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## REIT Financial Report for the 5th Fiscal Period

December 21, 2016

REIT Issuer: Nippon Healthcare Investment Corporation Stock Exchange Listing: TSE  
 Securities Code: 3308 URL: <http://www.nippon-healthcare.co.jp/>  
 Representative: Hiroshi Takeuchi, Executive Director  
 Asset Manager: Daiwa Real Estate Asset Management Co. Ltd.  
 Representative: Akira Yamanouchi, President and Representative Director  
 Inquiries to: Yuji Shinotsuka, Vice President and Representative Director TEL: +81-3-6757-9600  
 Scheduled date of submission of periodic securities report (*yuka shoken hokokusho*): January 20, 2017  
 Scheduled date of start of distribution payments: January 24, 2017  
 Preparing presentation material: Yes  
 Holding financial brief meeting: Yes (for institutional investors and analysts)

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

### 1. Status of Management and Assets for the 5th Fiscal Period

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

##### (1) Management

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

Fiscal period	Operating revenue		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
5th	679	1.8	274	(5.2)	247	(5.4)	246	(5.4)
4th	667	20.1	289	28.8	261	29.9	260	30.1

Fiscal period	Net income per unit	Net income to unitholders' equity	Ordinary income to total assets	Ordinary income to operating revenue
	yen	%	%	%
5th	3,305	2.3	1.2	36.4
4th	3,566	2.8	1.4	39.2

##### (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
	yen	yen	yen	million yen	million yen	million yen		
5th	4,106	3,306	800	306	246	59	100.0	2.3
4th	4,295	3,495	800	320	260	59	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 5th Fiscal Period and the 4th Fiscal Period are 0.006, respectively. Furthermore, calculation of the rate of decrease in surplus, etc. is pursuant to Article 23, Paragraph 1, Item 4 of the Order for Enforcement of the Corporation Tax Act (Cabinet Order No. 97 of 1965; including amendments thereto).

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

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

(Note 3) The total distribution amounts in excess of earnings for the 5th and 4th Fiscal Periods are entirely reimbursement of investments in capital which falls under the category of distribution reducing unitholders' capital for tax purpose.

(Note 4) Dividend payout 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
5th	21,315	10,595	49.7	141,969
4th	20,847	10,669	51.2	142,958

### (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
5th	446	(762)	180	1,466
4th	448	(2,685)	2,873	1,601

## 2. Management Status Forecasts for the 6th Fiscal Period and the 7th Fiscal Period

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

**7th Fiscal Period: Fiscal period ending October 2017 (from May 1, 2017 to October 31, 2017)**

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

Fiscal period	Operating revenue		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
6th	697	2.6	274	0.0	247	(0.1)	246	(0.2)
7th	697	(0.0)	275	0.2	247	0.0	246	0.0

Fiscal period	Distribution amount per unit (including distribution amount in excess of earnings)	Distribution amount per unit (excluding distribution amount in excess of earnings)	Distribution amount in excess of earnings per unit
	yen	yen	yen
6th	4,100	3,300	800
7th	4,100	3,300	800

(Reference) Estimated net income per unit for the 6th Fiscal Period: 3,300 yen; 7th Fiscal Period: 3,300 yen

#### \* Other

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

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

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

(i) Total number of investment units issued and outstanding (including own investment units) at end of period:	5th Fiscal Period	74,632 units
	4th Fiscal Period	74,632 units
(ii) Number of own investment units at end of period:	5th Fiscal Period	– units
	4th Fiscal Period	– units

(Note) Please refer to “Notes to Per Unit Information” on page 29 for the number of investment units used as the basis for calculating the net income per unit.

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

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

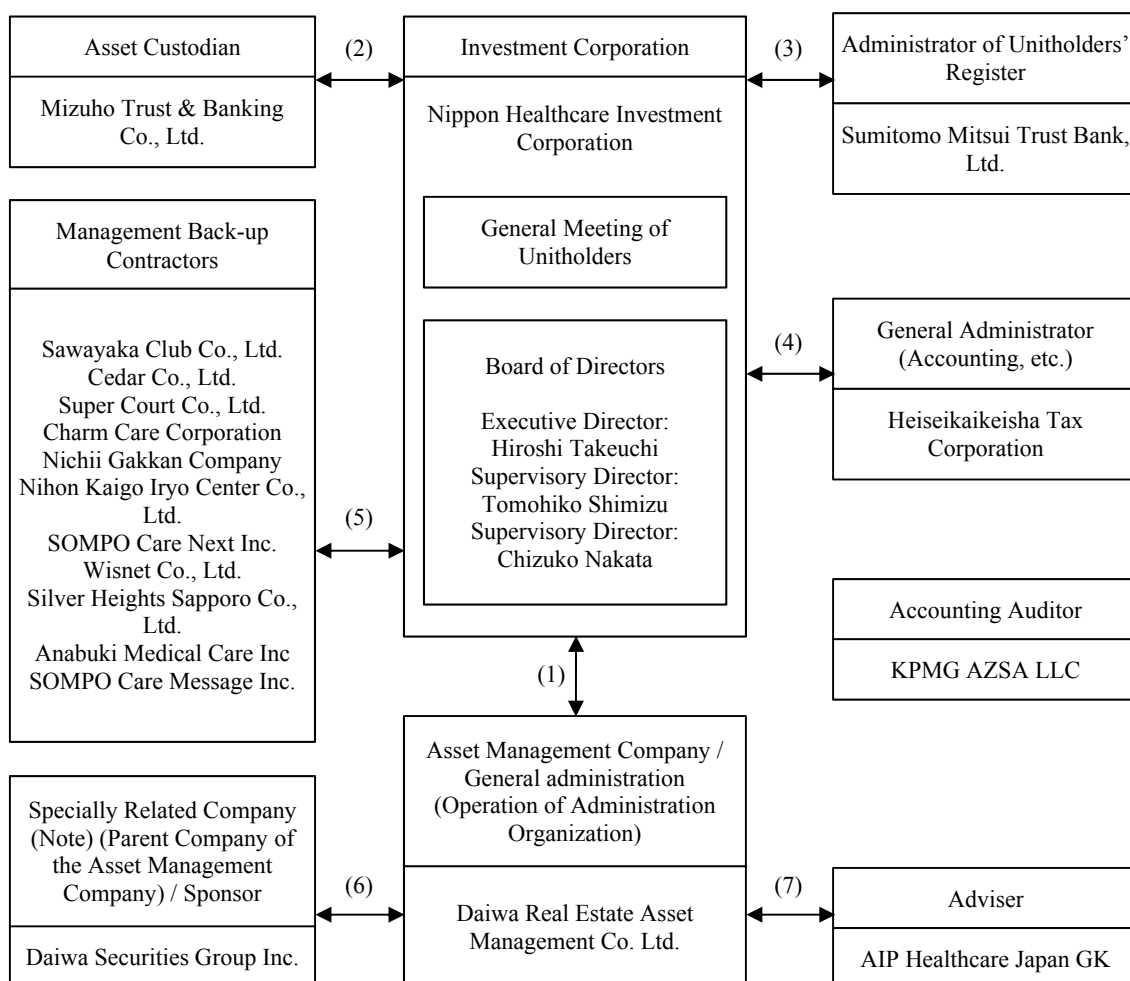
#### \* Explanation of the appropriate use of the management status forecasts, and other matters of special note

The forecast figures are forward-looking statements based on information currently available to Nippon Healthcare Investment Corporation and involve uncertainties. Accordingly, the actual operating revenue, operating income, ordinary income, net income and distribution amount per unit may vary due to changes in the status. In addition, the forecast is not a guarantee of the distribution amount. For details on the assumptions underlying the forecast figures above, please refer to “Assumptions for the Management Status Forecasts for the 6th Fiscal Period (from November 1, 2016 to April 30, 2017) and the 7th Fiscal Period (from May 1, 2017 to October 31, 2017)” on page 12.

## 1. Affiliated Juridical Persons of the Investment Corporation

### (1) Structure of NHI

Executive Director has been changed and Sompo Care Message Inc. has been added to management backup contractors in the “Structure of Investment Corporation” described in the most recent periodic securities report (*yuka shoken hokokusho*) (submitted on July 22, 2016), as shown below.



- (1) Asset management agreement/General administration affairs agreement related to operation
- (2) Asset custodian agreement
- (3) General administrator of unitholders' registry agreement
- (4) General administrator of accounting agreement
- (5) Management back-up agreement
- (6) Sponsor support agreement
- (7) Advisory agreement

(Note) Specially Related Company (as defined in Article 12 Paragraph 3 of the Cabinet Office Ordinance on Disclosure of Information, etc. on Specified Securities (Ordinance of the Ministry of Finance No. 22 of 1993, including subsequent amendments)) of NHI is Daiwa Securities Group Inc. Daiwa Securities Group Inc. is a parent company (as defined in Article 8, Paragraph 3 of the Ordinance for the Terminology, Forms and Preparation Methods of Financial Statements, etc. (Ordinance of the Ministry of Finance No. 59 of 1963, including subsequent amendments)) of the Asset Management Company.

