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January 26, 2023

Consolidated Financial Results for the Nine Months Ended December 31, 2022 (Under Japanese GAAP)

Company name: Kyokuto Securities Co., Ltd.
 Listing: Tokyo Stock Exchange
 Securities code: 8706
 URL: [http:// www.kyokuto-sec.co.jp](http://www.kyokuto-sec.co.jp)
 Representative: Kazuhiro KIKUCHI, President and Chief Executive Officer
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 Scheduled date to file quarterly securities report: February 13, 2023
 Scheduled date of commencement of payment of dividends: —
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: None

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the nine months ended December 31, 2022 (from April 1, 2022 to December 31, 2022)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Operating revenue		Net operating revenue		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended										
December 31, 2022	3,234	△37.7	3,194	△38.0	△349	—	134	△92.7	330	△80.6
December 31, 2021	5,188	△22.9	5,154	△22.9	1,392	△52.9	1,858	△45.5	1,708	△29.8

Note: Comprehensive income For the nine months ended December 31, 2022: ¥1,488 million [3.8%]
 For the nine months ended December 31, 2021: ¥1,433 million [△51.3%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2022	10.37	—
December 31, 2021	53.54	—

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
December 31, 2022	70,402	46,477	66.0	1,456.61
March 31, 2022	71,796	46,106	64.2	1,444.99

Reference: Equity
 As of December 31, 2022: ¥46,467 million
 As of March 31, 2022: ¥46,097 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2022	—	20.00	—	20.00	40.00
Fiscal year ending March 31, 2023	—	15.00			

Note: Revisions to the forecast of cash dividends most recently announced: None

The company does not disclose forecast of business result. Please refer to page 4 for further information.

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

Newly included: 0 companies

Excluded: 0 companies

(2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(4) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period (including treasury shares)

As of December 31, 2022	32,779,000 shares
As of March 31, 2022	32,779,000 shares

(ii) Number of treasury shares at the end of the period

As of December 31, 2022	877,595 shares
As of March 31, 2022	877,531 shares

(iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Nine months ended December 31, 2022	31,901,451 shares
Nine months ended December 31, 2021	31,901,477 shares

* “Quarterly financial results reports (Kessan Tanshin)” are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

The company does not disclose forecast of business results. Please refer to page 4 for further information.

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BUSINESS RESULTS

1. Qualitative Information on Business Result for the Nine Months Ended December 31, 2022

(1) Information on Business Results

During the nine months ended December 31, 2022 (from April 1, 2022 to December 31, 2022) of the current consolidated fiscal year, the domestic and international economies resumed activities as the number of cases of new coronavirus infections declined. On the other hand, business confidence in many countries tended to deteriorate as central banks in major countries repeatedly raised interest rates sharply in an attempt to curb high inflation rates.

In the financial markets, there was a mix of concern that the global economy might be in recession and optimism that the monetary tightening phase was coming to an end.

In the stock market, the Nikkei Stock Average (Nikkei 225) generally ranged between 28,500 yen and 25,500 yen. The Nikkei 225 started the business year lower, but reached a high of 29,222 yen on August 17 on expectations that the Federal Reserve Board (FRB) would start cutting interest rates in 2023 against the backdrop of a shift to a downward trend in crude oil and other prices. However, The Nikkei 225 began to fall as the FRB Chairman denied the views of an early interest rate cut and central banks in other countries continued to raise interest rates sharply. In October, the Nikkei 225 headed for recovery to its previous highs on expectations that the FRB would slow down the pace of interest rate hikes by the end of the year. In December, the Nikkei 225 ended the nine-month period at 26,094 yen due to the aggressive stance of the FRB and the European Central Bank on further interest rate hikes, as well as the Bank of Japan's de facto interest rate hike on December 20.

In the foreign exchange market, the US dollar was solely appreciated worldwide until October, but was in a correction phase toward the end of the year. As for the dollar-yen exchange rate, the yen was depreciated against the dollar on the back of the widening interest rate gap between Japan and the U.S. and the difference in monetary policy stance. The yen reached 151.93 yen against the dollar on October 21, the weakest level in about 30 years since 1990. In September and October, the Japanese government and the Bank of Japan intervened for the first time in 24 years to buy the yen and sell the dollar, citing the yen's depreciation as speculative and sudden. The dollar's sole appreciation subsequently reached a turning point as the FRB and ECB sought to reduce their interest rate hikes. The dollar-yen exchange rate rapidly came under corrective pressure from a combination of the Bank of Japan's policy changes and rising Japanese interest rates, hitting 130.58 yen per dollar on December 20 and closing the nine-month period at 132.70 yen per dollar.

