues, etc.) stated in the purchase and sale agreement of the real estate.

(Note 2) Funds procured in the issuance of new investment units through third-party allotment, proceeds from sale in the sale of assets, cash on hand and borrowings scheduled to be announced in the future are scheduled to be allocated to funds for the acquisition.

(Note 3) There is no intermediary in the acquisition of the respective Assets to be Acquired.

(Note 4) The position as well as the rights and obligations of the buyer in the sales and purchase agreement for the Assets to be Acquired are scheduled to be succeeded from NHI to JRH based on the Merger on April 1, 2020, which is the effective date of the Merger, and acquired by JRH, the surviving corporation of the Merger.

(Note 5) The seller is GK DA Healthcare 2.

(Note 6) The seller is GK DA Healthcare 3.

(Note 7) The seller is GK DA Healthcare 4.

(Note 8) The seller is GK DA Healthcare 5.

(Note 9) The seller is GK DA Healthcare 6.

(Note 10) The seller is GK DA Healthcare 7.

(Note 11) The seller is GK GTL Healthcare.

(Reference information)

Proposals scheduled to be submitted to the Fifth General Meeting of Unitholders

NHI resolved at its board of directors' meeting held on June 19, 2019, to submit the following proposals to the Fifth General Meeting of Unitholders to be held on February 4, 2020.

- a. Approval of the Merger Agreement
- b. Termination of NHI's asset management agreement with the Asset Management Company

D. Outlook for Management Status

NHI forecasts the following management status for the 12h Fiscal Period (from November 1, 2019, to March 31, 2020 (final accounting period)). For the assumptions for the management status forecasts, please refer to the “Assumptions for the Management Status Forecasts for the 12th Fiscal Period (from November 1, 2019, to March 31, 2020 (final accounting period) (5 months)) on page 16.

12th Fiscal Period (from November 1, 2019, to March 31, 2020 (5 months))

Operating revenue	589 million yen
Operating income	265 million yen
Ordinary income	264 million yen
Net income	263 million yen
Payment on the Merger per unit	3,525 yen

(Note 1) 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 and payment on the Merger per unit may vary. In addition, the forecast is not a guarantee of the amount of payment on the Merger.

(Note 2) After the Merger, in lieu of cash distributions to the unitholders of NHI for NHI’s final accounting period from November 1, 2019, to March 31, 2020, JRH, the surviving corporation, will, within a reasonable period after the effective date of the Merger, make a payment on the Merger based on the distributable amount of NHI to the unitholders of NHI (the unitholders listed or recorded on the final unitholders register of NHI as of the day immediately prior to the effective date of the Merger (excluding the unitholders of NHI who have demanded the purchase of their investment units pursuant to the provisions of Article 149-3 of the Act on Investment Trusts and Investment Corporations (hereinafter referred to as the “Allotted Unitholders”))) or the registered pledgees of investment units held by Allotted Unitholders, in an amount equivalent to the cash distributions for the above mentioned period (the payment will be the amount of distributable profit of NHI as of the day immediately prior to the effective date of the Merger divided by the number of investment units that is obtained by deducting (a) the number of investment units held by the unitholders other than the Allotted Unitholders of NHI from (b) the total number of investment units issued and outstanding of NHI, as of the day immediately prior to the effective date of the Merger (rounded down to the nearest yen). The same applies hereinafter.) As such, the amount of payment on the Merger will vary depending on the status of the exercise of rights to demand purchase of investment units. Because the status of such exercise cannot be confirmed at present, the above forecast figures assume that the right to demand purchase of investment units is not exercised.

**Assumptions for the Management Status Forecasts for the 12th Fiscal Period
(from November 1, 2019, to March 31, 2020 (5 months))**

Item	Assumption
Accounting period	<ul style="list-style-type: none"> 12th Fiscal Period Fiscal period ending March 2020: from November 1, 2019, to March 31, 2020 (152 days)
Assets under management	<ul style="list-style-type: none"> The assumption is that the 23 properties owned as of the date of this document will be held. While there are properties scheduled to be acquired as described in “Notice Concerning Acquisition and Leasing of Property” announced on November 19, 2019, by NHI, such will not impact the Fiscal Period ending March 2020 as the properties are scheduled to be acquired by the surviving investment corporation as of April 2, 2020, following the Merger. The actual number of properties may vary due to acquisition of new property, or disposition of portfolio property, etc.
Operating revenue	<ul style="list-style-type: none"> 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 Fiscal Period ending March 2020. The assumption is that there will be no gain (loss) on sales of real estate properties.
Operating expenses	<ul style="list-style-type: none"> 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. 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 359 million yen. Consignment expenses are assumed to be 11 million yen. Taxes and dues (fixed property tax, city planning tax, etc.) are assumed to be 42 million yen. Depreciation, which is calculated using the straight-line method, is assumed to be 167 million yen. Repair expenses for buildings are assumed to be 7 million yen based on the medium- to long-term repair plans formulated by the Asset Management Company. However, possible increase in amount of repair expenses or additional arising of repair expenses due to unforeseeable circumstances may result in repair expenses differing materially from the forecast amount.
Non-operating expenses	<ul style="list-style-type: none"> 21 million yen is assumed as interest expenses and other borrowing-related expenses.
Interest-bearing liabilities	<ul style="list-style-type: none"> The assumption is that there will be no change in the loan balance of 9,800 million yen as of the date of this document through to the end of the Fiscal Period ending March 2020.
Total number of investment units issued and outstanding	<ul style="list-style-type: none"> The assumption is 74,632 units, which is the total number of investment units issued and outstanding as of October 31, 2019. The assumption is that there will be no change in the number of investment units due to the issuance of new investment units, etc. in addition to the above, through to the end of the Fiscal Period ending March 2020.
Payment on the Merger per unit	<ul style="list-style-type: none"> Payment on the Merger (payment on the Merger per unit) will be paid in lieu of cash distributions for the Fiscal Period ending March 2020 (final accounting period), and is calculated in accordance with the cash distribution policy set forth in the articles of incorporation of NHI. Calculations are made with the assumption that the entire earnings will be distributed. Payment on the Merger per unit may vary due to various factors, including the status of exercise of rights to demand purchase as a result of the Merger, expenses related to the Merger, fluctuation in real estate rent revenue accompanying change in assets under management, change in tenants, etc., or the incurrence of unexpected repairs. In order for the Merger to fulfill the taxation requirements for a qualified merger, cash equivalent to distribution in excess of earnings, which has been conducted every fiscal period, is not scheduled to be issued. Please refer to “(Note 4) for 2. Management Status Forecasts for the 12th Fiscal Period (Final accounting period): Fiscal period ending March 2020 (from November 1, 2019, to March 31, 2020) mentioned above for the background and measures in regard to this.

Item	Assumption
Other	<ul style="list-style-type: none"> • 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. • The assumption is that there will be no unforeseen serious change in general economic trends and real estate market conditions, etc.

1.2. Investment Risks

“Part I: Fund Information; Section 1: Fund Status; 3. Investment Risks; (1) Risk Factors; ④ Risks concerning real estate and trust beneficial interests; (v) Risks concerning forward commitment, etc.” set out in the most recent periodic securities report (*yuka shoken hokokusho*) (submitted on July 18, 2019) are amended as follows (Amended portions are underlined). This amendment is associated with the acquisition of assets to be acquired announced in “Notice Concerning Acquisition and Leasing of Property” dated November 19, 2019.

(v) Risks concerning forward commitment, etc.

NHI may use forward commitments (postdated sale and purchase agreements under which the payment for and delivery of property will be made after a certain period of time after the conclusion of the agreement) and the like to acquire real estate or trust beneficial interest that have real estate as assets in trust. When the sale and purchase agreement is cancelled due to the buyer’s circumstances, the buyer will be liable for damages due to default in obligations. Moreover, regardless of proof of the amount of damages, etc., there may be an agreement made to the effect that a penalty that is a certain percentage of the sale/purchasing price of the real estate or trust beneficial interest that have real estate as assets in trust may apply. In the event of forward commitments, there is a certain period of time from the signing of the agreement to the payment and delivery. In cases where NHI fails to procure funds for the real estate acquisition due to such factors as changes in the market environment or other cases leading to the need to cancel the sale and purchase agreement during that period, there is a possibility that the financial condition of NHI will negatively affected due to payment of the penalty, etc.