## (2) Functions, names and details of work of NHI and NHI's affiliated juridical persons

Function	Company name	Details of work
Investment Corporation	Nippon Healthcare Investment Corporation	Pursuant to the Articles of Incorporation, NHI shall manage capital and such paid in by unitholders through making investments primarily in real estate and other assets.
Asset Management Company / General administrator (operation of administration organization)	Daiwa Real Estate Asset Management Co., Ltd.	<p>The company concluded an asset management agreement with NHI on January 7, 2014.</p> <p>As an asset management company defined in the Act on Investment Trusts and Investment Corporations (Article 198, Paragraph 1), the company shall, based on the agreement, manage assets in accordance with the investment target and policies stipulated in the Articles of Incorporation of NHI.</p> <p>The following are work entrusted to the asset management company.</p> <p>(1) Work related to management of NHI's assets (2) Work related to fund procurement for NHI (3) Reporting to NHI (4) Other work related or incidental to the above (1) - (3), which NHI entrusts as needed (including participating in NHI's Board of Directors and making reports.)</p> <p>Moreover, the asset management company concluded a general administration affairs agreement related to operation with NHI on January 7, 2014.</p> <p>As a general administrator defined in the Act on Investment Trusts and Investment Corporations (Article 117, Paragraph 4), the company shall, based on the agreement, conduct administrative work of operation of administration organization (excluding dispatching documents related to the General Meeting of Unitholders, receiving voting forms, work related to tallying.)</p>
Asset Custodian	Mizuho Trust & Banking Co., Ltd.	<p>The company concluded an asset custodian agreement with NHI on January 7, 2014.</p> <p>As an asset custodian defined in the Act on Investment Trusts and Investment Corporations (Article 208, Paragraph 1), the company shall, based on the agreement, conduct work related to custody of assets held by NHI. The asset custodian shall also conduct the following work associated with asset custody. (1) Making payments using bank accounts under the name of NHI, (2) Opening/closing of bank accounts under the name of NHI, and (3) Other work corresponding to (1) and (2) .</p>
General administrator of calculation, preparation of accounting record and tax payment	Heiseikaikeisha Tax Corporation	<p>The company concluded a general administrator of accounting agreement with NHI on January 7, 2014.</p> <p>As a general administrator defined in the Investment Trust Law (Article 117, Paragraphs 5 and 6), the company shall, based on the agreement, conduct the following. (1) Work related to calculation, (2) Work related to preparation of accounting record, (3) Work related to tax payment, and (4) Work related or incidental to the above work.</p>
General administrator of unitholders' register	Sumitomo Mitsui Trust Bank, Ltd.	<p>The company concluded a general administrator of unitholders' registry agreement with NHI on December 25, 2013. (The asset management company, the organizer of NHI, concluded the agreement on December 25, 2013, and NHI succeeded the contractual status from the asset management company on January 7, 2014.)</p> <p>As a general administrator defined in the Act on Investment Trusts and Investment Corporations (Article 117, Paragraphs 2, 3 and 6), the company shall, based on the agreement, conduct the following. (1) Work related to preparing, administrating and keeping unitholders' register (2) Work related to issuance of investment securities (3) Work related to conducting the General Meeting of Unitholders (4) Work related to payment of distributions or refunding to unitholders, and (5) Work related to responding to requests from unitholders regarding execution of rights and such.</p>
Specially Related Company (Parent Company of the	Daiwa Securities Group Inc.	The company is the parent company of the asset management company, which owns 100% of the total

Asset Management Company) / Sponsor		<p>number of outstanding shares of the asset management company.</p> <p>The company concluded a sponsor support agreement with the asset management company on June 17, 2009.</p> <p>With the aim for NHI's sustainable and stable growth, the company shall provide, on an as-needed basis, the information which Daiwa Securities Group Inc. judges to be beneficial to the asset management company or NHI, among information on properties, etc. for the asset management company and other information related to the operation of the asset management company, as well as cooperating in securing personnel and arranging bridge funds, etc. at the asset management company.</p>
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## (3) Other main associated parties of NHI

Function	Company name	Details of work
Advisor of Asset Management Company	AIP Healthcare Japan GK	<p>The company concluded an advisory agreement with the asset management company on December 27, 2013.</p> <p>With the aim for NHI's sustainable and stable growth through expanding investment opportunities of NHI and enhancing the quality of real estate management by the asset management company, the company shall provide information on management/operation of healthcare facilities with the asset management company, conduct advisory work such as assisting and supporting negotiations with operators, and advise on market research/analysis concerning assets under investment target.</p>
Management Back-up Contractor	Sawayaka Club Co., Ltd. Cedar Co., Ltd. Super Court Co., Ltd. Charm Care Corporation Nichii Gakkan Company Nihon Kaigo Iryo Center Co., Ltd. SOMPO Care Next Inc. Wisnet Co., Ltd. Silver Heights Sapporo Co., Ltd. Anabuki Medical Care Inc. Sompo Care Message Inc.	<p>Each of the companies has concluded a management back-up agreement with NHI.</p> <p>In case a lease agreement related to healthcare facilities owned by NHI is terminated or expected to be terminated due to cancellation, dissolution or other reason, when NHI requests a management back-up contractor to operate the relevant facility upon concluding a new lease agreement for the facility, the relevant management back-up contractor shall sincerely discuss the request with NHI.</p>

**2. Management Policy and Management Status****2.1. Management Policy**

Nippon Healthcare Investment Corporation (hereinafter referred to as "NHI") has resolved to partially amend the Articles of Incorporation, including the cash distribution policy and the investment target and policies, at the Third General Meeting of Unitholders held on July 28, 2016. Other than the above, disclosure is omitted because there are no significant changes from the "Investment Policy," "Investment Target" and "Distribution Policy" set out in the most recent periodic securities report (*yuka shoken hokokusho*) (submitted on July 22, 2016) as of the date of this document.

[Cash distribution policy]

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

[Investment target and policies]

- Make amendment so that provisions will stipulate that NHI's main investment target be trust beneficiary interest only in real estate, leasehold right of real estate and surface right and these assets, among real estate and other assets.
- Add renewable energy power generation facility and right to operate public facility, etc. to types of assets identified as the investment management target of NHI. Also add provisions to clarify investment restrictions concerning such.

- As the requirements for an investment corporation to apply for special taxation measures were amended due to the revisions to the Ordinance for Enforcement of the Act on Special Measures Concerning Taxation, delete provisions which were previously listed requirements of the Articles of Incorporation.

## 2.2. Management Status

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

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

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

After having built a track record of approximately seven months since commencement of management, NHI implemented an additional issuance of investment units through public offering (39,000 units) on November 4, 2014. On the following day, NHI listed on the Tokyo Stock Exchange, Inc. (hereinafter referred to as “Tokyo Stock Exchange”) Real Estate Investment Trust Securities Market (securities code: 3308), along with additionally acquiring six properties. In the 3rd Fiscal Period, NHI additionally acquired three properties with borrowings and cash on hand; and in the 4th Fiscal Period, NHI implemented an additional issuance of investment units through a public offering (12,130 units) on November 17, 2015, and acquired four properties. Furthermore, in the fiscal period under review (5th Fiscal Period: fiscal period ended October 2016 (from May 1, 2016 to October 31, 2016)), NHI additionally acquired one property on October 6, 2016 with borrowings and cash on hand. The total acquisition price at the time of listing was 13,280 million yen, but it has increased to 19,318 million yen as of October 31, 2016 with the additional acquisition of properties.

As the first Japanese REIT specializing in healthcare facilities in that it invests solely in properties of which the principal use is healthcare facilities, NHI effectively utilizes investor capital to initiate expansion of supply of high-quality healthcare facilities that provide users with high-standard services, while at the same time produce 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, 2016 to October 31, 2016)

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

Japan’s population of the elderly aged 65 years or over (hereinafter referred to as the “Elderly Population”) accounts for over one-quarter of the total population as of June 1, 2016 (according to the Ministry of Internal Affairs and Communications’ “Population Estimates” announced on November 21, 2016), and the Elderly Population as a percentage of the total population (hereinafter referred to as the “Elderly Population Percentage”) is forecast to continue to rise as well as the population of the elderly living alone is forecast to continue to grow. There is thus recognized to be sufficient potential for greater development of housing for the elderly with nursing care services, etc. that are designed for the elderly to reside (referred to as “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% in 2025. In order to accomplish this policy target, new supply of housing for the elderly for approximately 770,000 people (estimated) is required by 2025.

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

**b. Management Performance**

In the 5th Fiscal Period, NHI acquired one property (Sompo no ie Nishitanabeekimae; acquisition price: 710 million yen).

Concerning the properties held as of the end of the 5th Fiscal Period (October 31, 2016), the leasable floor area was 67,298.83m<sup>2</sup> and the occupancy rate was 100.0%.

**C. Overview of Capital Procurement****a. Procurement of Capital for New Property Acquisitions**

In the 5th Fiscal Period, NHI conducted the following borrowing of funds for use as funds for acquisition, etc. of new properties.

- Short-term loan of 500 million yen from Mizuho Bank, Ltd. was conducted with October 6, 2016 as the drawdown date to be used as part of the acquisition funds, etc. of the new property (Sompo no ie Nishitanabeekimae) acquired on October 6, 2016.

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

As a result of the above, the balance of interest-bearing liabilities outstanding at the end of the 5th Fiscal Period (as of October 31, 2016) totaled 9,800 million yen (500 million yen of short-term loans payable and 9,300 million yen of long-term loans payable). 1,800 million yen out of the long-term loans payable is due for repayment within one year. The average remaining period at the end of the 5th Fiscal Period was 2.5 years.

In the fiscal period under review, NHI concluded an interest rate swap agreement for 500 million yen borrowed on April 28, 2016 for the purpose of hedging the risk of future interest rate rise.

**List of Borrowings in the 5th Fiscal Period**

Lender	Loan amount (million yen)	Drawdown date	Repayment deadline	Loan period (years)
Mizuho Bank, Ltd.	500	October 6, 2016	September 29, 2017	1.0

**Balance of Borrowings from Each Financial Institution (as of October 31, 2016)**

Lender	End of the 5th Fiscal Period (million yen)	Share (%) (Note)
Mizuho Bank, Ltd.	2,800	28.57
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
The Dai-ichi Life Insurance Company, Limited	500	5.10
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 5th Fiscal Period of 679 million yen in operating revenue, 274 million yen in operating income, 247 million yen in ordinary income and 246 million yen in net income.