In the bond market, the yield on 10-year Japanese government bonds generally hovered in the range of 0.20% to 0.25%, but surged after the Bank of Japan expanded the guideline range for the yield on 10-year government bonds in its yield curve control policy to 0 plus or minus 0.5% on December 20. On December 21, it climbed to 0.48% and closed the nine-month period at 0.41%.

In this environment, we made effort to offer “unique in-season financial products” for responding to customers' varied needs. Also we conducted active management of Assets from the view point of effective management of shareholders' equity.

For the nine-month period compared with the same period of previous fiscal year, operating revenue decreased by 37.7% to 3,234 million yen, net operating revenue decreased by 38.0% to 3,194 million yen, operating loss resulted in 349 million yen (operating income resulted in 1,392 million yen in the same period of the previous year), ordinary profit decreased by 92.7% to 134 million yen, and net profit attributable to owners of the parent company decreased by 80.6% to 330 million yen.

Details of the period's results are as follows:

① Commission Received

The total commission received resulted in 1,341 million yen (down 11.7% from the same period of previous fiscal year), as shown below:

(Brokerage commission)

Brokerage commission on equity securities was 724 million yen (down 7.8% from the same period of previous fiscal year). Total amount of Brokerage commission including those on beneficiary securities (Exchange Traded Funds) was 749 million yen (down 7.4% from the same period of previous fiscal year).

(Commission for Underwriting, Secondary Distribution and Solicitation for Selling and Others for Professional Investors)

The amount of commission for underwriting, secondary distribution and solicitation for selling and others for professional investors was 12 million yen (down 57.9% from the same period of previous fiscal year).

(Fees for Offering, Secondary Distribution and Solicitation for Selling and Others for Professional Investors)

The amount of fees for offering, secondary distribution and solicitation for selling and others for professional investors was 373 million yen (down 22.9% from the same period of previous fiscal year), due to decrease of handling of beneficiary securities (investment trusts).

(Other Commission Received)

The amount of other commission received consisting mainly of trailer fee of beneficiary securities (investment trusts) was 206 million yen (up 4.8% from the same period of previous fiscal year).

② Net Trading Income

Net trading income of equities, etc. resulted in a loss of 181 million yen (a gain of 41 million yen in the same period of previous fiscal year). Net trading income of bonds etc. resulted in a gain of 1,213 million yen (down 55.0% from the same period of previous fiscal year). Net trading income on other trading consisting mainly of foreign exchange derivatives resulted in a loss of 344 million yen (a loss of 113 million yen in the same period of previous fiscal year). From the above, net trading income resulted in a gain of 687 million yen (down 73.8% from the same period of previous fiscal year).

③ Net Financial Income

Net financial income increased by 16.0% to 1,151 million yen, deducting 39 million yen (up 14.9% from the same period of previous fiscal year) of financial expenses from 1,190 million yen (up 16.0% from the same period of previous fiscal year) of financial revenue.

④ Selling, General and Administrative Expenses

Selling, general and administrative expenses were 3,544 million yen (down 5.8% from the same period of previous fiscal year).

⑤ Non-operating Income and Expenses

Non-operating income consisting mainly of dividend received totaled 634 million yen (up 23.9% from the same period of previous fiscal year), while non-operating expenses consisting mainly of foreign exchange losses totaled 150 million yen (up 225.4% from the same period of previous fiscal year). As a result, net non-operating income and expenses amounted to gain of 483 million yen (up 4.0% from the same period of previous fiscal year).

⑥ Extraordinary Income and Loss

Extraordinary income was 406 million yen (down 36.9% from the same period of previous fiscal year), due to gain on sales of investment securities. With the amount of extraordinary loss being 64 million yen (up 67.2% from the same period of previous fiscal year) due to mainly loss on sales of investment securities, net extraordinary income amounted to gain of 342 million yen (down 43.5% from the same period of previous fiscal year).

(2)Information on Financial Condition

① Assets

Current assets as of December 31, 2022 were 47,072 million yen and decreased by 5,163 million yen from as of March 31, 2022. This is mainly because, cash and deposits decreased by 1,437 million yen, cash segregated as deposits decreased by 1,162 million yen and trading products decreased by 1,097 million yen. Non-current assets as of December 31, 2022 were 23,329 million yen and increased by 3,769 million yen from March 31, 2022. This is mainly because of an increase in investment securities by 3,525 million yen.

As a result, the assets as of December 31, 2022 were 70,402 million yen and decreased by 1,394 million yen from March 31, 2022.