The sale and purchase agreements for the assets to be acquired which were concluded on November 19, 2019, fall under forward commitment, etc. The said sale and purchase agreements include the following provisions or provisions similar to those.

- In the sale and purchase agreement, the obligation of NHI is based on the assumption that fund procurement will be completed by the date of sale and purchase and that the merger concluded with JRH on November 19, 2019, will become effective. If such conditions are not satisfied, NHI may cancel the Sale and Purchase Agreement for free without making any payment for the reason that the conditions are not satisfied.
- When either party violates any provisions of the Sale and Purchase Agreement (hereinafter refer to as the “Violating Party”), the other party may cancel the Sale and Purchase Agreement and request payment of an amount equivalent to 20% of the sale and purchase price as a penalty to the Violating Party.

In addition, the following shall be added to “Part I: Fund Information; Section 1: Fund Status; 3. Investment Risks; (1) Risk Factors; ⑥ Other” set out in the abovementioned periodic securities report (*yuka shoken hokokusho*) as “(c) Risk of not being able to acquire the Assets to be Acquired.” This addition is associated with the acquisition of the assets to be acquired announced in “Notice Concerning Acquisition and Leasing of Property” dated November 19, 2019.

(c) Risk of not being able to acquire the Assets to be Acquired

In cases where the economic environment, etc. have changed drastically or where preconditions set by the sale and purchase agreements are not fulfilled due to circumstances of the other party and such, NHI may not be able to acquire the assets to be acquired for which the sale and purchase agreements were concluded on November 19, 2019. In such cases, although NHI will make efforts to acquire alternative assets, there is no guarantee that NHI will be able to acquire properties suitable for investment in a short period of time. If NHI is not able to acquire properties in a short period of time as the result, such may inflict a loss on unitholders.

Furthermore, the following shall be added to “Part I: Fund Information; Section 1: Fund Status; 3. Investment Risks; (1) Risk Factors; ⑥Other” set out in the abovementioned periodic securities report (*yuka shoken hokokusho*) as “(d) Risks concerning the series of initiatives for NHI’s merger.” This addition is associated with the merger of NHI announced in “Notice Regarding Conclusion of Merger Agreement between Japan Rental Housing Investment Inc. and Nippon Healthcare Investment Corporation” dated November 19, 2019.

(d) Risks concerning the series of initiatives for NHI’s merger

NHI concluded a merger agreement with JRH on November 19, 2019. However, there is no guarantee that the Merger will materialize. Moreover, the conditions for the Merger may be changed in the process of talks and discussions in the future. If the Merger is not materialized or conditions for the Merger are changed, such may affect the market price of NHI’s investment unit.

2. Financial Statements**2.1. Balance Sheets**

(Unit: thousand yen)

	10th Fiscal Period (As of Apr. 30, 2019)	11th Fiscal Period (As of Oct. 31, 2019)
Assets		
Current assets		
Cash and deposits	1,130,311	1,232,364
Cash and deposits in trust	*1 453,791	*1 471,207
Prepaid expenses	15,237	21,377
Other	1,892	2,232
Total current assets	1,601,233	1,727,181
Non-current assets		
Property, plant and equipment		
Buildings in trust	12,576,971	12,581,936
Accumulated depreciation	(1,709,649)	(1,904,526)
Buildings in trust, net	*1 10,867,321	*1 10,677,409
Structures in trust	214,567	214,567
Accumulated depreciation	(22,223)	(25,064)
Structures in trust, net	*1 192,344	*1 189,503
Machinery and equipment in trust	19,169	19,169
Accumulated depreciation	(1,860)	(2,452)
Machinery and equipment in trust, net	*1 17,309	*1 16,717
Tools, furniture and fixtures in trust	53,793	61,451
Accumulated depreciation	(15,502)	(20,756)
Tools, furniture and fixtures in trust, net	*1 38,291	*1 40,695
Land in trust	*1 8,233,176	*1 8,233,176
Construction in progress in trust	*1 1,080	—
Total property, plant and equipment	19,349,523	19,157,501
Intangible assets		
Leasehold rights in trust	*1 40,886	*1 40,886
Trademark right	111	101
Software	382	15
Total intangible assets	41,380	41,002
Investments and other assets		
Lease and guarantee deposits	10,000	10,000
Long-term prepaid expenses	17,116	26,466
Deferred tax assets	14	13
Total investments and other assets	27,130	36,480
Total non-current assets	19,418,034	19,234,984
Total assets	21,019,267	20,962,165

(Unit: thousand yen)

	10th Fiscal Period (As of Apr. 30, 2019)	11th Fiscal Period (As of Oct. 31, 2019)
Liabilities		
Current liabilities		
Operating accounts payable	21,395	22,561
Current portion of long-term loans payable	*1 3,400,000	*1 3,000,000
Accounts payable – other	60,926	71,375
Advances received	86,817	86,876
Deposits received	527	562
Income taxes payable	894	883
Accrued consumption taxes	846	1,148
Other	4,214	2,872
Total current liabilities	3,575,622	3,186,282
Non-current liabilities		
Long-term loans payable	*1 6,400,000	*1 6,800,000
Tenant leasehold and security deposits	750,376	750,376
Total non-current liabilities	7,150,376	7,550,376
Total liabilities	10,725,998	10,736,658
Net assets		
Unitholders' equity		
Unitholders' capital	10,504,334	10,504,334
Deduction from unitholders' capital	(467,609)	(532,539)
Unitholders' capital, net	10,036,724	9,971,794
Surplus		
Unappropriated retained earnings (undisposed loss)	256,544	253,712
Total surplus	256,544	253,712
Total unitholders' equity	10,293,268	10,225,507
Total net assets	*2 10,293,268	*2 10,225,507
Total liabilities and net assets	21,019,267	20,962,165

2.2. Statements of Income

(Unit: thousand yen)

	10th Fiscal Period (From: Nov. 1, 2018 To: Apr. 30, 2019)		11th Fiscal Period (From: May 1, 2019 To: Oct. 31, 2019)	
Operating revenue				
Rent revenue – real estate	*1	705,127	*1	707,645
Total operating revenue		705,127		707,645
Operating expenses				
Expenses related to rent business	*1	298,978	*1	296,755
Asset management fee		57,654		58,471
Asset custody fee		732		730
Administrative service fees		10,434		10,382
Trust fee		6,608		6,600
Directors' compensations		4,800		4,800
Audit fee		6,000		6,000
Other operating expenses		38,868		40,856
Total operating expenses		424,075		424,597
Operating income		281,052		283,048
Non-operating income				
Interest income		1		1
Reversal of distribution payable		142		394
Insurance income		4,504		—
Other		176		49
Total non-operating income		4,824		445
Non-operating expenses				
Interest expenses		21,644		22,003
Borrowing expenses		6,805		6,927
Total non-operating expenses		28,449		28,930
Ordinary income		257,427		254,562
Income before income taxes		257,427		254,562
Income taxes – current		894		883
Income taxes – deferred		(1)		0
Total income taxes		893		884
Net income		256,533		253,678
Retained earnings brought forward		10		34
Unappropriated retained earnings (undisposed loss)		256,544		253,712

2.3. Statements of Unitholders' Equity

10th Fiscal Period (from November 1, 2018, to April 30, 2019)

(Unit: thousand yen)

	Unitholders' equity						Total net assets
	Unitholders' capital			Surplus		Total unitholders' equity	
	Unitholders' capital	Deduction from unitholders' capital	Unitholders' capital, net	Unappropriated retained earnings (undisposed loss)	Total surplus		
Balance at beginning of current period	10,504,334	(402,679)	10,101,654	243,311	243,311	10,344,965	10,344,965
Changes of items during period							
Distribution in excess of earnings		(64,929)	(64,929)			(64,929)	(64,929)
Dividends of surplus				(243,300)	(243,300)	(243,300)	(243,300)
Net income				256,533	256,533	256,533	256,533
Total changes of items during period	—	(64,929)	(64,929)	13,233	13,233	(51,696)	(51,696)
Balance at end of current period	10,504,334	(467,609)	10,036,724	256,544	256,544	10,293,268	10,293,268

11th Fiscal Period (from May 1, 2019, to October 31, 2019)

(Unit: thousand yen)