Concerning distributions, to ensure that the amount equivalent to distributions from earnings would be included in the amount of tax-deductible expenses based on application of special provisions for taxation on investment corporations (Article 67-15 of the Act on Special Measures Concerning Taxation (Act No. 26 of 1957; including amendments thereto) (hereinafter referred to as the "Special Taxation Measures Act")), NHI decided to distribute the entire amount of unappropriated retained earnings, excluding fractions of the distribution amount per unit that are less than 1 yen. Accordingly, NHI declared a distribution amount per unit of 3,306 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 59,705,600 yen, which is the amount roughly equivalent to 32% of the 188 million yen in depreciation for the 5th Fiscal Period, as reimbursement of investments in capital which falls under the category of distribution reducing unitholders' capital for tax purpose. Accordingly, NHI declared a distribution amount in excess of earnings per unit of 800 yen.

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

The six-month average amount of the sum total amount of emergency repair expenses, short-term repair expenses and long-term repair expenses stated in the engineering report by Tokio Marine & Nichido Risk Consulting Co., Ltd. and Assets Research and Development Inc. for all assets held as of the end of the 5th Fiscal Period (22 properties) is 29 million yen.

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

### **A. Investment Environment**

Japan has the Elderly Population accounting for over one-quarter of the total population, and the Elderly Population Percentage is forecast to continue to rise as well as the population of the elderly living alone is forecast to continue to grow. With the development of medical technology, among other factors, record-highs were set in terms of the average life expectancy at birth for Japanese people at 80.79 years for males and 87.05 years for females according to the Ministry of Health, Labour and Welfare's "Abridged Life Tables for Japan 2015," and in terms of the Elderly Population at 34.43 million people and the Elderly Population Percentage at 27.1% of the total population of 126.98 million as of June 1, 2016 according to the Ministry of Internal Affairs and Communications' "Population Estimates" (announced on November 21, 2016).

According to the National Institute of Population and Social Security Research's "Population Projections for Japan (January 2012)," the total population will increase to 124.1 million people, the Elderly Population to 36.12 million people and the Elderly Population Percentage to 29.1% in 2020 and then, while the total population will decrease by approximately 40.00 million people from that at present to 86.73 million people, the Elderly Population will reach 34.64 million people and the Elderly Population Percentage to 39.9% in 2060.

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 order to accomplish this policy target, new supply of housing for the elderly for approximately 770,000 people (estimated) is estimated to be required by 2025.

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

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

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

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

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

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

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

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



service fee, etc. in order to be the residents' choice and the operators being capable of operating the facilities continuously are regarded as important factors in terms of also the profitability and asset value of healthcare facilities.

(iii) Employment of "Backup Operator Membership"

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

**b. Strategy for New Property Investments**

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

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

The Asset Management Company is striving for property acquisitions that utilize the wide range of property sourcing channels based on strong relationship building with various related parties (business companies, financial institutions, major real estate brokerage companies and real estate brokerage parties, etc.) accumulated through asset management of Daiwa Office Investment Corporation (balance of assets for which management is entrusted as of the end of November 2016: approximately 467.7 billion yen) and Daiwa Residential Private Investment Corporation (balance of assets for which management is entrusted as of the end of November 2016: approximately 90.7 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.

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

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

In the 5th Fiscal Period (the fiscal period ended October 2016), NHI acquired one property (Sompo no ie Nishitanabeekimae; acquisition price: 710 million yen) on October 6, 2016.

**c. Financial Strategy**

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

(i) Additional issuance of investment units

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

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

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

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

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

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

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

(iii) Fund management

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

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

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

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

### C. Significant Subsequent Events

Not applicable.

### D. Outlook for Management Status

NHI forecasts the following management status for the 6th Fiscal Period (from November 1, 2016 to April 30, 2017) and the 7th Fiscal Period (from May 1, 2017 to October 31, 2017). For the assumptions underlying the management status forecasts, please refer to the "Assumptions for the Management Status Forecasts for the 6th Fiscal Period (from November 1, 2016 to April 30, 2017) and the 7th Fiscal Period (from May 1, 2017 to October 31, 2017)" on page 12.

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

Operating revenue	697 million yen
Operating income	274 million yen
Ordinary income	247 million yen
Net income	246 million yen
Distribution amount per unit (excluding distribution amount in excess of earnings)	3,300 yen
Distribution amount in excess of earnings per unit	800 yen
Distribution amount per unit (including distribution amount in excess of earnings)	4,100 yen

#### 7th Fiscal Period (from May 1, 2017 to October 31, 2017)

Operating revenue	697 million yen
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Nippon Healthcare Investment Corporation (3308) Financial Report for the 5th Fiscal Period

Operating income	275 million yen
Ordinary income	247 million yen
Net income	246 million yen
Distribution amount per unit (excluding distribution amount in excess of earnings)	3,300 yen
Distribution amount in excess of earnings per unit	800 yen
Distribution amount per unit (including distribution amount in excess of earnings)	4,100 yen

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

**Assumptions for the Management Status Forecasts for the 6th Fiscal Period (from November 1, 2016 to April 30, 2017) and the 7th Fiscal Period (from May 1, 2017 to October 31, 2017)**

Item	Assumption
Calculation period	<ul style="list-style-type: none"> <li>• 6th Fiscal Period Fiscal period ending April 2017: from November 1, 2016 to April 30, 2017 (181 days)</li> <li>• 7th Fiscal Period Fiscal period ending October 2017: from May 1, 2017 to October 31, 2017 (184 days)</li> </ul>
Assets under management	<ul style="list-style-type: none"> <li>• 6th Fiscal Period and 7th Fiscal Period: The assumption is that the 22 properties held as of October 31, 2016 will continue to be held and there will be no other acquisition of new property through to the end of the 6th Fiscal Period.</li> <li>• The actual number of properties may vary due to acquisition of new property, or disposition of portfolio property, etc.</li> </ul>
Operating revenue	<ul style="list-style-type: none"> <li>• Real estate rent revenue of acquired assets is calculated on the basis of the rent stated in lease agreements that have been concluded. Furthermore, the period-end occupancy rate for each property is expected to be 100.0% at the end of the 6th Fiscal Period and 100.0% at the end of the 7th Fiscal Period.</li> <li>• The assumption is that there will be no gain (loss) on sales of real estate properties.</li> </ul>
Operating expenses	<ul style="list-style-type: none"> <li>• Expenses related to rent business, which constitute a major component of operating expenses, are calculated on the basis of historical data and by taking into consideration the factors causing fluctuation in expenses.</li> <li>• Operating income from property leasing (excluding gain on sales of real estate properties) after deduction of expenses related to rent business (including depreciation) is assumed to be 404 million yen in the 6th Fiscal Period and 405 million yen in the 7th Fiscal Period.</li> <li>• Consignment expenses are assumed to be 12 million yen in the 6th Fiscal Period and 12 million yen in the 7th Fiscal Period.</li> <li>• Taxes and dues (fixed property tax, city planning tax, etc.) are assumed to be 48 million yen in the 6th Fiscal Period and 50 million yen in the 7th Fiscal Period.</li> <li>• In general, fixed property tax, city planning tax, etc. upon transactions of real estate, etc. are calculated on a pro rata basis and reimbursed at the time of acquisition with the current owner, but the amount equivalent to the reimbursement is included in the cost of acquisition and thus not recognized as expenses at the time of acquisition of the property at NHI. Accordingly, in the case of the assets acquired in 2016, fiscal 2017 fixed property tax, city planning tax, etc. are recognized as expenses starting from the 6th Fiscal Period (fiscal period ending April 2017).</li> <li>• Depreciation, which is calculated using the straight-line method, is assumed to be 194 million yen in the 6th Fiscal Period and 194 million yen in the 7th Fiscal Period.</li> <li>• Repair expenses for buildings are assumed based on medium- to long-term repair plans formulated by the Asset Management Company to be 35 million yen in the 6th Fiscal Period and 30 million yen in the 7th Fiscal Period. However, repair expenses possibly increasing in amount or additionally arising from unforeseeable causes may result in repair expenses differing materially from the forecast amount.</li> </ul>
Non-operating expenses	<ul style="list-style-type: none"> <li>• 27 million yen is assumed as interest expenses and other borrowing related expenses for the 6th Fiscal Period.</li> <li>• 28 million yen is assumed as interest expenses and other borrowing related expenses for the 7th Fiscal Period.</li> </ul>
Interest-bearing liabilities	<ul style="list-style-type: none"> <li>• The assumption is that total interest-bearing liabilities will be 9,800 million yen at the end of the 6th Fiscal Period and 9,800 million yen at the end of the 7th Fiscal Period.</li> <li>• The assumption is that there will be no change in loan balance in the 6th Fiscal Period.</li> <li>• The assumption is that, in the 7th Fiscal Period, the entire amount of loans of 500 million yen due for repayment on September 29, 2017 and 1,800 million yen in total due for repayment on October 31, 2017 will be refinanced.</li> </ul>
Total number of investment units issued and outstanding	<ul style="list-style-type: none"> <li>• 74,632 units, which is the total number of investment units issued and outstanding as of October 31, 2016.</li> <li>• It is assumed that there will be no change to the number of investment units due to issuance of new investment units, etc. in addition to the above, through to the end of the 7th Fiscal Period.</li> </ul>

