July 13, 2021

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Notice of the Recording of Valuation Loss on Money in Trust (Aircraft for Arrangement)

On July 13, 2021, Financial Products Group Co., Ltd. (FPG) announced our decision to record a valuation loss on money in trust (aircraft for arrangement), as follows.

1. Reason for the recording of a valuation loss on money in trust (aircraft for arrangement)

FPG has recorded the trust beneficiary rights of the specified non-monetary trust agreement[1] related to the operating lease projects for the aircraft trust beneficiary rights in the U.S. as money in trust (aircraft for arrangement) under current assets on the balance sheet for the purpose of transferring those rights to investors. In one of these projects, we have decided to sell aircraft trust beneficiary rights in the U.S at a price below the book value in or after July 2021 and to terminate the specified non-monetary trust agreement. In addition, we will record the valuation loss of the money in trust (aircraft for arrangement) in the cost of sales related to this matter in the third quarter of the fiscal year ending September 30, 2021.

This case is what is called a "sale of the aircraft trust beneficiary rights to a single investor."[2] In our operating lease business for aircraft, we expect the period until the sale to be longer than usual due to the large amount of funds required by investors for the purchase of one aircraft since the COVID-19 pandemic has had a significant effect on airlines. This project, which is the sale of aircraft trust beneficiary rights to a single investor, is recorded under money in trust (aircraft for arrangement) on the balance sheet. FPG has received a stable source of income from lease fees since there is no problem with airlines' creditworthiness, including in this case. However, even if FPG incurs a loss, we have judged that our priority should be to expand future profit-earning opportunities by having more capacity to raise funds by selling this project, converting it into funds and repaying the debt, since the demand for the financial requirements of operating lease projects and real estate fractional ownership investment products is increasing.

Working from this stance, we received pressing inquiries from a major customer and decided to sell before we missed the opportunity, although it resulted in a discount of about 4% from the book value. As a result, we will record a valuation loss of JPY 404 million on our non-consolidated financial statements. However, this valuation loss includes commission fees to FPG's consolidated subsidiaries, so the actual valuation loss on our consolidated financial statements is expected to be JPY 204 million.

1. The aircraft operating lease projects using the trust beneficiary rights, arranged by FPG, will be transferred to investors its trust beneficiary rights of the specified non-monetary trust agreement, which was set up for the purpose of carrying out the operation related to the operating lease projects. Considering this legal reality, FPG has recorded the amount equivalent to such beneficiary rights that have not yet been sold in the money in trust (aircraft for arrangement). Under the trust agreement, FPG trusts money to FPG Trust Co., Ltd. (FPG Trust), which is the trustee, and FPG Trust uses the money to purchase the aircraft (including trust beneficiary rights of the aircraft as a trust asset) based on the instructions of FPG, the initial settlor, and then leases or sells the aircraft to airline companies. By transferring the trust beneficiary rights of the specified non-monetary trust agreement to investors, the position of the settlor will also be transferred to them. Profits and losses from the trust property also belong to investors after the transfer. In this project, since the owners of the aircraft leased to U.S. airlines are required to be U.S. citizens under U.S.

regulations, FPG Trust is not the owner of the aircraft. The U.S. aircraft trust beneficiary rights have a U.S. trust company as trustee and a U.S. trust company is registered as the owner of the aircraft.

2. Sale of the aircraft trust beneficiary rights means a transaction in which a silent partnership, trust beneficiary rights, or a general partnership interest in an operating lease business for one aircraft (including one owned under U.S. trust beneficiary rights) is transferred to an investor without selling it in small lots.

3. The amount of the valuation loss is a current forecast.

2. Schedule

Date of decision: July 13, 2021

Date of the sale of trust beneficiary rights in U.S. aircraft: July 30, 2021 (Planned)

Closing date of the specified non-monetary trust agreement: July to September 2021(Planned)

3. Outlook

FPG will record the valuation loss related to this matter in the third quarter of the fiscal year ending September 30, 2021, treating it as a revision occurring after the reporting period as the sale of the aircraft trust beneficiary rights in the U.S. will be executed in July 2021 or later. This matter is not included in the forecast for the fiscal year ending September 30, 2021, but we do not change the forecast as the result of this matter because other business performance is solid.