	Unitholders' equity						Total net assets
	Unitholders' capital			Surplus		Total unitholders' equity	
	Unitholders' capital	Deduction from unitholders' capital	Unitholders' capital, net	Unappropriated retained earnings (undisposed loss)	Total surplus		
Balance at beginning of current period	10,504,334	(467,609)	10,036,724	256,544	256,544	10,293,268	10,293,268
Changes of items during period							
Distribution in excess of earnings		(64,929)	(64,929)			(64,929)	(64,929)
Dividends of surplus				(256,510)	(256,510)	(256,510)	(256,510)
Net income				253,678	253,678	253,678	253,678
Total changes of items during period	—	(64,929)	(64,929)	(2,831)	(2,831)	(67,761)	(67,761)
Balance at end of current period	10,504,334	(532,539)	9,971,794	253,712	253,712	10,225,507	10,225,507

2.4. Statements of Cash Distributions

Item	10th Fiscal Period (From: Nov. 1, 2018 To: Apr. 30, 2019)	11th Fiscal Period (From: May 1, 2019 To: Oct. 31, 2019)
	Amount (yen)	Amount (yen)
I. Unappropriated retained earnings	256,544,639	253,712,805
II. Addition of distribution amount in excess of earnings		
Deduction from unitholders' capital	64,929,840	65,676,160
III. Distribution amount	321,440,024	319,350,328
[Distribution amount per unit]	[4,307]	[4,279]
<i>Of which,</i>		
Distribution amount from earnings	256,510,184	253,674,168
[Distribution amount from earnings per unit]	[3,437]	[3,399]
Distribution amount in excess of earnings	64,929,840	65,676,160
[Distribution amount in excess of earnings per unit]	[870]	[880]
IV. Retained earnings carried forward	34,455	38,637
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 (74,632 units) in an amount that is not in excess of unappropriated retained earnings. Accordingly, NHI declared a distribution amount of 256,510,184 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 64,929,840 yen, which is the amount roughly equivalent to 32% of the 202,606,601 yen in depreciation for the 10th Fiscal Period, as cash distributions in excess of earnings (reimbursement of investments in capital which falls under the category of distribution reducing unitholders' capital for tax purposes).</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 253,674,168 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 65,676,160 yen, which is the amount roughly equivalent to 32% of the 203,564,063 yen in depreciation for the 11th Fiscal Period, as cash distributions in excess of earnings (reimbursement of investments in capital which falls under the category of distribution reducing unitholders' capital for tax purposes).</p>

(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 not to 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.).

2.5. Statements of Cash Flows

(Unit: thousand yen)

	10th Fiscal Period (From: Nov. 1, 2018 To: Apr. 30, 2019)	11th Fiscal Period (From: May 1, 2019 To: Oct. 31, 2019)
Cash flows from operating activities		
Income before income taxes	257,427	254,562
Depreciation	202,984	203,942
Interest income	(1)	(1)
Interest expenses	21,644	22,003
Decrease (increase) in prepaid expenses	6,195	(6,140)
Increase (decrease) in operating accounts payable	(8,973)	3,482
Increase (decrease) in accounts payable – other	(8,916)	10,449
Increase (decrease) in accrued consumption taxes	(218)	301
Increase (decrease) in advances received	1,677	59
Decrease (increase) in long-term prepaid expenses	5,370	(9,350)
Increase (decrease) in deposits received	(120)	34
Other, net	937	(342)
Subtotal	478,007	479,001
Interest income received	1	1
Interest expenses paid	(21,166)	(22,481)
Income taxes paid	(869)	(894)
Net cash provided by (used in) operating activities	455,973	455,627
Cash flows from investing activities		
Purchase of property, plant and equipment in trust	(435,516)	(13,855)
Proceeds from tenant leasehold and security deposits	20,160	—
Net cash provided by (used in) investing activities	(415,356)	(13,855)
Cash flows from financing activities		
Proceeds from long-term loans payable	-	2,900,000
Repayments of long-term loans payable	-	(2,900,000)
Earnings dividends paid	(243,342)	(257,179)
Distribution in excess of earnings paid	(64,923)	(65,123)
Net cash provided by (used in) financing activities	(308,266)	(322,303)
Net increase (decrease) in cash and cash equivalents	(267,649)	119,467
Cash and cash equivalents at beginning of period	1,851,753	1,584,103
Cash and cash equivalents at end of period	* ₁ 1,584,103	* ₁ 1,703,571

2.6. Notes to the Going Concern

Not applicable.

2.7. Notes to Significant Accounting Policies

1. Depreciation method for non-current assets	<p>(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:</p> <table border="0"> <tr> <td>Buildings</td> <td>3–58 years</td> </tr> <tr> <td>Structures</td> <td>10–49 years</td> </tr> <tr> <td>Machinery and equipment</td> <td>10–17 years</td> </tr> <tr> <td>Tools, furniture and fixtures</td> <td>2–15 years</td> </tr> </table> <p>(2) Intangible assets The straight-line method is adopted.</p> <p>(3) Long-term prepaid expenses The straight-line method is adopted.</p>	Buildings	3–58 years	Structures	10–49 years	Machinery and equipment	10–17 years	Tools, furniture and fixtures	2–15 years
Buildings	3–58 years								
Structures	10–49 years								
Machinery and equipment	10–17 years								
Tools, furniture and fixtures	2–15 years								
2. Standards for revenue and expense recognition	<p>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 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 is 52 thousand yen in the 10th Fiscal Period and 0 yen in the 11th Fiscal Period.</p>								
3. Hedge accounting	<p>(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.</p> <p>(2) Hedging instruments and hedged items Hedging instruments: Interest rate swap transactions Hedged items: Interest on loans</p> <p>(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.</p> <p>(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.</p>								
4. Scope of funds in the statements of cash flows	<p>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>								

5. Other significant matters serving as basis for preparation of financial statements	<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> <p>(i) Cash and deposits in trust (ii) Buildings in trust, structures in trust, machinery and equipment in trust, tools, furniture and fixtures in trust, and land in trust (iii) Leasehold rights in trust</p> <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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2.8. 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)	
	10th Fiscal Period (As of Apr. 30, 2019)	11th Fiscal Period (As of Oct. 31, 2019)
Cash and deposits in trust	453,791	471,207
Buildings in trust	10,867,321	10,677,409
Structures in trust	192,344	189,503
Machinery and equipment in trust	17,309	16,717
Tools, furniture and fixtures in trust	38,291	40,695
Land in trust	8,233,176	8,233,176
Construction in progress in trust	1,080	—
Leasehold rights in trust	40,886	40,886
Total	19,844,201	19,669,594

The following are the secured liabilities.

	(Unit: thousand yen)	
	10th Fiscal Period (As of Apr. 30, 2019)	11th Fiscal Period (As of Oct. 31, 2019)
Current portion of long-term loans payable	3,400,000	3,000,000
Long-term loans payable	6,400,000	6,800,000
Total	9,800,000	9,800,000

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

	(Unit: thousand yen)	
	10th Fiscal Period (As of Apr. 30, 2019)	11th Fiscal Period (As of Oct. 31, 2019)
	50,000	50,000

[Notes to Statements of Income]

*1. Breakdown of property-related operating income (loss)

	(Unit: thousand yen)	
	10th Fiscal Period (From: Nov. 1, 2018 To: Apr. 30, 2019)	11th Fiscal Period (From: May 1, 2019 To: Oct. 31, 2019)
A. Property-related operating revenue		
Rent revenue – real estate	705,127	707,645
Total property-related operating revenue	705,127	707,645
B. Property-related operating expenses		
Consignment expenses	13,282	14,122
Taxes and dues	49,915	50,566
Non-life insurance expenses	1,406	1,375
Repair expenses	30,496	25,925
Depreciation	202,606	203,564
Leasehold and office rents	1,200	1,200
Other lease business expenses	71	—
Total property-related operating expenses	298,978	296,755
C. Property-related operating income (loss) [A – B]	406,149	410,890

[Notes to Statements of Unitholders' Equity]

	10th Fiscal Period (From: Nov. 1, 2018 To: Apr. 30, 2019)	11th Fiscal Period (From: May 1, 2019 To: Oct. 31, 2019)
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	74,632 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)	
	10th Fiscal Period (From: Nov. 1, 2018 To: Apr. 30, 2019)	11th Fiscal Period (From: May 1, 2019 To: Oct. 31, 2019)
Cash and deposits	1,130,311	1,232,364
Cash and deposits in trust	453,791	471,207
Cash and cash equivalents	1,584,103	1,703,571

[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)).