Item	Assumption
Distribution amount per unit (excluding distribution amount in excess of earnings)	<ul style="list-style-type: none"> <li>• Distribution amount per unit (excluding distribution amount in excess of earnings) is calculated based on the assumption that the entire amount of earnings will be distributed in accordance with the cash distribution policy set forth in the articles of incorporation of NHI.</li> <li>• Distribution amount per unit (excluding distribution amount in excess of earnings) may vary due to various factors, including fluctuation in real estate rent revenue accompanying change in assets under management, change in tenants, etc., or incurrence of unexpected repairs.</li> </ul>
Distribution amount in excess of earnings per unit	<ul style="list-style-type: none"> <li>• Distribution amount in excess of earnings per unit is calculated in accordance with the cash distribution policy set forth in the articles of incorporation of NHI. The total distribution amount in excess of earnings is assumed to be 59 million yen in the 6th Fiscal Period and 59 million yen in the 7th Fiscal Period. The concerned total distribution amount in excess of earnings is respectively the amount equivalent to 30.8 and 30.6% of the depreciation that is expected to arise in the concerned calculation period.</li> <li>• NHI adopts a policy of implementing uninterrupted cash distributions in excess of earnings (reimbursement of investments in capital which falls under the category of distribution reducing unitholders' capital for tax purpose) in an amount not to exceed 40% of depreciation in every accounting period within the scope that would not have adverse impact on the financial position of NHI after setting aside the cash and deposits that NHI deems appropriate, taking into account the status of establishment of lines of credit, etc., in order to not affect long-term repair plans in light of the capital expenditures for each accounting period assumed based on the long-term repair plans and to meet needs for funds (new acquisition of investment assets, repairs and capital expenditures required to maintain and enhance portfolio assets, NHI's working capital, repayment of obligations, payout of distributions, etc.).</li> <li>• However, regardless of the policy described above, distributions in excess of earnings mentioned above may vary in amount or may not be implemented at all in light of the economic environment, real estate market trends, status of portfolio assets and financial status. In addition, accompanied by decrease in cash on hand, the implementation of distributions in excess of earnings mentioned above may cause a shortage of cash on hand in the event that need arises for capital expenditures, etc. beyond that assumed by NHI due to sudden events, etc. or may cause financial constraints in agile property acquisition.</li> </ul>
Other	<ul style="list-style-type: none"> <li>• The assumption is that there will be no revision of laws and regulations, tax systems, accounting standards, listing regulations, rules of The Investment Trusts Association, Japan, etc. that will impact the forecast figures above.</li> <li>• The assumption is that there will be no unforeseen serious change in general economic trends and real estate market conditions, etc.</li> </ul>

### 2.3. Investment Risks

Disclosure is omitted because there are no significant changes from “Part I: Fund Information; Section 1: Fund Status; 3. Investment Risks” set out in the most recent periodic securities report (*yuka shoken hokokusho*) (submitted on July 22, 2016).

**3. Financial Statements****3.1. Balance Sheets**

(Unit: thousand yen)

	4th Fiscal Period (As of Apr. 30, 2016)	5th Fiscal Period (As of Oct. 31, 2016)
<b>Assets</b>		
Current assets		
Cash and deposits	1,193,867	1,029,612
Cash and deposits in trust	*1 407,627	*1 436,571
Prepaid expenses	15,341	20,290
Deferred tax assets	14	12
Consumption taxes receivable	2,190	—
Other	378	1,262
Total current assets	1,619,421	1,487,748
Non-current assets		
Property, plant and equipment		
Buildings in trust	11,988,964	12,356,179
Accumulated depreciation	(563,511)	(749,045)
Buildings in trust, net	*1 11,425,453	*1 11,607,133
Structures in trust	200,246	203,396
Accumulated depreciation	(6,948)	(9,411)
Structures in trust, net	*1 193,297	*1 193,984
Equipment in trust	3,914	7,811
Accumulated depreciation	(254)	(667)
Equipment in trust, net	*1 3,660	*1 7,144
Land in trust	*1 7,528,824	*1 7,949,065
Total property, plant and equipment	19,151,236	19,757,328
Intangible assets		
Leasehold rights in trust	*1 40,886	*1 40,886
Trademark right	177	166
Software	2,585	2,218
Total intangible assets	43,648	43,270
Investments and other assets		
Lease and guarantee deposits	10,000	10,000
Long-term prepaid expenses	23,577	17,222
Total investments and other assets	33,577	27,222
Total non-current assets	19,228,462	19,827,820
Total assets	20,847,883	21,315,569

(Unit: thousand yen)

	4th Fiscal Period (As of Apr. 30, 2016)		5th Fiscal Period (As of Oct. 31, 2016)	
Liabilities				
Current liabilities				
Operating accounts payable		23,861		24,838
Short-term loans payable		—	*1	500,000
Current portion of long-term loans payable		—	*1	1,800,000
Accounts payable – other		57,957		75,366
Advances received		74,027		85,085
Deposits received		303		573
Income taxes payable		909		867
Accrued consumption taxes		—		337
Other		1,640		2,828
Total current liabilities		158,699		2,489,897
Non-current liabilities				
Long-term loans payable	*1	9,300,000	*1	7,500,000
Tenant leasehold and security deposits		719,884		730,216
Total non-current liabilities		10,019,884		8,230,216
Total liabilities		10,178,583		10,720,113
Net assets				
Unitholders' equity				
Unitholders' capital		10,504,334		10,504,334
Deduction from unitholders' equity		(95,942)		(155,648)
Unitholders' capital, net		10,408,391		10,348,686
Surplus				
Unappropriated retained earnings (undisposed loss)		260,908		246,769
Total surplus		260,908		246,769
Total unitholders' equity		10,669,300		10,595,455
Total net assets	*2	10,669,300	*2	10,595,455
Total liabilities and net assets		20,847,883		21,315,569

**3.2. Statements of Income**

(Unit: thousand yen)

	4th Fiscal Period (From: Nov. 1, 2015 To: Apr. 30, 2016)		5th Fiscal Period (From: May 1, 2016 To: Oct. 31, 2016)	
Operating revenue				
Rent revenue – real estate	*1	667,161	*1	679,472
Total operating revenue		667,161		679,472
Operating expenses				
Expenses related to rent business	*1	258,084	*1	272,216
Asset management fee		58,121		61,226
Asset custody fee		629		725
Administrative service fees		8,595		17,086
Trust fee		6,251		6,285
Directors' compensations		3,600		4,200
Audit fee		6,000		6,000
Other operating expenses		36,203		37,029
Total operating expenses		377,487		404,769
Operating income		289,673		274,703
Non-operating income				
Interest income		33		2
Other		2		3
Total non-operating income		36		6
Non-operating expenses				
Interest expenses		21,447		20,891
Borrowing expenses		5,784		6,248
Investment unit issuance expenses		681		–
Total non-operating expenses		27,913		27,140
Ordinary income		261,796		247,569
Income before income taxes		261,796		247,569
Income taxes – current		914		867
Income taxes – deferred		(0)		2
Total income taxes		914		869
Net income		260,882		246,699
Retained earnings brought forward		26		69
Unappropriated retained earnings (undisposed loss)		260,908		246,769



**3.3. Statements of Unitholders' Equity**

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

(Unit: thousand yen)

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

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

(Unit: thousand yen)

	Unitholders' equity						Total net assets
	Unitholders' capital			Surplus		Total unitholders' equity	
	Unitholders' capital	Deduction from unitholders' equity	Unitholders' capital, net	Unappropriated retained earnings (undisposed loss)	Total surplus		
Balance at beginning of current period	10,504,334	(95,942)	10,408,391	260,908	260,908	10,669,300	10,669,300
Changes of items during period							
Distribution in excess of earnings		(59,705)	(59,705)			(59,705)	(59,705)
Dividends of surplus				(260,838)	(260,838)	(260,838)	(260,838)
Net income				246,699	246,699	246,699	246,699
Total changes of items during period	—	(59,705)	(59,705)	(14,138)	(14,138)	(73,844)	(73,844)
Balance at end of current period	10,504,334	(155,648)	10,348,686	246,769	246,769	10,595,455	10,595,455

**3.4. Statements of Cash Distributions**

Item	4th Fiscal Period (From: Nov. 1, 2015 To: Apr. 30, 2016)	5th Fiscal Period (From: May 1, 2016 To: Oct. 31, 2016)
	Amount (yen)	Amount (yen)
I. Unappropriated retained earnings	260,908,644	246,769,756
II. Addition of distribution amount in excess of earnings Deduction from unitholders' capital	59,705,600	59,705,600
III. Distribution amount	320,544,440	306,438,992
[Distribution amount per unit]	[4,295]	[4,106]
<i>Of which,</i>		
Distribution amount from earnings	260,838,840	246,733,392
[Distribution amount from earnings per unit]	[3,495]	[3,306]
Distribution amount in excess of earnings	59,705,600	59,705,600
[Distribution amount in excess of earnings per unit]	[800]	[800]
IV. Retained earnings carried forward	69,804	36,364
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 260,838,840 yen.</p> <p>Furthermore, NHI shall implement cash distributions in excess of earnings (reimbursement of investments in capital which falls under the category of distribution reducing unitholders' capital for tax purpose) uninterruptedly every fiscal period pursuant to the cash distribution policy set forth in Article 33, Paragraph 1, Item 2 of its articles of incorporation.</p> <p>Based on this policy, NHI decided to distribute 59,705,600 yen, which is the amount roughly equivalent to 32% of the 187,085,173 yen in depreciation for the 3rd Fiscal Period, as cash distributions in excess of earnings (reimbursement of investments in capital).</p>	<p>In accordance with the policy that "NHI shall distribute an amount in excess of the amount equivalent to 90% of its distributable earnings as defined in Article 67-15 of the Act on Special Measures Concerning Taxation" but no more than the amount of earnings pursuant to the cash distribution policy set forth in Article 33, Paragraph 1, Item 1 of its articles of incorporation, NHI decided the distributions from earnings that it shall pay out shall be the maximum value of the integral multiple of the total number of investment units issued and outstanding (74,632 units) in an amount that is not in excess of unappropriated retained earnings. Accordingly, NHI declared a distribution amount of 246,733,392 yen.</p> <p>Furthermore, NHI shall implement cash distributions in excess of earnings (reimbursement of investments in capital which falls under the category of distribution reducing unitholders' capital for tax purpose) uninterruptedly every fiscal period pursuant to the cash distribution policy set forth in Article 33, Paragraph 1, Item 2 of its articles of incorporation.</p> <p>Based on this policy, NHI decided to distribute 59,705,600 yen, which is the amount roughly equivalent to 32% of the 188,410,440 yen in depreciation for the 3rd Fiscal Period, as cash distributions in excess of earnings (reimbursement of investments in capital).</p>

