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Recording extraordinary loss (provision for loss contracts with regard to stock in GMO Aozora Net Bank)

In the third quarter of the fiscal year ending December 31, 2022 (from July 1, 2022, to September 30, 2022), GMO Internet Group, Inc. (the Company) expects to record an extraordinary loss (provision for loss contracts) of JPY 6.3 billion with regard to stock in GMO Aozora Net Bank, Ltd. ("GMO Aozora Net Bank") the Group will acquire in the future, as outlined below.

1. Details of the extraordinary loss

The Group has been engaged in the net bank business since July 2018 through its equity method affiliate GMO Aozora Net Bank based on the capital and business alliance the Group concluded with Aozora Bank ("Aozora") in June 2016.

The Group executed the contract with shareholders of Aozora*, based on which the Group may acquire the class shares held by Aozora on either the date on which the Group becomes a major shareholder of GMO Aozora Net Bank or 5 years from the official launch date of the Internet bank, whichever comes first. Subject only to becoming a major shareholder, the Group may convert the class shares acquired to common shares and if so, the ownership ratio and ratio of voting rights of the Group with regard to GMO Aozora Net Bank will be 50.0%.

GMO Aozora Net Bank stipulated "No. 1 bank for small and start-up companies," "No. 1 built-in type finance," and "No. 1 tech first bank" as three strategies under its mid- to long-term management plan dated 2021. Under these strategies, differences had arisen between the financial results and the business plans aiming to achieve positive figures in the fiscal year ending March 31, 2023, as the growth rate fell below our expectations while the KPIs, such as easy, built-in type financial service contracts and the number of business accounts, increased.

GMO Aozora Net Bank has formulated a new medium-term management plan to further enhance the earnings power by thoroughly strengthening the base business, considering the business progress and financial results for the six months of the fiscal year ending March 31, 2022, and aims to achieve solid financial base through a capital increase.

The Group has considered in depth the plan and requested a third-party calculation agent to conduct the valuation analysis of the GMO Aozora Net Bank shares. The Group agrees with the plan and has decided to underwrite the capital increase in order to ensure the necessary capital for the implementation and achievement of the plan.

By taking a comprehensive view of the future operational forecasts and progress on the business plans of the GMO Aozora Net Bank, regarding the difference between the price of the stocks calculated based on the new business plans and the purchase price for the class shares of GMO Aozora Net Bank the Group will acquire based on the shareholders' agreement in the future, it has been decided to record an extraordinary loss of JPY 6.3 billion as a provision for loss contracts.

(Note) The Company executed the contract with Aozora on June 24, 2016, and three companies, including GMO Financial Holdings, Inc., executed the contract concerning the succession in title and change in a contract with shareholders on July 21, 2016. The Group can request Aozora to transfer the class shares of GMO Aozora Net Bank and Aozora can request the Group to purchase the class shares of GMO Aozora Net Bank, as defined in these contracts.

2. Outlook

Consolidated financial results under Japan GAAP for the third quarter of the fiscal year ending December 2022, to be announced on November 14, 2022, will reflect this extraordinary loss.