10th Fiscal Period (as of April 30, 2019)

(Unit: thousand yen)

	Carrying amount	Fair value	Difference
(1) Cash and deposits	1,130,311	1,130,311	—
(2) Cash and deposits in trust	453,791	453,791	—
Total assets	1,584,103	1,584,103	—
(3) Current portion of long-term loans payable	3,400,000	3,401,341	1,341
(4) Long-term loans payable	6,400,000	6,412,700	12,700
Total liabilities	9,800,000	9,814,042	14,042
Derivative transactions	—	—	—

11th Fiscal Period (as of October 31, 2019)

(Unit: thousand yen)

	Carrying amount	Fair value	Difference
(1) Cash and deposits	1,232,364	1,232,364	—
(2) Cash and deposits in trust	471,207	471,207	—
Total assets	1,703,571	1,703,571	—
(3) Current portion of long-term loans payable	3,000,000	3,001,985	1,985
(4) Long-term loans payable	6,800,000	6,832,901	32,901
Total liabilities	9,800,000	9,834,887	34,887
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) Current portion of long-term loans payable; (4) 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) Carrying amount of financial instruments for which fair value is extremely difficult to estimate

(Unit: thousand yen)

	10th Fiscal Period (As of Apr. 30, 2019)	11th Fiscal Period (As of Oct. 31, 2019)
Tenant leasehold and security deposits	750,376	750,376
Total	750,376	750,376

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

10th Fiscal Period (as of April 30, 2019)

(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	1,130,311	—	—	—	—	—
Cash and deposits in trust	453,791	—	—	—	—	—
Total	1,584,103	—	—	—	—	—

11th Fiscal Period (as of October 31, 2019)

(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	1,232,364	—	—	—	—	—
Cash and deposits in trust	471,207	—	—	—	—	—
Total	1,703,571	—	—	—	—	—

(Note 4) Repayment schedule for short-term loans payable, current portion of long-term loans payable and long-term loans payable due after the settlement of accounts

10th Fiscal Period (as of April 30, 2019)

(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
Current portion of long-term loans payable	3,400,000	—	—	—	—	—
Long-term loans payable	—	2,500,000	500,000	2,400,000	1,000,000	—
Total	3,400,000	2,500,000	500,000	2,400,000	1,000,000	—

11th Fiscal Period (as of October 31, 2019)

(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
Current portion of long-term loans payable	3,000,000	—	—	—	—	—
Long-term loans payable	—	—	2,900,000	1,000,000	2,900,000	—
Total	3,000,000	—	2,900,000	1,000,000	2,900,000	—

[Notes to Derivative Transactions]

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

10th Fiscal Period (as of April 30, 2019)

Not applicable.

11th Fiscal Period (as of October 31, 2019)

Not applicable.

(2) Derivative transactions to which hedge accounting is applied

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.

10th Fiscal Period (as of April 30, 2019)

(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	9,600,000	6,200,000	(*)	—

11th Fiscal Period (as of October 31, 2019)

(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	6,700,000	3,700,000	(*)	—

(*) 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) (4)” earlier in this document.)

[Notes to Transactions with Related Parties]

(1) Parent company and major corporate unitholders

10th Fiscal Period (as of April 30, 2019)

Not applicable.

11th Fiscal Period (as of October 31, 2019)

Not applicable.

(2) Affiliates

10th Fiscal Period (as of April 30, 2019)

Not applicable.

11th Fiscal Period (as of October 31, 2019)

Not applicable.

(3) Companies under common control

10th Fiscal Period (from November 1, 2018, to April 30, 2019)

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	Transaction amount	Account	Balance at end of period
Subsidiary of a major unitholder	GK DA Healthcare 2	Minato-ku, Tokyo	300 thousand yen	Real estate business	—	Purchase of real estate trust beneficiary interests	Purchase of real estate trust beneficiary interests (Note 1, 2, 3 and 4)	394,500 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 is for Irise Komae Bettei. Transaction amount 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 transactions with interested parties, etc. are determined based on the internal rules for conflict of interest set forth by the Asset Management Company.

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

(Note 4) The real estate in trust of trust beneficiary interests owned by NHI is the 30% quasi-co-ownership of Irise Komae Bettei.

11th Fiscal Period (as of October 31, 2019)

Not applicable.

(4) Directors and major individual unitholders, etc.

10th Fiscal Period (as of April 30, 2019)

Not applicable.

11th Fiscal Period (as of October 31, 2019)

Not applicable.

[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 at end of period of the investment and rental properties are as follows:

(Unit: thousand yen)

	10th Fiscal Period (From: Nov. 1, 2018 To: Apr. 30, 2019)	11th Fiscal Period (From: May 1, 2019 To: Oct. 31, 2019)
Carrying amount		
Balance at beginning of period	19,158,094	19,389,329
Net change during period	231,234	(190,941)
Balance at end of period	19,389,329	19,198,387
Fair value at end of period	24,508,000	24,225,000

(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 10th Fiscal Period, the major reason for increase is the acquisition of Irise Komae Bettei (394,500 thousand yen); and the major reason for decrease is depreciation (202,606 thousand yen).

For the 11th Fiscal Period, the major reason for decrease is depreciation (203,564 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

10th Fiscal Period (from November 1, 2018, to April 30, 2019)

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 disclosure on net sales to a single external customer has not been obtained from tenants.

11th Fiscal Period (from May 1, 2019, to October 31, 2019)

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 disclosure on net sales to a single external customer has not been obtained from tenants.

[Notes to Per Unit Information]

	10th Fiscal Period (From: Nov. 1, 2018 To: Apr. 30, 2019)	11th Fiscal Period (From: May 1, 2019 To: Oct. 31, 2019)
Net assets per unit	137,920 yen	137,012 yen
Net income per unit	3,437 yen	3,399 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:

	10th Fiscal Period (From: Nov. 1, 2018 To: Apr. 30, 2019)	11th Fiscal Period (From: May 1, 2019 To: Oct. 31, 2019)
Net income (thousand yen)	256,533	253,678
Amount not attributable to common unitholders (thousand yen)	—	—
Net income attributable to common investment units (thousand yen)	256,533	253,678
Average number of investment units during period (units)	74,632	74,632

[Notes to Significant Subsequent Events]

a. Conclusion of Merger Agreement between NHI and JRH

Both REITs resolved at their respective board of directors' meetings held on November 19, 2019, to implement the Merger with the effective date being April 1, 2020, and entered into the Merger Agreement dated November 19, 2019.

(i) Purpose of the Merger

To date, both REITs have taken the following measures to ensure stable income over the medium to long term and steady expansion of their assets, taking advantage of their respective characteristics. At the same time, both REITs are also aware of the challenges they face.

JRH has achieved sustained dividend growth by taking advantage of steady demand for rental housing with a focus on the three major metropolitan areas including the 23 wards of Tokyo, as well as other regions, and by establishing a stable portfolio of 227.8 billion yen based on the total acquisition price. However, JRH is affected by changes in the supply-demand conditions in the rental housing investment market, as is the case with other residential J-REITs. For instance, the competition for acquisition of superior properties has intensified under the continued low interest rate environment. In such situation, JRH has adopted a property replacement strategy with a view to improve the quality of its portfolio as the top priority under the new medium-term target announced by JRH in May 2019, and has been replacing its owned properties steadily

thereafter, but expects that it will take some period of time (approximately three to five years) to complete the strategy.

NHI has developed its expertise on healthcare assets, a growing market, has established good relationships with operators by engaging in numerous transactions with operators, and has accumulated a track record of asset management under the backdrop of social demand for the enhancement of private nursing homes and other facilities for the elderly under the macro environment of age demographics where the youth population is decreasing and the ratio of elderly people is increasing. On the other hand, there are constraints on opportunities for external growth due to factors such as stagnation in its investment unit price due to the small scale of its portfolio assets.

