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For Immediate Release



**NIPPON
RESIDENTIAL
INVESTMENT
CORPORATION**

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Notification on Work Improvement Order regarding Holding of Board of Directors' Meetings

Nippon Residential Investment Corporation (NRIC) announced in part in the Notification on Canceling Issuance of Investment Corporation Bonds dated April 26, 2006 that an internal investigation had recognized inadequacies in internal procedures regarding resolutions by the board of directors. Today we received from the Director-General of the Kanto Local Finance Bureau a Work Improvement Order regarding the holding of said board of directors' meeting. The Order was based on Article 214-1 of the Investment Trusts and Investment Corporations Law. We deeply apologize for the great concern and trouble this incident has caused our investors and related stakeholders.

The content and other matters regarding the administrative discipline is as indicated below. NRIC solemnly accepts the Work Improvement Order. In addition to deeply regretting this incident, NRIC will implement the following improvement items to prevent the reoccurrence of similar incidents and to enhance and reinforce our legal compliance system.

1. Content of Work Improvement Order

The following measures shall be taken in light of legal violations including the improper entries in the minutes for board of directors' meetings and said status shall be reported to the Tokyo Local Finance Office in writing by August 14 (Monday), 2006.

- (1) Enhancing and reinforcing of legal compliance system
- (2) Establishment and implementation of measures to prevent re-occurrence along with clarification of locations of responsibilities

2. Reason for Disciplinary Action

With regards to some of the extraordinary board of directors' meetings held by NRIC between July 2004 and April 2006, resolutions of the monthly ordinary board of directors' meetings and advance explanations to each director via e-mail or telephone prior to the date indicated in the meeting minutes as the date of the extraordinary board of directors' meetings were conducted. After obtaining approval following deliberation of the contents through the preceding means, the matters were handled as if a resolution were obtained at the extraordinary board of directors' meeting (advance approval) as long as there were no changes to the content. In addition, the resolutions of the ordinary board of directors' meeting and explanations to each director via e-mail or telephone were conducted after the date the extraordinary board of directors' meeting was held according to the minutes. Following the obtaining of approval after deliberation using the preceding means, it was handled as if a resolution were obtained at the extraordinary board of directors' meeting (approval after-the-fact). As a result, meeting minutes were prepared with entries that differed from the factual meeting form, held date and time, and finished date and time.

In addition, with regards to some of the above, the approvals were obtained only through e-mail or telephone communication, resulting in the board of directors' meeting being conducted using the so-called "virtual meeting" method.

The above board of directors' meetings fail to satisfy the resolution requirements for board of directors designated in Article 260-2-1 of the Commercial Code that applies to Article 108 of the Investment Trusts and Investment Corporations Law (ITL) prior to its revision by Law No. 87 of 2005. As a result, the additional issuance of investment units and convocation of general meeting of unitholders debated and executed by the concerned board of directors' meetings and the act of preparing meeting minutes for these board of directors' meetings that contain content differing from the truth violate ITL Article 97-2, Article 120-1, Article 131-1 and Article 139-2-2 along with Commercial Code Article 260-4-2 that applies to ITL Article 108.

3. Measures to be Implemented

NRIC very solemnly receives this Improvement Order and will establish specific implementation measures and an implementation policy from the following perspective for

the points of improvement that were specified. NRIC shall submit a Work Improvement Plan within one month.

(1) Implementation of measures to prevent reoccurrence

In addition to reviewing the schedule coordination method for holding board of directors' meetings, NRIC will study and implement measures, including the construction of terms for flexibly holding teleconferences, etc. and the terms to serve as a premise for holding such teleconferences, etc. and a checking system to verify the legal compliance of such.

(2) Reinforcement of legal compliance system

The involvement of the supervising officer in NRIC's operations shall be further heightened and an awareness of legal compliance be spread comprehensively. In addition, measures shall be studied and implemented to reinforce the compliance system at the instruction of the supervising officer.

(3) Clarification of the locations of responsibility

In addition to all of the directors developing a sufficient awareness of the responsibilities for the indicated legal violations, a strict implementation of measures will be followed to clarify the locations of responsibility for the concerned incident.

Further, NRIC recognizes that one of the fundamental reasons for this administrative discipline is that the chief executive officer of NRIC also serves as the president of its manager, Pacific Investment Advisors Corporation, and thus has been unable to dedicate his time to operating NRIC. Therefore, he shall resign from his post as chief executive officer and dedicate himself to running the manager in order to clarify the location of responsibility for this administrative discipline. Additionally, the timing of the resignation, selection of his successor candidate, timing of the general meeting of unitholders and other matters shall be announced once they are determined since the selection of the chief executive officer to succeed him is a matter requiring the approval of the general meeting of unitholders.

- This document was distributed to the press clubs within the Tokyo Stock Exchange, Ministry of Land, Infrastructure and Transport and construction trade newspaper of the Ministry of Land, Infrastructure and Transport.
- Nippon Residential Investment Corporation's website is <http://www.nric.co.jp>

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