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

**3.5. Statements of Cash Flows**

(Unit: thousand yen)

	4th Fiscal Period (From: Nov. 1, 2015 To: Apr. 30, 2016)	5th Fiscal Period (From: May 1, 2016 To: Oct. 31, 2016)
<b>Cash flows from operating activities</b>		
Income before income taxes	261,796	247,569
Depreciation	187,463	188,788
Investment unit issuance expenses	681	—
Interest income	(33)	(2)
Interest expenses	21,447	20,891
Decrease (increase) in consumption taxes refund receivable	(121)	2,190
Decrease (increase) in prepaid expenses	3,799	(4,948)
Increase (decrease) in operating accounts payable	3,283	(8,346)
Increase (decrease) in accounts payable – other	(17,546)	5,018
Increase (decrease) in accrued consumption taxes	—	337
Increase (decrease) in advances received	4,900	11,058
Decrease (increase) in long-term prepaid expenses	3,058	6,355
Increase (decrease) in deposits received	(294)	270
Other, net	2,377	(841)
Subtotal	470,811	468,341
Interest income received	33	2
Interest expenses paid	(21,329)	(21,119)
Income taxes paid	(901)	(909)
Net cash provided by (used in) operating activities	448,614	446,313
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment in trust	(2,760,002)	(772,829)
Proceeds from tenant leasehold and security deposits	74,652	10,332
Net cash provided by (used in) investing activities	(2,685,349)	(762,497)
<b>Cash flows from financing activities</b>		
Increase in short-term loans payable	900,000	500,000
Decrease in short-term loans payable	(900,000)	—
Proceeds from long-term loans payable	500,000	—
Proceeds from issuance of investment units	2,619,652	—
Earnings dividends paid	(200,063)	(259,732)
Distribution in excess of earnings paid	(46,556)	(59,395)
Net cash provided by (used in) financing activities	2,873,031	180,872
Net increase (decrease) in cash and cash equivalents	636,296	(135,311)
Cash and cash equivalents at beginning of period	965,198	1,601,495
Cash and cash equivalents at end of period	*1 1,601,495	*1 1,466,183

**3.6. Notes to the Going Concern**

Not applicable.

**3.7. 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" style="margin-left: 20px;"> <tr> <td>Buildings</td> <td style="text-align: right;">4~58 years</td> </tr> <tr> <td>Structures</td> <td style="text-align: right;">10~49 years</td> </tr> <tr> <td>Equipment</td> <td style="text-align: right;">3~10 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	4~58 years	Structures	10~49 years	Equipment	3~10 years
Buildings	4~58 years						
Structures	10~49 years						
Equipment	3~10 years						
2. Accounting for deferred assets	<p>Investment unit issuance expenses The entire amount is expensed as incurred.</p>						
3. 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 rather included in the cost of acquisition of the concerned real estate property. The amount equivalent to fixed property tax, etc. that was included in the cost of acquisition of real estate properties in the 4th Fiscal Period is 1,345 thousand yen and 5th Fiscal Period is 780 thousand yen.</p>						
4. 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>						
5. 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>						

<p>6. Other significant matters serving as basis for preparation of financial statements</p>	<p>(1) Accounting method for trust beneficiary interests in real estate properties Concerning owned trust beneficiary interests that have real estate properties as assets in trust, all accounts of assets and liabilities within assets in trust, as well as all accounts of revenue generated and expenses incurred from assets in trust, are recorded in the relevant account item of the balance sheets and statements of income. The following material items of the assets in trust recorded in the relevant account item are separately listed on the balance sheets. (i) Cash and deposits in trust (ii) Buildings in trust, structures 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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**3.8. Notes to Financial Statements****[Omission of Disclosure]**

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

**[Notes to Balance Sheets]****\*1. Assets pledged as collateral and secured liabilities**

The following are the assets pledged as collateral.

	(Unit: thousand yen)	
	4th Fiscal Period (As of Apr. 30, 2016)	5th Fiscal Period (As of Oct. 31, 2016)
Cash and deposits in trust	407,627	436,571
Buildings in trust	11,425,453	11,607,133
Structures in trust	193,297	193,984
Equipment in trust	3,660	7,144
Land in trust	7,528,824	7,949,065
Leasehold rights in trust	40,886	40,886
Total	19,599,749	20,234,785

The following are the secured liabilities.

	(Unit: thousand yen)	
	4th Fiscal Period (As of Apr. 30, 2016)	5th Fiscal Period (As of Oct. 31, 2016)
Short-term loans payable	—	500,000
Current portion of long-term loans payable	—	1,800,000
Long-term loans payable	9,300,000	7,500,000
Total	9,300,000	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)	
	4th Fiscal Period (As of Apr. 30, 2016)	5th Fiscal Period (As of Oct. 31, 2016)
	50,000	50,000

**[Notes to Statements of Income]**

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

	(Unit: thousand yen)	
	4th Fiscal Period (From: Nov. 1, 2015 To: Apr. 30, 2016)	5th Fiscal Period (From: May 1, 2016 To: Oct. 31, 2016)
A. Property-related operating revenue		
Rent revenue – real estate	667,161	679,472
Total property-related operating revenue	667,161	679,472
B. Property-related operating expenses		
Consignment expenses	11,574	11,559
Taxes and dues	36,901	47,130
Non-life insurance expenses	1,483	1,505
Repair expenses	19,494	22,273
Depreciation	187,085	188,410
Leasehold and office rents	1,200	1,200
Other lease business expenses	346	136
Total property-related operating expenses	258,084	272,216
C. Property-related operating income (loss) [A – B]	409,076	407,256

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

	4th Fiscal Period (From: Nov. 1, 2015 To: Apr. 30, 2016)	5th Fiscal Period (From: May 1, 2016 To: Oct. 31, 2016)
1. Total number of investment units authorized and total number of investment units issued and outstanding		
Total number of investment units authorized	10,000,000 units	10,000,000 units
Total number of investment units issued and outstanding	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)	
	4th Fiscal Period (From: Nov. 1, 2015 To: Apr. 30, 2016)	5th Fiscal Period (From: May 1, 2016 To: Oct. 31, 2016)
Cash and deposits	1,193,867	1,029,612
Cash and deposits in trust	407,627	436,571
Cash and cash equivalents	1,601,495	1,466,183

**[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)).

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

(Unit: thousand yen)

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

5th Fiscal Period (as of October 31, 2016)

(Unit: thousand yen)

	Carrying amount	Fair value	Difference
(1) Cash and deposits	1,029,612	1,029,612	—
(2) Cash and deposits in trust	436,571	436,571	—
Total assets	1,466,183	1,466,183	—
(3) Short-term loans payable	500,000	500,000	—
(4) Current portion of long-term loans payable	1,800,000	1,799,476	(523)
(5) Long-term loans payable	7,500,000	7,528,468	28,468
Total liabilities	9,800,000	9,827,944	27,944
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) Short-term loans payable; (4) Current portion of long-term loans payable; (5) Long-term loans payable

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

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

## Derivative transactions

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

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

(Unit: thousand yen)

	4th Fiscal Period (As of Apr. 30, 2016)	5th Fiscal Period (As of Oct. 31, 2016)
Tenant leasehold and security deposits	719,884	730,216
Total	719,884	730,216

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

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

(Unit: thousand yen)

	Due within 1 year	Due after 1 year, but within 2 years	Due after 2 years, but within 3 years	Due after 3 years, but within 4 years	Due after 4 years, but within 5 years	Due after 5 years
Cash and deposits	1,193,867	–	–	–	–	–
Cash and deposits in trust	407,627	–	–	–	–	–
Total	1,601,495	–	–	–	–	–

5th Fiscal Period (as of October 31, 2016)

(Unit: thousand yen)

	Due within 1 year	Due after 1 year, but within 2 years	Due after 2 years, but within 3 years	Due after 3 years, but within 4 years	Due after 4 years, but within 5 years	Due after 5 years
Cash and deposits	1,029,612	–	–	–	–	–
Cash and deposits in trust	436,571	–	–	–	–	–
Total	1,466,183	–	–	–	–	–

## (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

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

(Unit: thousand yen)

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

5th Fiscal Period (as of October 31, 2016)

(Unit: thousand yen)

	Due within 1 year	Due after 1 year, but within 2 years	Due after 2 years, but within 3 years	Due after 3 years, but within 4 years	Due after 4 years, but within 5 years	Due after 5 years
Short-term loans payable	500,000	—	—	—	—	—
Current portion of long-term loans payable	1,800,000	—	—	—	—	—
Long-term loans payable	—	2,100,000	2,900,000	2,500,000	—	—
Total	2,300,000	2,100,000	2,900,000	2,500,000	—	—

**[Notes to Derivative Transactions]**

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

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

Not applicable.

5th Fiscal Period (as of October 31, 2016)

Not applicable.