Under such circumstances, given that both REITs are managed by the same asset manager and sponsored by the same company and that both REITs manage assets that can be considered as having a certain degree of affinity in the framework of “places where people live and reside” for a wide range of age groups from single-person households, DINKS (double-income households with no kids), and families to senior households, expansion of their current respective investment targets from rental housing/healthcare facilities to those with a certain degree of affinity in the above framework through the Merger would enable JRH to secure investment opportunities in other asset classes when property acquisition opportunities decrease due to changes in the supply-demand conditions in the rental housing investment market, as well as to secure opportunities to acquire healthcare facilities warehoused by the same sponsor after the Merger. This would enable NHI to secure large-scale external growth opportunities and improve stability in its portfolio income and risk diversification by increasing the likelihood of equity financing through future issuance of new investment units as a result of expansion of asset size and market capitalization. Therefore, both REITs believe that the Merger would contribute to resolving the challenges the face as stated above. In addition, both REITs share the view that as a result of industry reorganization and new entries led by major companies in the healthcare industry, the credit risk of healthcare operators, which had been an issue of concern, has declined and thereby the cap rates of rental housing and healthcare facilities are now considered to be almost converging. Accordingly, both REITs reached the conclusion that the Merger would combine the characteristics and strengths of the two and recharacterize them as a REIT that “comprehensively provides comfortable living spaces suited to each life stage” and it would therefore contribute to ensuring further growth in the future and thereby maximize unitholders’ value by securing earnings and stabilizing and improving distribution. Accordingly, both REITs entered into the Merger Agreement as of today.

(ii) Method of Merger

JRH will be the surviving corporation under the absorption-type merger and NHI will be dissolved upon the Merger.

(iii) Merger Ratio

	JRH (Surviving corporation in the absorption-type merger)	NHI (Absorbed corporation in the absorption-type merger)
Allocation of units upon the Merger	1	2.05

(Note 1) The number of new JRH investment units to be issued upon the Merger: 152,995 investment units (scheduled)

(Note 2) Fractions of less than one unit will arise with respect to the number of investment units to be allotted to the unitholders of NHI through the allotment of 2.05 units of JRH per unit of NHI. These fractional units will be sold through a market transaction in accordance with statutory provisions, and the proceeds from the sale will be delivered to the unitholders who are allocated fractions in proportion to the size of their fractional units to be allocated.

(iv) Payment on Merger

After the Merger, in lieu of cash distributions to the unitholders of NHI for NHI's final accounting period from November 1, 2019, to March 31, 2020, JRH, the surviving corporation, will, within a reasonable period after the effective date of the Merger, make a payment on the Merger based on the distributable amount of NHI to the unitholders of NHI (the unitholders listed or recorded on the final unitholders register of NHI as of the day immediately prior to the effective date of the Merger (excluding the unitholders of NHI who have demanded the purchase of their investment units pursuant to the provisions of Article 149-3 of the Act on Investment Trusts and Investment Corporations (hereinafter referred to as the "Allotted Unitholders"))) or the registered pledgees of investment units held by Allotted Unitholders, in an amount equivalent to the cash distributions for the abovementioned period (the payment will be the amount of distributable profit of NHI as of the day immediately prior to the effective date of the Merger divided by the number of investment units that is obtained by deducting (a) the number of investment units held by the unitholders other than the Allotted Unitholders of NHI from (b) the total number of investment units issued and outstanding of NHI as of the day immediately prior to the effective date of the Merger (rounded down to the nearest yen). The same applies hereinafter.)

(v) Overview of the fiscal period immediately preceding the Merger (fiscal period ended September 2019) of the surviving corporation (JRH)

Business activities: Managing assets of investment corporations by investing mainly in real estate, etc. among other specified assets, based on the Investment Trusts Act

Operating revenue: 8,460 million yen

Net income: 3,364 million yen

Assets: 227,187 million yen

Liabilities: 118,740 million yen

Net assets: 108,447 million yen

(vi) Date of the Merger

The Merger is scheduled to take effect on April 1, 2020.

b. Decision on Acquisition of Assets

NHI concluded sales and purchase agreements concerning acquisition of the following assets on November 19, 2019, and decided on the acquisition contingent upon the effectuation of the Merger, etc. The position as well as the rights and obligations of the buyer in the sales and purchase agreement for the Assets to be Acquired are scheduled to be succeeded from the Investment Corporation to JRH on April 1, 2020, which is the effective date of the Merger.

Property name	Type of asset	Location	Scheduled acquisition price (thousand yen) (Note 1)	Date of conclusion of sale and purchase agreement	Scheduled acquisition date	Seller
AIP Kachidoki-Ekimae	Trust beneficiary interests	Chuo-ku, Tokyo	8,150,000	November 19, 2019	April 2, 2020	(Note 6)
PLAISANT GRAND MINAMI YUKIGAYA	Trust beneficiary interests	Ota-ku, Tokyo	3,380,000			(Note 8)
Aira no mori Higashi-Ofuna	Trust beneficiary interests	Yokohama-shi, Kanagawa	2,271,195			(Note 9)
Aira no mori Shakujiikoen	Trust beneficiary interests	Nerima-ku, Tokyo	2,070,000			(Note 7)

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Property name	Type of asset	Location	Scheduled acquisition price (thousand yen) (Note 1)	Date of conclusion of sale and purchase agreement	Scheduled acquisition date	Seller
Aira no mori Edogawa-Shinozaki	Trust beneficiary interests	Edogawa-ku, Tokyo	1,499,307	November 19, 2019	April 2, 2020	(Note 7)
Senior Forest Yokohama-Tsuzuki	Trust beneficiary interests	Yokohama-shi, Kanagawa	1,202,000			(Note 10)
Sompo no ie Toyonaka-Minamisone	Trust beneficiary interests	Toyonaka-shi, Osaka	825,000			(Note 5)
Irise Komae Bettei (additional acquisition)	Trust beneficiary interests	Komae-shi, Tokyo	920,500			(Note 5)
Alpha Living Takamatsu Konyamachi	Trust beneficiary interests	Takamatsu-shi, Kagawa	1,225,000			(Note 5)
Good Time Living Center-Minami, Platesia Center-Minami	Trust beneficiary interests	Yokohama-shi, Kanagawa	11,150,000			(Note 11)
Good Time Living Chibaminato-Kaigandori · Platesia Chibaminato	Trust beneficiary interests	Chiba-shi, Chiba	4,516,000			(Note 11)
Good Time Living Yokohama-Tsuzuki	Trust beneficiary interests	Yokohama-shi, Kanagawa	4,064,000			(Note 11)
Good Time Living Senri-Hinatagaoka	Trust beneficiary interests	Suita-shi, Osaka	2,800,000			(Note 11)
Good Time Living Nakamozu	Trust beneficiary interests	Sakai-shi, Osaka	2,180,000			(Note 11)
Good Time Living Kourigaoka	Trust beneficiary interests	Hirakata-shi, Osaka	2,120,000			(Note 11)
Good Time Living Kameido	Trust beneficiary interests	Koto-ku, Tokyo	1,860,000			(Note 11)
Good Time Living Mikage	Trust beneficiary interests	Kobe-shi, Hyogo	1,820,000			(Note 11)
Good Time Living Amagasaki-Shintoshin	Trust beneficiary interests	Amagasaki-shi, Hyogo	1,585,000			(Note 11)
Good Time Living Minami Senri	Trust beneficiary interests	Suita-shi, Osaka	1,430,000			(Note 11)
Good Time Living Kobe-Tarumi	Trust beneficiary interests	Kobe-shi, Hyogo	1,370,000			(Note 11)
Good Time Living Chibaminato-Ekimaedori	Trust beneficiary interests	Chiba-shi, Chiba	1,320,000			(Note 11)
Good Time Living Senboku-Izumigaoka	Trust beneficiary interests	Sakai-shi, Osaka	980,000			(Note 11)
Good Time Living Ikeda-Midorigaoka	Trust beneficiary interests	Ikeda-shi, Osaka	920,000			(Note 11)
Good Time Living Nagatsuta-Minamidai	Trust beneficiary interests	Yokohama-shi, Kanagawa	850,000			(Note 11)
Good Time Living Saitama-Hasuda	Trust beneficiary interests	Hasuda-shi, Saitama	659,000	November 19, 2019	April 2, 2020	(Note 11)

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Property name	Type of asset	Location	Scheduled acquisition price (thousand yen) (Note 1)	Date of conclusion of sale and purchase agreement	Scheduled acquisition date	Seller
Good Time Living Nagareyama-Ichibankan	Trust beneficiary interests	Nagareyama-shi, Chiba	610,000			(Note 11)
Good Time Living Nagareyama-Nibankan	Trust beneficiary interests	Nagareyama-shi, Chiba	563,000			(Note 11)
Good Time Living Amagasaki-Ekimae	Trust beneficiary interests	Amagasaki-shi, Hyogo	320,000			(Note 11)
Total	—	—	62,660,002	—	—	—

(Note 1) Scheduled acquisition price indicates an amount excluding expenses required for the acquisition of the real estate (intermediary fees, taxes and public dues, etc.) stated in the purchase and sale agreement of the real estate.

