

October 31, 2022

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Notice Regarding Recording of Valuation Loss in Money Held in Trust (Aircraft for Arrangement)

Financial Products Group CO., Ltd. (FPG) recorded a valuation loss in money held in trust (aircraft for arrangement) in the fiscal year ended September 30, 2022. The details are as following:

1. Reason for Recording of Valuation Loss in Money Held in Trust (Aircraft for Arrangement)

In order to transfer to investors the trust beneficiary rights of a specified fund trust agreement pertaining to an Operating Lease Project targeted at U.S. aircraft trust beneficiary rights (hereinafter "the Project"), said trust beneficiary rights were recorded on the balance sheet as commodity in "money held in trust (aircraft for arrangement)" under current assets (Note); however, after reviewing the accounting valuation at the end of September 2022, the valuation loss for "money held in trust (aircraft for arrangement)" has been recorded under cost of sales in the financial results for the fiscal year ended September 30, 2022 announced today.

The Project was arranged as investment product aimed at large-scale investors and for sale in non-JPY currencies; however, owing to growing concerns in aircraft investment business triggered by COVID-19 and the effects of the recent depreciation of the Japanese yen against the United States dollar pushing the amount of funds required by investors higher, and these, in part, are lengthening the holding period by FPG. It is considered that there are no problems with the merchantability of the Project, as there are no concerns with the creditworthiness of the airline and the stable lease income is received even amid the ongoing COVID-19 situation. However, in light of the lengthened holding period by FPG, along with the fact that there will be a variety of possible options for the divestment of the trust beneficiary rights of the Project going forward, FPG has decided to devalue the net sale value of the Project, which has been valued as commodity for accounting purposes, as the net sale value of the Project is considered to be declining.

As a result, although a valuation loss of JPY 1,459 million was recorded in the non-consolidated financial statements, the commission fees allocated within this amount for payment to FPG's consolidated subsidiaries will be removed from the consolidated financial statements, and therefore the amount of valuation loss recorded in the consolidated financial statements shall be JPY 1,217 million.

(Note) The aircraft operating lease projects using the trust beneficiary rights arranged by FPG, including the said Project, 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. Impact on Financial Results

Impact from the above information has been reflected in the financial results for the fiscal year ended September 30, 2022 [Japanese Standards] (Consolidated) announced today.