(2) Derivative transactions to which hedge accounting is applied

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

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

(Unit: thousand yen)

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

5th Fiscal Period (as of October 31, 2016)

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

(Unit: thousand yen)

Hedge accounting approach	Type, etc. of derivative transaction	Main hedged item	Contract amount, etc.		Fair value	Method of estimation of that fair value
				Of which, due after 1 year		
Special accounting for interest rate swaps	Interest rate swap transactions Receive floating and pay fixed	Long-term loans payable	8,300,000	7,000,000	(*)	—

(\*) 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 (4) (5)” earlier in this document.)

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

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

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

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

- (Note 1) The purchase of real estate trust beneficiary interests described above are for Alpha Living Okayama Nishigawa Ryokudokoen, Alpha Living Okayama Korakuen, Alpha Living Takamatsu Ekimae and Alpha Living Takamatsu Hyakkenmachi. The amount of transaction indicates the amount that does not include expenses required for the acquisition of the said real estate, etc. (taxes and dues, etc.) (the purchase price of real estate, etc. stated in the purchase and sale agreement of trust beneficiary interests).
- (Note 2) Terms of transaction with interested parties, etc. are determined based on the internal rules against conflict of interests set forth by the Asset Management Company.
- (Note 3) Terms of transaction are based on the actual conditions of the market.

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

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 of the investment and rental properties are as follows:

(Unit: thousand yen)

	4th Fiscal Period (From: Nov. 1, 2015 To: Apr. 30, 2016)	5th Fiscal Period (From: May 1, 2016 To: Oct. 31, 2016)
Carrying amount		
Balance at beginning of period	16,637,595	19,192,122
Net change during period	2,554,526	606,091
Balance at end of period	19,192,122	19,798,214
Fair value at end of period	23,215,000	24,251,000

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

For the 5th Fiscal Period, the major reason of increase is acquisition of one property (710,000 thousand yen). The major reason of decrease is depreciation (188,410 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

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

① Information about products and services

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

② Information about geographic areas

A. Net sales

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

B. Property, plant and equipment

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

③ Information about major customers

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

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

① Information about products and services

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

② Information about geographic areas

A. Net sales

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

B. Property, plant and equipment

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

③ Information about major customers

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

**[Notes to Per Unit Information]**

	4th Fiscal Period (From: Nov. 1, 2015 To: Apr. 30, 2016)	5th Fiscal Period (From: May 1, 2016 To: Oct. 31, 2016)
Net assets per unit	142,958 yen	141,969 yen
Net income per unit	3,566 yen	3,305 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:

	4th Fiscal Period (From: Nov. 1, 2015 To: Apr. 30, 2016)	5th Fiscal Period (From: May 1, 2016 To: Oct. 31, 2016)
Net income (thousand yen)	260,882	246,699
Amount not attributable to common unitholders (thousand yen)	—	—
Net income attributable to common investment units (thousand yen)	260,882	246,699
Average number of investment units during period	73,144	74,632

**[Notes to Significant Subsequent Events]**

Not applicable.

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

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

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

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

(Note 2) NHI was established at an issue price of 100,000 yen per unit. The subscriber for underwriting of investment units at establishment was Daiwa Real Estate Asset Management Co. Ltd.

(Note 3) Investment units were additionally issued to JHC-LPS and ASIA CUATRO-LPS at an issue price of 100,000 yen per unit for the purpose of procuring funds for acquisition of acquisition properties and other funds.

(Note 4) New investment units were issued through public offering at an issue price of 150,000 yen (issue amount of 144,000 yen) per unit for the purpose of procuring funds for acquisition of acquisition properties and other funds.

(Note 5) New investment units were issued by way of third-party allotment at an issue amount of 144,000 yen per unit for the purpose of procuring funds for acquisition of acquisition properties and other funds.

(Note 6) NHI resolved cash distributions in excess of earnings (reimbursement of investments in capital which falls under the category of distribution reducing unitholders' capital for tax purpose) in amount of 810 yen per unit at its Board of Directors Meeting held on June 19, 2015 as cash distribution for the 2nd fiscal period (fiscal period ended April 2015), and started the payout from July 17, 2015.

(Note 7) New investment units were issued through public offering at an issue price of 196,570 yen (issue amount of 189,440 yen) per unit for the purpose of procuring funds for acquisition of acquisition properties and other funds.

(Note 8) New investment units were issued by way of third-party allotment at an issue amount of 189,440 yen per unit for the purpose of procuring funds for acquisition of acquisition properties and other funds.

(Note 9) NHI resolved cash distributions in excess of earnings (reimbursement of investments in capital which falls under the category of distribution reducing unitholders' capital for tax purpose) in amount of 768 yen per unit at its Board of Directors Meeting held on December 18, 2015 as cash distribution for the 3rd fiscal period (fiscal period ended October 2015), and started the payout from January 21, 2016.

(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) in amount 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.

#### 4. Changes in Directors

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

Executive Director Hiroshi Fujioka retired as of the end of the Third General Meeting of Unitholders held on July 28, 2016, and Hiroshi Takeuchi, who was elected as Executive Director at the general meeting of unitholders, assumed the office on the same day.

The directors of NHI as of the date of this document are as follows:

Title	Name	Brief profile		Number of shares owned (shares)
Executive Director	Hiroshi Takeuchi	Apr. 1975 Apr. 1995 Oct. 1997 Apr. 1999  June 2001 June 2003 May 2004 Apr. 2005 Apr. 2012 June 2012 July 2016	Joined Daiwa Securities Co. Ltd. (currently, Daiwa Securities Group Inc.) Branch Manager of Morioka Branch of Daiwa Securities Group Inc. Manager of Security Department of Daiwa Securities Group Inc. Manager of Financial Market Department of Daiwa Securities SB Capital Markets Co., Ltd. (currently, Daiwa Securities Co. Ltd.) Executive Director, in charge of Corporate and Private Banking of Daiwa Securities Co. Ltd. Executive Director, in charge of Securities, Financial Commodity and Financial Commodity Development of Daiwa Securities SMBC Co., Ltd. (currently, Daiwa Securities Co. Ltd.) Managing Officer, in charge of Securities, of Daiwa Securities SMBC Co., Ltd. Senior Managing Officer and Senior Managing Executive Officer of Daiwa SB Investments Ltd. Advisor of Daiwa SB Investments, Ltd. Auditor, Daiwa SB Investments, Ltd. Executive Director of Nippon Healthcare Investment Corporation (current position)	—
Supervisory Director	Tomohiro Shimizu	Apr. 1992  Sept. 1996 Aug. 1997 Feb 2002 June 2006  Jan. 2009  June 2011 Aug. 2014 Oct. 2014	Registered as an attorney (Daiichi Tokyo Bar Association), Seiwa Kyodo Law Office Studied at Northern University School of Law Joined Winthrop Stimson, Putnam & Roberts Representative of Shimizu Kokusai Law Office (current position) Outside Corporate Auditor of Sanoh Industrial Co., Ltd. (current position) Head of Legal Compliance Office at the Center for Personnel Interchanges between the Government and Private Entities of the Cabinet Office Outside auditor of Ishikawajima Construction Materials Co., Ltd. Supervisory Director of Nippon Healthcare Investment Corporation (current position) Outside Director of Mediaseek Inc. (current position)	—
Supervisory Director	Chizuko Nakata	Nov. 1981 Mar. 1984 July 1996  Aug. 2014  Dec. 2015	Joined Coopers & Lybrand Representative of Nakata CPA Firm (current position) Representative Director of Nakata Business Consulting LLC (presently, Nakata Business Consulting Co., Ltd.) (current position) Supervisory Director of Nippon Healthcare Investment Corporation (current position) Outside Director of Nihon Nohyaku Co., LTD. (current position)	—

(Note) Yoshiki Nishigaki was newly elected as Substitute Executive Director at the aforementioned general meeting of unitholders in preparation for the event of Executive Director failing to remain in office or the number of Executive Directors falling below what is set forth by laws and regulations. Yoshiki Nishigaki is Vice President and Representative Director of Daiwa Real Estate Asset Management Co. Ltd., the Asset Management Company of NHI.

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

Not applicable.

## 5. Reference Information

### 5.1. Investment Status

Type of asset	Use		Region	5th Fiscal Period (as of October 31, 2016)	
				Total amount held (million yen) (Note 1)	As a percentage of total assets (%) (Note 2)
Real estate trust beneficiary interests	Private nursing homes and other facilities for the elderly	Fee-based homes for the elderly	Three major metropolitan areas (Note 3)	12,027	56.4
			Core city areas (Note 4)	7,131	33.5
			Other (Note 5)	—	—
		Elderly housing with supportive services	Three major metropolitan areas (Note 3)	—	—
			Core city areas (Note 4)	639	3.0
			Other (Note 5)	—	—
	Other private nursing homes and other facilities for the elderly	—	—		
	Subtotal	19,798	92.9		
	Medical facilities	—	—		
	Other	—	—		
Total	19,798	92.9			
Deposits and other assets				1,517	7.1
Total assets (Note 6)				21,315	100.0
				[19,798]	[92.9]

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

(Note 2) “(Total amount held) 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.



## 5.2. Investment Real Estate Properties

### 5.2.1. Price and Investment Ratio of Investment Real Estate Properties

The following is an overview of the real estate in trust of trust beneficiary interests held as of October 31, 2016 by NHI.