(Note 2) Funds procured in the issuance of new investment units through third-party allotment, proceeds from sale in the sale of assets, cash on hand and borrowings scheduled to be announced in the future are scheduled to be allocated to funds for the acquisition.

(Note 3) There is no intermediary in the acquisition of the respective Assets to be Acquired.

(Note 4) The position as well as the rights and obligations of the buyer in the sales and purchase agreement for the Assets to be Acquired are scheduled to be succeeded from NHI to JRH based on the Merger on April 1, 2020, which is the effective date of the Merger, and acquired by JRH, the surviving corporation of the Merger.

(Note 5) The seller is GK DA Healthcare 2.

(Note 6) The seller is GK DA Healthcare 3.

(Note 7) The seller is GK DA Healthcare 4.

(Note 8) The seller is GK DA Healthcare 5.

(Note 9) The seller is GK DA Healthcare 6.

(Note 10) The seller is GK DA Healthcare 7.

(Note 11) The seller is GK GTL Healthcare.

2.9. 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 in the net amount since the establishment of NHI through to the end of the 11th Fiscal Period.

Payment date	Description	Total number of investment units issued and outstanding (units)		Unitholders' capital, net (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)
July 15, 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	(59)	10,348	(Note 10)
Jan. 24, 2017	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	(59)	10,288	(Note 11)
July 18, 2017	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	(59)	10,229	(Note 12)
Jan. 23, 2018	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	(63)	10,165	(Note 13)
July 17, 2018	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	(64)	10,101	(Note 14)

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Payment date	Description	Total number of investment units issued and outstanding (units)		Unitholders' capital, net (million yen) (Note 1)		Remarks
		Increase (Decrease)	Balance	Increase (Decrease)	Balance	
January 23, 2019	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	(64)	10,036	(Note 15)
July 18, 2019	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	(64)	9,971	(Note 16)

(Note 1) Figures indicate amounts obtained by subtracting deduction from unitholders' capital 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) 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) 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.

(Note 10) 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) of 800 yen per unit at its board of directors' meeting held on June 21, 2016, as cash distribution for the 4th fiscal period (fiscal period ended April 2016), and started the payout from July 15, 2016.

(Note 11) 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) of 800 yen per unit at its board of directors' meeting held on December 21, 2016, as cash distribution for the 5th fiscal period (fiscal period ended October 2016), and started the payout from January 24, 2017.

(Note 12) 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) of 800 yen per unit at its board of directors' meeting held on June 19, 2017, as cash distribution for the 6th fiscal period (fiscal period ended April 2017), and started the payout from July 18, 2017.

(Note 13) 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) of 850 yen per unit at its board of directors' meeting held on December 19, 2017, as cash distribution for the 7th fiscal period (fiscal period ended October 2017), and started the payout from January 23, 2018.

- (Note 14) 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) of 860 yen per unit at its board of directors' meeting held on June 18, 2018, as cash distribution for the 8th fiscal period (fiscal period ended April 2018), and started the payout from July 17, 2018.
- (Note 15) 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) of 870 yen per unit at its board of directors' meeting held on December 19, 2018, as cash distribution for the 9th fiscal period (fiscal period ended October 2018), and started the payout from January 23, 2019.
- (Note 16) 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) of 870 yen per unit at its board of directors' meeting held on June 19, 2019, as cash distribution for the 10th fiscal period (fiscal period ended April 2019), and started the payout from July 18, 2019.

3. Reference Information

3.1. Investment Status

Type of asset	Use		Region	11th Fiscal Period (As of October 31, 2019)	
				Total amount owned (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)	11,845	56.5
			Core city areas (Note 4)	6,754	32.2
			Other (Note 5)	—	—
	Elderly housing with supportive services		Three major metropolitan areas (Note 3)	—	—
			Core city areas (Note 4)	598	2.9
			Other (Note 5)	—	—
	Other private nursing homes and other facilities for the elderly			—	—
			Subtotal	19,198	91.6
	Medical facilities			—	—
	Other			—	—
Total			19,198	91.6	
Deposits and other assets				1,763	8.4
Total assets (Note 6)				20,962	100.0
				(19,198)	(91.6)

(Note 1) “Total amount owned” 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 fewer than 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.

3.2. Investment Real Estate Properties

3.2.1. Acquisition Price and Investment Ratio of Investment Real Estate Properties

The following is an overview of the real estate in trust of trust beneficiary interests owned as of October 31, 2019, 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 LAVIERE Sagamihara Chuo	1,170	1,113	1,780	5.9
		Charm Suite Ryokuchi Koen	1,950	1,891	3,030	9.9
		Sawayaka Heart Life Nishikyogoku	750	713	1,130	3.8
		Verger Hirakata	950	896	1,560	4.8
		Sompo Care LAVIERE Kinugasayama Koen	1,839	1,783	2,000	9.3
		La'nassica Arakogawa	1,279	1,186	1,400	6.5
		Super Court JR Nara-Ekimae	1,569	1,501	1,700	8.0
		Minna-no-ie Omiya Tsutsujigaoka Park (Note 5)	740	746	774	3.8
		Minna-no-ie Chuo-ku En'nami	838	855	859	4.3
		Sompo no ie Nishitanabeekimae	710	744	736	3.6
		Irise Komae Bettei (Note 5)	394	412	399	2.0
		Subtotal	12,189	11,845	15,368	61.8
	Core city areas	Nichii Care Center Fukushima Omori	265	236	336	1.3
		Sompo Care LAVIERE Hiroshima Hikarigaoka	960	946	1,210	4.9
		Sawayaka Kaikyokan	630	588	898	3.2
		Sawayaka Meisuikan	590	539	812	3.0
		Sawayaka Hinodekan	773	733	896	3.9
		Sawayaka Riverside Kurinoki	266	253	306	1.3
		Sawayaka Obatake Sanbankan	289	270	349	1.5
		Silver Heights Hitsujigaoka No.3	1,200	1,251	1,330	6.1
		Alpha Living Okayama Nishigawa Ryokudokoen	730	724	789	3.7
		Alpha Living Okayama Korakuen	610	607	661	3.1
		Alpha Living Takamatsu Ekimae	605	601	642	3.1
Alpha Living Takamatsu Hyakkenmachi	605	598	628	3.1		
Subtotal	7,523	7,352	8,857	38.2		
Total (23 properties)			19,712	19,198	24,225	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 October 31.

(Note 3) "Estimated price at end of period" is the price as of October 31, 2019, stated in the appraisal reports 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 Irise Komae Bettei, the figures indicated are for the interest owned by NHI.

3.2.2. Summary of Building and Leasing of Investment Real Estate Properties

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 owned as of October 31, 2019, by NHI totaled 1,413 million yen (Note). (Note) The amount obtained by adding up the monthly rent in the respective lease agreement valid as of October 31, 2019, 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 ²) (Note 3)	Total leased area (m ²) (Note 4)	Total number of tenants (Note 5)	Occupancy rate (%) (Note 6)	Appraisal NOI (million yen) (Note 7)
Three major metropolitan areas	Sompo Care LAVIERE 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	84
	Sompo Care LAVIERE Kinugasayama Koen	RC / B1/5F	Mar. 3, 2011	4,265.88	4,265.88	1	100.0	98
	La'nassica Arakogawa	S / 4F	Apr. 17, 2008	3,590.40	3,590.40	1	100.0	73
	Super Court JR Nara-Ekimae	RC / 7F	June 17, 2009	5,057.07	5,057.07	1	100.0	90
	Minna-no-ie Omiya Tsutsujigaoka Park	RC / 4F	Apr. 3, 2012	1,800.03	1,800.03	1	100.0	39
	Minna-no-ie Chuo-ku En'nami	RC / 3F	Feb. 27, 2014	1,963.03	1,963.03	1	100.0	44
	Sompo no ie Nishitanabeekimae	RC / 9F	Feb. 11, 2007	2,095.79	2,095.79	1	100.0	36
	Irise Komae Bettei (Note 8)	RC / 3F	Jan.27, 2017	605.01	605.01	1	100.0	17
Subtotal				33,824.33	33,824.33	11	100.0	778
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 LAVIERE Hiroshima Hikarigaoka	RC / 7F	Dec. 15, 2005	4,133.82	4,133.82	1	100.0	70
	Sawayaka Kaikyokan	RC / 6F	Oct. 23, 2003	2,694.42	2,694.42	1	100.0	50
	Sawayaka Meisukan	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	46
	Sawayaka Riverside Kurinoki	S / 4F	Oct. 20, 2009	1,349.39	1,349.39	1	100.0	16
	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	Apr. 18, 2003	7,267.56	7,267.56	1	100.0	70
	Alpha Living Okayama Nishigawa Ryokudokoen	RC / 7F	Aug. 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 (23 properties)				67,903.84	67,903.84	23	100.0	1,253

- (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 October 31, 2019.
- (Note 5) “Total number of tenants” is the total 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 October 31, 2019. The appraisal NOI above is the NOI derived by the direct capitalization method. “Appraisal NOI” is rounded down to the nearest million yen.
- (Note 8) The real estate in trust of trust beneficiary interests owned by NHI is 30% quasi-co-ownership in the property. “Total leasable area” and “Total leased area” indicate areas equivalent to 30% of the entire building. “Appraisal NOI” indicates a figure equivalent to the quasi-co-ownership in trust beneficiary interests.

3.2.3. Status of Income (Loss) of Investment Real Estate Properties

(Unit: thousand yen)

Property name	11th Fiscal Period (from May 1, 2019, to October 31, 2019)								
	Property-related operating revenue (Note 1)	Property-related operating expenses							NOI (Note 2)
		Consignment expenses	Taxes and public dues	Non-life insurance expenses	Repair expenses	Depreciation	Other		
Nichii Care Center Fukushima Omori	Not disclosed	8,626	162	1,179	34	574	5,474	1,200	11,248
Sompo Care LAVIERE Hiroshima Hikarigaoka	Not disclosed	30,482	664	2,868	75	14,835	12,038	—	21,762
Sompo Care LAVIERE Sagamihara Chuo	Not disclosed	13,628	860	2,292	75	73	10,328	—	45,119
Charm Suite Ryokuchi Koen	Not disclosed	24,285	1,210	4,557	103	1,077	17,336	—	71,801
Sawayaka Kaikyokan	Not disclosed	9,732	608	1,808	73	—	7,242	—	25,954
Sawayaka Meisuikan	Not disclosed	11,466	571	2,806	108	—	7,979	—	25,014
Sawayaka Heart Life Nishikyogoku	Not disclosed	9,623	838	1,711	49	330	6,694	—	30,335
Verger Hirakata	Not disclosed	13,918	623	1,878	56	598	10,761	—	42,442
Sompo Care LAVIERE Kinugasayama Koen	Not disclosed	22,579	1,043	3,921	92	1,085	16,437	—	49,486
La'nassica Arakogawa	Not disclosed	20,128	645	2,232	73	48	17,129	—	37,800
Sawayaka Hinodekan	Not disclosed	10,741	444	1,858	49	—	8,388	—	24,197
Sawayaka Riverside Kurinoki	Not disclosed	4,745	198	935	25	—	3,585	—	8,757
Sawayaka Obatake Sanbankan	Not disclosed	5,373	202	820	25	—	4,325	—	9,631
Super Court JR Nara-Ekimae	Not disclosed	22,621	1,455	2,978	97	160	17,931	—	46,101
Minna-no-ie Omiya Tsutsujigaoka Park	Not disclosed	10,347	1,005	1,826	40	250	7,225	—	19,529
Minna-no-ie Chuo-ku En'nami	Not disclosed	13,185	995	2,146	42	180	9,820	—	22,027
Silver Heights Hitsujigaoka No.3	Not disclosed	17,290	685	6,167	129	1,585	8,723	—	33,673
Alpha Living Okayama Nishigawa Ryokudokoen	Not disclosed	9,731	385	1,675	43	—	7,626	—	18,776
Alpha Living Okayama Korakuen	Not disclosed	6,327	304	1,572	42	—	4,407	—	16,593
Alpha Living Takamatsu Ekimae	Not disclosed	7,951	302	1,163	37	—	6,448	—	15,760
Alpha Living Takamatsu Hyakkenmachi	Not disclosed	14,076	302	1,642	39	5,130	6,961	—	10,887
Sompo no ie Nishitanabeekimae	Not disclosed	7,241	414	1,713	46	—	5,066	—	18,493
Irise Komae Bettei	Not disclosed	2,649	197	809	13	—	1,628	—	9,059
Total	707,645	296,755	14,122	50,566	1,375	25,925	203,564	1,200	614,454

(Note 1) "Property-related operating revenue" is not disclosed by property because consent for disclosure has not been obtained from tenants.

(Note 2) NOI = Property-related operating revenue – Property-related operating expenses + Depreciation

3.2.4. 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	336	339	5.7	333	5.5	5.9	22
Sompo Care LAVIERE Hiroshima Hikarigaoka	Japan Real Estate Institute	1,210	1,220	5.2	1,200	5.0	5.4	70
Sompo Care LAVIERE Sagamihara Chuo	Daiwa Real Estate Appraisal Co., Ltd.	1,780	1,810	4.7	1,770	4.5	4.9	88
Charm Suite Ryokuchi Koen	Daiwa Real Estate Appraisal Co., Ltd.	3,030	3,070	4.6	3,010	4.4	4.8	143
Sawayaka Kaikyokan	Japan Real Estate Institute	898	907	5.3	889	5.1	5.5	50
Sawayaka Meisuikan	Japan Real Estate Institute	812	819	5.3	805	5.1	5.5	47
Sawayaka Heart Life Nishikyogoku	Daiwa Real Estate Appraisal Co., Ltd.	1,130	1,140	5.2	1,120	5.0	5.4	60
Verger Hirakata	Daiwa Real Estate Appraisal Co., Ltd.	1,560	1,570	5.2	1,550	5.0	5.4	84
Sompo Care LAVIERE Kinugasayama Koen (Note 2)	The Tanizawa Sōgō Appraisal Co., Ltd.	2,000	2,030	4.7	1,990	4.8	4.9	98
La'nassica Arakogawa (Note 3)	The Tanizawa Sōgō Appraisal Co., Ltd.	1,400	1,410	5.0	1,390	5.1	5.2	73
Sawayaka Hinodekan	Daiwa Real Estate Appraisal Co., Ltd.	896	905	5.0	892	4.8	5.2	46
Sawayaka Riverside Kurinoki	Daiwa Real Estate Appraisal Co., Ltd.	306	309	5.1	304	4.9	5.3	16
Sawayaka Obatake Sanbankan	Daiwa Real Estate Appraisal Co., Ltd.	349	355	5.1	346	4.9	5.3	18
Super Court JR Nara-Ekimae (Note 4)	The Tanizawa Sōgō Appraisal Co., Ltd.	1,700	1,720	5.0	1,690	5.1	5.2	90
Minna-no-ie Omiya Tsutsujigaoka Park	The Tanizawa Sōgō Appraisal Co., Ltd.	774	783	4.9	770	5.0	5.1	39
Minna-no-ie Chuo-ku En'nami	Japan Real Estate Institute	859	868	4.9	849	4.7	5.1	44
Silver Heights Hitsujigaoka No.3	Daiwa Real Estate Appraisal Co., Ltd.	1,330	1,340	4.9	1,330	4.7	5.1	70
Alpha Living Okayama Nishigawa Ryokudokoen	Daiwa Real Estate Appraisal Co., Ltd.	789	802	4.5	783	4.3	4.7	37
Alpha Living Okayama Korakuen	Daiwa Real Estate Appraisal Co., Ltd.	661	671	4.7	656	4.5	4.9	32
Alpha Living Takamatsu Ekimae	Daiwa Real Estate Appraisal Co., Ltd.	642	652	4.6	637	4.4	4.8	30
Alpha Living Takamatsu Hyakkenmachi	Daiwa Real Estate Appraisal Co., Ltd.	628	634	4.7	625	4.5	4.9	31
Sompo no ie Nishitanabeekimae (Note 5)	The Tanizawa Sōgō Appraisal Co., Ltd.	736	744	4.7	732	4.8	4.9	36
Irise Komae Bettei (Note 6)	Japan Real Estate Institute	399	405	4.4	393	4.2	4.6	17
Total		24,225	24,503	—	24,064	—	—	1,253