Type of specified asset	Region	Property name	Acquisition price (million yen) (Note 1)	Carrying amount (million yen) (Note 2)	Estimated Price at end of period (million yen) (Note 3)	Investment ratio (%) (Note 4)
Real estate trust beneficiary interests	Three major metropolitan areas	Sompo Care LAVIER Sagamihara Chuo	1,170	1,166	1,750	6.1
		Charm Suite Ryokuchi Koen	1,950	1,950	3,060	10.1
		Sawayaka Heart Life Nishikyogoku	750	753	1,210	3.9
		Verger Hirakata	950	944	1,590	4.9
		Sompo Care LAVIER Kinugasayama Koen	1,839	1,880	2,060	9.5
		La'nassica Arakogawa	1,279	1,287	1,430	6.6
		Super Court JR Nara-Ekimae	1,569	1,601	1,750	8.1
		Mina-no-ie Omiya Yoshinocho	740	782	799	3.8
		Mina-no-ie Chuo-ku En'nami	838	886	890	4.3
		Sompo no ie Nishitanabeekimae	710	773	744	3.7
		Subtotal	11,795	12,027	15,283	61.1
		Core city areas	Nichii Care Center Fukushima Omori	265	262	353
	Sompo Care LAVIER Hiroshima Hikarigaoka		960	964	1,230	5.0
	Sawayaka Kaikyokan		630	631	897	3.3
	Sawayaka Meisuikan		590	586	812	3.1
	Sawayaka Hinodekan		773	780	938	4.0
	Sawayaka Riverside Kurinoki		266	271	323	1.4
	Sawayaka Obatake Sanbankan		289	295	355	1.5
	Silver Heights Hitsujigaoka No. 3		1,200	1,295	1,330	6.2
	Alpha Living Okayama Nishigawa Ryokudokoen		730	770	790	3.8
	Alpha Living Okayama Korakuen		610	631	672	3.2
	Alpha Living Takamatsu Ekimae	605	640	641	3.1	
Alpha Living Takamatsu Hyakkenmachi	605	639	627	3.1		
Subtotal	7,523	7,770	8,968	38.9		
Total (22 properties)			19,318	19,798	24,251	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, 2016.

(Note 3) "Estimated Price at end of period" is the price with October 31, 2016 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.

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

The respective property annual rent is not disclosed because consent for disclosure has not been obtained from tenants. Annual rent of real estate in trust held as of October 31, 2016 by NHI totaled 1,393 million yen (Note).

(Note) The amount obtained by adding up the monthly rent in the respective lease agreement valid as of October 31, 2016 in the annualized amount calculated by multiplying by 12, rounded down to the nearest million yen.

Region	Property name	Structure / Floors (Note 1)	Construction completion (Note 2)	Total leasable area (m <sup>2</sup> ) (Note 3)	Total leased area (m <sup>2</sup> ) (Note 4)	Total number of tenants (Note 5)	Occupancy rate (%) (Note 6)	Appraisal NOI (million yen) (Note 7)
Three major metropolitan areas	Sompo Care LAVIER Sagamihara Chuo	RC / 5F	Mar. 31, 2008	3,732.95	3,732.95	1	100.0	88
	Charm Suite Ryokuchi Koen	RC / B1/5F	Sept. 20, 2006	5,329.73	5,329.73	1	100.0	144
	Sawayaka Heart Life Nishikyogoku	RC / 6F	Aug. 6, 2007	2,459.19	2,459.19	1	100.0	60
	Verger Hirakata	RC / 5F	Feb. 26, 2007	2,925.25	2,925.25	1	100.0	85
	Sompo Care LAVIER Kinugasayama Koen	RC / B1/5F	Mar. 3, 2011	4,265.88	4,265.88	1	100.0	100
	La'nassica Arakogawa	S / 4F	Apr. 17, 2008	3,590.40	3,590.40	1	100.0	74
	Super Court JR Nara-Ekimae	RC / 7F	June 17, 2009	5,057.07	5,057.07	1	100.0	91
	Mina-no-ie Omiya Yoshinocho	RC / 4F	April 3, 2012	1,800.03	1,800.03	1	100.0	40
	Mina-no-ie Chuo-ku En'nami	RC / 3F	Feb. 27, 2014	1,963.03	1,963.03	1	100.0	44
	Sompo no ie Nishitanabeekimae	RC / 9F	Feb. 11, 2007	2,095.79	2,095.79	1	100.0	36
	Subtotal				33,219.32	33,219.32	10	100.0
Core city areas	Nichii Care Center Fukushima Omori	S / 3F	Mar. 30, 2007	1,964.68	1,964.68	1	100.0	22
	Sompo Care LAVIER Hiroshima Hikarigaoka	RC / 7F	Dec. 15, 2005	4,133.82	4,133.82	1	100.0	69
	Sawayaka Kaikyokan	RC / 6F	Oct. 23, 2003	2,694.42	2,694.42	1	100.0	50
	Sawayaka Meisuikan	RC / B1/6F	Mar. 25, 2005	4,553.67	4,553.67	1	100.0	47
	Sawayaka Hinodekan	S / 3F	July 11, 2007	2,674.37	2,674.37	1	100.0	47
	Sawayaka Riverside Kurinoki	S / 4F	Oct. 20, 2009	1,349.39	1,349.39	1	100.0	17
	Sawayaka Obatake Sanbankan	S / 3F	Sept. 13, 2011	1,411.78	1,411.78	1	100.0	18
	Silver Heights Hitsujigaoka No. 3	RC / 3F	April 18, 2003	7,267.56	7,267.56	1	100.0	70
	Alpha Living Okayama Nishigawa Ryokudokoen	RC/7F	August 18, 2014	2,124.16	2,124.16	1	100.0	37
	Alpha Living Okayama Korakuen	RC/4F	May 25, 1988	2,128.44	2,128.44	1	100.0	32
	Alpha Living Takamatsu Ekimae	RC/6F	June 9, 2014	1,848.06	1,848.06	1	100.0	30
	Alpha Living Takamatsu Hyakkenmachi	RC/10F	June 28, 2010	1,929.16	1,929.16	1	100.0	31
	Subtotal				34,079.51	34,079.51	12	100.0
Total (22 properties)				67,298.83	67,298.83	22	100.0	1,243

(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, 2016.
- (Note 5) “Total number of tenants” is the number of end-tenants. When there is a tenant occupying multiple buildings, the concerned tenant is counted and stated for each individual building.
- (Note 6) “Occupancy rate” is the figure obtained by dividing total leased area by leasable area, rounded down to one decimal place.
- (Note 7) “Appraisal NOI” is the net operating income obtained by subtracting operating expenses from operating revenue appraised by real estate appraisers as stated in the appraisal report as of October 31, 2016. The appraisal NOI above is the NOI derived by the direct capitalization method. “Appraisal NOI” is rounded down to the nearest million yen.

## 5.2.3. Summary of Appraisal Report

Property name	Appraisal firm	Appraisal value (million yen)	Summary of appraisal report					Appraisal NOI (million yen)
			Direct capitalization method		DCF method			
			Indicated value (million yen)	Cap rate (%)	Indicated value (million yen)	Discount rate (%)	Terminal cap rate (%)	
Nichii Care Center Fukushima Omori	Japan Real Estate Institute	353	357	5.7	349	5.5	5.9	22
Sompo Care LAVIER Hiroshima Hikarigaoka	Japan Real Estate Institute	1,230	1,240	5.2	1,210	5.0	5.4	69
Sompo Care LAVIER Sagamihara Chuo	Daiwa Real Estate Appraisal Co., Ltd.	1,750	1,770	4.9	1,740	4.7	5.1	88
Charm Suite Ryokuchi Koen	Daiwa Real Estate Appraisal Co., Ltd.	3,060	3,100	4.6	3,040	4.4	4.8	144
Sawayaka Kaikyokan	Japan Real Estate Institute	897	906	5.3	888	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.	1,210	1,220	4.9	1,200	4.7	5.1	60
Verger Hirakata	Daiwa Real Estate Appraisal Co., Ltd.	1,590	1,610	5.2	1,580	5.0	5.4	85
Sompo Care LAVIER Kinugasayama Koen (Note 2)	The Tanizawa Sōgō Appraisal Co., Ltd.	2,060	2,080	4.8	2,050	4.9	5.0	100
La'nassica Arakogawa (Note 3)	The Tanizawa Sōgō Appraisal Co., Ltd.	1,430	1,440	5.1	1,420	5.2	5.3	74
Sawayaka Hinodekan	Daiwa Real Estate Appraisal Co., Ltd.	938	950	4.9	933	4.7	5.1	47
Sawayaka Riverside Kurinoki	Daiwa Real Estate Appraisal Co., Ltd.	323	329	5.0	321	4.8	5.2	17
Sawayaka Obatake Sanbankan	Daiwa Real Estate Appraisal Co., Ltd.	355	360	5.1	353	4.9	5.3	18
Super Court JR Nara-Ekimae (Note 4)	The Tanizawa Sōgō Appraisal Co., Ltd.	1,750	1,770	5.0	1,740	5.1	5.2	91
Mina-no-ie Omiya Yoshinocho	The Tanizawa Sōgō Appraisal Co., Ltd.	799	807	4.9	795	5.0	5.1	40
Mina-no-ie Chuo-ku En'nami	Japan Real Estate Institute	890	900	4.9	880	4.7	5.1	44
Silver Heights Hitsujiagaoka 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.	790	804	4.5	784	4.3	4.7	37
Alpha Living Okayama Korakuen	Daiwa Real Estate Appraisal Co., Ltd.	672	683	4.6	667	4.4	4.8	32
Alpha Living Takamatsu Ekimae	Daiwa Real Estate Appraisal Co., Ltd.	641	653	4.6	636	4.4	4.8	30
Alpha Living Takamatsu Hyakkenmachi	Daiwa Real Estate Appraisal Co., Ltd.	627	635	4.7	624	4.5	4.9	31
Sompo no ie Nishitanabeekimae (Note 5)	The Tanizawa Sōgō Appraisal Co., Ltd.	744	748	4.7	742	4.7	4.9	36
Total		24,251	24,521	—	24,087	—	—	1,243

(Note 1) The summary is based on the appraisal report with October 31, 2016 as the date of value.