- (Note 1) The summary is based on the appraisal report with October 31, 2019, as the date of value.
- (Note 2) The discount rate for Sampo Care LAVIERE Kinugasayama Koen is the discount rate for the 11th and subsequent fiscal years (discount rate up to the 10th fiscal year: 4.7%).
- (Note 3) The discount rate for La'nassica Arakogawa is the discount rate for the 9th and subsequent fiscal years (discount rate up to the 8th fiscal year: 5.0%).
- (Note 4) The discount rate for Super Court JR Nara-Ekimae is the discount rate for the 6th and subsequent fiscal years (discount rate up to the 5th fiscal year: 5.0%).
- (Note 5) The discount rate for Sampo no ie Nishitanabeekimae is the discount rate for the 9th and subsequent fiscal years (discount rate up to the 8th fiscal year: 4.7%).
- (Note 6) As to Irise Komae Bettei, the figures indicate those equivalent to the ratio NHI's quasi-co-ownership interest in trust beneficiary interests (30%).

3.2.5. 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 paid in 11th FP	Total amount paid
Sampo Care LAVIERE Hiroshima Hikarigaoka (Hiroshima-shi, Hiroshima)	Upgrading of elevators	From: March 2020 To: March 2020	6	—	—
Silver Heights Hitsujigaoka No.3 (Sapporo-shi, Hokkaido)	Upgrading of elevators	From: March 2020 To: March 2020	5	—	—
Sawayaka Heart Life Nishikyogoku (Kyoto-shi, Kyoto)	Upgrading of elevators	From: March 2020 To: March 2020	5	—	—
Minna-no-ie Omiya Tsutsujigaoka Park (Saitama-shi, Saitama)	Upgrading of elevators	From: March 2020 To: March 2020	4	—	—
Super Court JR Nara-Ekimae (Nara-shi, Nara)	Upgrading of elevators	From: March 2020 To: March 2020	3	—	—
Sampo Care LAVIERE Kinugasayama Koen (Yokosuka-shi, Kanagawa)	Upgrading of elevators	From: March 2020 To: March 2020	2	—	—
Nichii Care Center Fukushima Omori (Fukushima-shi, Fukushima)	Upgrading of elevators	From: March 2020 To: March 2020	2	—	—

B. Capital Expenditures during the 11th Fiscal Period

The following summarizes the main construction work that constitutes capital expenditures conducted for existing owned properties during the 11th Fiscal Period. Capital expenditures in the 11th Fiscal Period was 12 million yen. Combined with 25 million yen of repair expenses categorized as expense for the 11th Fiscal Period, 38 million yen of work has been implemented.

Name of real estate property (Location)	Purpose	Period	Construction amount (million yen)
Sampo Care LAVIERE Hiroshima Hikarigaoka (Hiroshima-shi, Hiroshima)	Upgrading of air-conditioning in rooms	From: May 2019 To: May 2019	4
Other	—	From: May 2019 To: October 2019	8
Total			12

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)

Accounting period	7th Fiscal Period (From: May 1, 2017 To: Oct. 31, 2017)	8th Fiscal Period (From: Nov. 1, 2017 To: Apr. 30, 2018)	9th Fiscal Period (From: May 1, 2018 To: Oct. 31, 2018)	10th Fiscal Period (From: Nov. 1, 2018 To: Apr. 30, 2019)	11th Fiscal Period (From: May 1, 2019 To: Oct. 31, 2019)
Balance of reserve at beginning of period	65	65	105	105	89
Provision of reserve during period	—	40	—	—	—
Reversal of reserve during period	—	—	—	16	—
Reserve carried forward	65	105	105	89	89

(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.

3.2.6. Status of Pledged Collateral

The following outlines the collateral on acquired assets as of October 31, 2019.

Property name	Status of collateral	Type of collateral	Appraisal value (million yen)	Security interests holder
Nichii Care Center Fukushima Omori Sompo Care LAVIERE Hiroshima Hikarigaoka Sompo Care LAVIERE Sagamihara Chuo Charm Suite Ryokuchi Koen Sawayaka Kaikyokan Sawayaka Meisuikan Sawayaka Heart Life Nishikyogoku Verger Hirakata Sompo Care LAVIERE Kinugasayama Koen La'nassica Arakogawa Sawayaka Hinodekan Sawayaka Riverside Kurinoki Sawayaka Obatake Sanbankan Super Court JR Nara-Ekimae Minna-no-ie Omiya Tsutsujigaoka Park Minna-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 Sompo no ie Nishitanabeekimae Irise Komae Bettei	Pledged as collateral (joint collateral)	Revolving pledge	24,225	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 Shinsei Bank, Limited

3.2.7. 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	254	18.1
More than 1.5x, but 2.0x or less	836	59.5
More than 1.2x, but 1.5x or less	—	—
1.2x or less	316	22.5
Total	1,407	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 October 2018 to September 2019 disclosed by the respective operator. Exceptions are La’nassica Arakogawa for which these are based on information on business income and expenditures from April 2018 to March 2019 and Silver Heights Hitsujigaoka No.3 for which these are based on information on business income and expenditures from September 2018 to August 2019. The same shall apply hereinafter in “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 for healthcare facilities 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)
1.7x

(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	197	14.0
More than 1.5x, but 2.0x or less	851	60.5
More than 1.2x, but 1.5x or less	246	17.5
1.2x or less	111	7.9
Total	1,407	100.0

(Note 1) “Appraisal rent-paying capacity” refers to the multiple obtained by dividing the respective assumed EBITDAR of real estate in trust (figures that are calculated based on information on business income and expenditures 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 appraisal 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 appraisal 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 assumed 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	629	44.7
More than 50%, but 60% or less	654	46.5
More than 60%, but 70% or less	123	8.8
More than 70%	—	—
Total	1,407	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 October 2018 to September 2019 disclosed by the respective operator. Exceptions are La’nassica Arakogawa for which these are based on information on business income and expenditures from April 2018 to March 2019 and Silver Heights Hitsujigaoka No.3 for which these are based on information on business income and expenditures from September 2018 to August 2019. 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)
50.7%

(Note) “Average proportion of long-term care fee” is the proportion of the total of net sales that is accounted for by the total of 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	860	61.1
More than 5%, but 15% or less	546	38.9
More than 15%, but 25% or less	—	—
More than 25%	—	—
Total	1,407	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 October 2018 to September 2019 disclosed by the respective operator. Exceptions are La’nassica Arakogawa for which these are based on information on business income and expenditures from April 2018 to March 2019 and Silver Heights Hitsujigaoka No.3 for which these are based on information on business income and expenditures from September 2018 to August 2019. The same shall apply hereinafter in “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)
3.5%

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

3.2.8. 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 11th Fiscal Period (October 31, 2019). This is the following for the portfolio of 23 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 ²)	Total leased area (m ²)	Occupancy rate (%)
Charm Suite Ryokuchi Koen	1	143	5,329.73	5,329.73	100.0

3.2.9. 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 11th Fiscal Period (October 31, 2019). This is the following for the portfolio of 23 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 ²)	Share (%) (Note 1)
Sawayaka Club Co., Ltd.	Sawayaka Kaikyokan	March 27, 2034	243	15,142.82	22.3
	Sawayaka Meisukan				
	Sawayaka Heart Life Nishikyogoku				
	Sawayaka Hinodekan	November 30, 2034			
	Sawayaka Riverside Kurinoki				
	Sawayaka Obatake Sanbankan				
Sompo Care Next Inc.	Sompo Care LAVIERE Hiroshima Hikarigaoka	March 28, 2034	296	14,228.44	21.0
	Sompo Care LAVIERE Sagamihara Chuo	September 11, 2034			
	Sompo Care LAVIERE Kinugasayama Koen				
	Sompo no ie Nishitanabeekimae	March 31, 2027			
Anabuki Medical Care Inc.	Alpha Living Okayama Nishigawa Ryokudokoen	June 30, 2035	132	8,029.82	11.8
	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	10.7

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