(Note 2) The discount rate for Sompo Care LAVIER Kinugasayama Koen is the discount rate for the 11th and subsequent fiscal years (discount rate up to the 10th fiscal year: 4.8%).

(Note 3) The discount rate for La'nassica Arakogawa is the discount rate for the 11th and subsequent fiscal years (discount rate up to the 10th fiscal year: 5.1%).

(Note 4) The discount rate for Super Court JR Nara-Ekimae is the discount rate for the 9th and subsequent fiscal years (discount rate up to the 8th fiscal year: 5.0%).

(Note 5) The discount rate for Sompo no ie Nishitanabeekimae is the discount rate for the 2nd and subsequent fiscal years (discount rate up to the 1st fiscal year: 4.6%).

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

##### A. Schedule of Capital Expenditures

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

Name of real estate property (Location)	Purpose	Planned period	Planned construction amount (million yen)		
			Total amount	Amount paid in 5th FP	Total amount paid
Silver Heights Hitsujigaoka No. 3 (Sapporo-shi, Hokkaido)	Repair of elevators	From: April 2017 To: April 2017	6	—	—
Verger Hirakata (Hirakata-shi, Osaka)	Upgrading of lighting in common areas	From: April 2017 To: April 2017	4	—	—
Sompo Care LAVIER Hiroshima Hikarigaoka (Hiroshima-shi, Hiroshima)	Upgrading of water heater	From: April 2017 To: April 2017	3	—	—

##### B. Capital Expenditures during the 5th Fiscal Period

The following summarizes the main construction work that constitutes capital expenditures conducted during the 5th Fiscal Period. Capital expenditures in the 5th Fiscal Period was 19 million yen. Combined with 22 million yen of repair expenses categorized as expense for the 5th Fiscal Period, 42 million yen of work has been implemented.

Name of real estate property (Location)	Purpose	Period	Construction amount (million yen)
Charm Suite Ryokuchikoen (Toyonaka-shi, Osaka)	Replacement of hot-water supply system for bathrooms	From: October 2016 To: October 2016	6
Super Court JR Nara-Ekimae (Nara-shi, Nara)	Replacement of water heater for bathrooms	From: August 2016 To: August 2016	2
Nichii Care Cente Fukushima Omori (Fukushima-shi, Fukushima)	Replacement of air-conditioners	From: October 2016 To: October 2016	1
Other	—	From: May 2016 To: October 2016	9
Total			19

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

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

(Unit: million yen)

Fiscal period	1st Fiscal Period (From: Jan. 7, 2014 To: Oct. 31, 2014)	2nd Fiscal Period (From: Nov. 1, 2014 To: Apr. 30, 2015)	3rd Fiscal Period (From: May 1, 2015 To: Oct. 31, 2015)	4th Fiscal Period (From: Nov. 1, 2015 To: Apr. 30, 2016)	5th Fiscal Period (From: May 1, 2016 To: Oct. 31, 2016)
Balance of reserve at beginning of period	—	19	47	63	33
Provision of reserve during period	19	28	15	28	—
Reversal of reserve during period	—	—	—	58	—
Reserve carried forward	19	47	63	33	33

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

**5.2.5. Status of Pledged Collateral**

The following outlines the collateral on acquired assets as of October 31, 2016.

Property name	Status of collateral	Type of collateral	Appraisal value (million yen)	Security interests holder
Nichii Care Center Fukushima Omori Sompo Care LAVIER Hiroshima Hikarigaoka Sompo Care LAVIER Sagamihara Chuo Charm Suite Ryokuchi Koen Sawayaka Kaikyokan Sawayaka Meisuikan Sawayaka Heart Life Nishikyogoku Verger Hirakata Sompo Care LAVIER Kinugasayama Koen La'nassica Arakogawa Sawayaka Hinodekan Sawayaka Riverside Kurinoki Sawayaka Obatake Sanbankan Super Court JR Nara-Ekimae Mina-no-ie Omiya Yoshinocho Mina-no-ie Chuo-ku En'nami Silver Heights Hitsujigaoka No. 3 Alpha Living Okayama Nishigawa Ryokudokoen Alpha Living Okayama Korakuen Alpha Living Takamatsu Ekimae Alpha Living Takamatsu Hyakkenmachi Sompo no ie Nishitanabeekimae	Pledged as collateral (joint collateral)	Revolving pledge	24,251	Mizuho Bank, Ltd. Resona Bank, Limited Sumitomo Mitsui Trust Bank, Limited Mizuho Trust & Banking Co., Ltd. The Musashino Bank, Ltd. Shinkin Central Bank The Dai-ichi Life Insurance Company, Limited

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

Rent-paying capacity (Note 1)	Annual rent (million yen) (Note 2)	Share (%) (Note 3)
More than 2.0x	297	21.4
More than 1.5x, but 2.0x or less	404	29.2
More than 1.2x, but 1.5x or less	227	16.4
1.2x or less	457	33.0
Total	1,387	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 2015 to September 2016 disclosed by the respective operator. Exceptions are Nichii Care Center Fukushima Omori, in which case these are based on information on business income and expenditures from July 2015 to June 2016, La'nassica Arakogawa, in which case these are based on information on business income and expenditures from April 2015 to March 2016, Silver Heights Hitsujigaoka No.3, in which case these are based on information on business income and expenditures from September 2015 to August 2016 and Sompo no ie Nishitanabeekimae in which case these are based on information on business income and expenditures from July 2015 to June 2016. The same shall apply hereinafter in this "A. Diversification by Rent-Paying Capacity."

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

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

Average rent-paying capacity (Note)
1.5x

(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	277	20.0
More than 1.5x, but 2.0x or less	794	57.2
More than 1.2x, but 1.5x or less	112	8.1
1.2x or less	202	14.6
Total	1,387	100.0

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

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

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

Average Appraisal rent-paying capacity (Note)
1.7x

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

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

Proportion of long-term care fee (Note 1)	Annual rent (million yen) (Note 2)	Share (%) (Note 3)
50% or less	575	41.5
More than 50%, but 60% or less	733	52.9
More than 60%, but 70% or less	78	5.6
More than 70%	–	–
Total	1,387	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 2015 to September 2016 disclosed by the respective operator. Exceptions are Nichii Care Center Fukushima Omori, in which case these are based on information on business income and expenditures from July 2015 to June 2016, La’ nassica Arakogawa, in which case these are based on information on business income and expenditures from April 2015 to March 2016, Silver Heights Hitsujigaoka No.3, in which case these are based on information on business income and expenditures from September 2015 to August 2016 and Sompo no ie Nishitanabeekimae in which case these are based on information on business income and expenditures from July 2015 to June 2016. The same shall apply hereinafter in this “C. Diversification by Proportion of Long-Term Care Fee.”

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

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



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

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

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

Proportion of one-time entrance fee amortization income (Note 1)	Annual rent (million yen) (Note 2)	Share (%) (Note 3)
5% or less	840	60.6
More than 5%, but 15% or less	435	31.4
More than 15%, but 25% or less	111	8.0
More than 25%	–	–
Total	1,387	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 2015 to September 2016 disclosed by the respective operator. Exceptions are Nichii Care Center Fukushima Omori, in which case these are based on information on business income and expenditures from July 2015 to June 2016, La’ nassica Arakogawa, in which case these are based on information on business income and expenditures from April 2015 to March 2016, Silver Heights Hitsujigaoka No.3, in which case these are based on information on business income and expenditures from September 2015 to August 2016 and Sompo no ie Nishitanabeekimae in which case these are based on information on business income and expenditures from July 2015 to June 2016. The same shall apply hereinafter in this “D. Diversification by Proportion of One-Time Entrance Fee Amortization Income.”

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

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

Average proportion of one-time entrance fee amortization income (Note)
4.6%

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

#### 5.2.7. Information about Major Assets

“Major assets” refers to those assets of which the concerned asset’s total rent income accounts for 10% or more of the entire portfolio’s total rent income as at the end of the 5th Fiscal Period (October 31, 2016). This is the following for the portfolio of 22 investment real estate properties. Annual rent is not disclosed because consent for disclosure has not been obtained from tenants.

Property name	Number of tenants	Appraisal NOI (million yen)	Total leasable area (m <sup>2</sup> )	Total leased area (m <sup>2</sup> )	Occupancy rate (%)
Charm Suite Ryokuchi Koen	1	144	5,329.73	5,329.73	100.0

**5.2.8. Information about Major Tenants**

“Major tenants” refers to those tenants of which the area leased to the concerned tenant accounts for 10% or more of the entire portfolio’s total leased area as at the end of the 5th Fiscal Period (October 31, 2016). This is the following for the portfolio of 22 investment real estate properties. Annual rent and lease and guarantee deposits are not disclosed because consent for disclosure has not been obtained from tenants.

Name of major tenant	Property name	Date of contract expiration	Appraisal NOI (million yen)	Total leased area (m <sup>2</sup> )	Share (%) (Note 1)
Sawayaka Club Co., Ltd.	Sawayaka Kaikyokan	March 27, 2034	243	15,142.82	22.5
	Sawayaka Meisuiikan				
	Sawayaka Heart Life Nishikyogoku				
	Sawayaka Hinodekan	November 30, 2034			
	Sawayaka Riverside Kurinoki				
	Sawayaka Obatake Sanbankan				
SOMPO Care Next Inc.	Sompo Care LAVIER Hiroshima Hikarigaoka	March 28, 2034	258	12,132.65	18.0
	Sompo Care LAVIER Sagamihara Chuo				
	Sompo Care LAVIER Kinugasayama Koen	September 11, 2034			
Anabuki Medical Care Inc.	Alpha Living Okayama Nishigawa Ryokudokoen	June 30, 2035	132	8,029.82	11.9
	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	10.8

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