② Liabilities

Current liabilities as of December 31, 2022 were 21,416 million yen and decreased by 2,227 million yen from March 31, 2022. This is mainly because deposits received decreased by 920 million yen, short-term borrowings decreased by 850 million yen and income taxes payable decreased by 370 million yen. Non-current liabilities as of December 31, 2022 were 2,494 million yen and increased by 462 million yen from March 31, 2022. This is because other non-current liabilities increased by 466 million yen.

As a result, the liabilities as of December 31, 2022 were 23,924 million yen and decreased by 1,765 million yen from March 31, 2022.

③ Net Assets

Retained earnings decreased by 785 million yen and valuation difference on available-for-sale securities increased by 1,156 million yen. As a result, net assets as of December 31, 2022 were 46,477 million yen and increased by 371 million yen from March 31, 2022.

(3)Information on Forecast of Consolidated Business Results

Consolidated operating revenues consist mainly of commissions received and net trading income related to the securities markets, and the majority of these are derived from the stock and bond markets. In order to mitigate the impact of favorable and unfavorable movements in both stock and bond markets on our business performance, we are striving to ensure revenue stability by diversifying our revenue sources, but even so, our business performance may still be affected by trends in the securities markets and may fluctuate significantly. In addition, rapid fluctuations in the domestic and overseas financial instruments markets may result in large valuation gains or losses on financial instruments held by the company. In general, securities markets and foreign exchange markets fluctuate reflecting a variety of factors, including domestic and international political and economic conditions, interest rates, and corporate earnings. Therefore, in order to forecast our consolidated business results, it is necessary to accurately grasp future market trends while predicting these factors in advance, but it is nearly impossible to achieve this. In a situation where there is a high possibility of a large discrepancy between the forecast and actual results due to such uncertain factors, daring to disclose the forecast may result in sending the wrong message to the market, which may hinder fair stock price formation. For the above reasons, the company will not disclose consolidated earnings forecasts, but instead will endeavor to disclose earnings figures as early as possible, and will release preliminary figures around the 10th business day from the end of the fiscal year or the end of the quarter when the figures for consolidated financial results are almost finalized.

2. Quarterly Consolidated Financial Statements and Notes
(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	20,445	19,007
Segregated deposits	13,176	12,014
Trading products	13,530	12,432
Trading securities and other	13,512	12,373
Derivatives	18	59
Trade date accrual	859	—
Margin transaction assets	2,794	2,336
Margin loans	2,616	2,236
Cash collateral provided for securities borrowed in margin transactions	177	100
Other current assets	1,444	1,292
Allowance for doubtful accounts	△14	△11
Total current assets	52,236	47,072
Non-current assets		
Property, plant and equipment	1,909	1,901
Buildings	445	416
Land	1,167	1,167
Other	297	317
Intangible assets	64	60
Investments and other assets	17,585	21,367
Investment securities	16,588	20,113
Other	1,068	1,325
Allowance for doubtful accounts	△71	△71
Total non-current assets	19,560	23,329
Total assets	71,796	70,402
Liabilities		
Current liabilities		
Trading products	261	—
Derivatives	261	—
Trade date accrual	—	341
Margin transaction liabilities	389	223
Margin borrowings	90	100
Cash received for securities sold in margin transactions	299	122
Deposits received	12,636	11,715
Short-term borrowings	8,850	8,000
Income taxes payable	383	12
Provision for bonuses	208	68
Other current liabilities	914	1,054
Total current liabilities	23,644	21,416
Non-current liabilities		
Long-term borrowings	1,500	1,500
Retirement benefit liability	76	72
Other noncurrent liabilities	455	921
Total non-current liabilities	2,032	2,494
Reserves under special laws		
Reserve for financial instruments transaction liabilities	14	14
Total reserves under special laws	14	14
Total liabilities	25,690	23,924

(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
Net assets		
Shareholders' equity		
Share capital	5,251	5,251
Capital surplus	4,774	4,774
Retained earnings	37,318	36,532
Treasury shares	△863	△863
Total shareholders' equity	46,481	45,695
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	△384	772
Total accumulated other comprehensive income	△384	772
Non-controlling interests	9	9
Total net assets	46,106	46,477
Total liabilities and net assets	71,796	70,402

(2) Quarterly Consolidated Income Statements and Quarterly Consolidated Comprehensive Income Statement

(Quarterly Consolidated Income Statements)

(Nine months ended December 31, 2022)

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Operating revenue		
Commission received	1,520	1,341
Brokerage commission	809	749
Commission for underwriting, secondary distribution and solicitation for selling and others for professional investors	29	12
Fees for offering, secondary distribution and solicitation for selling and others for professional investors	484	373
Other commission received	197	206
Net trading income	2,627	687
Financial revenue	1,026	1,190
Other operating revenue	14	14
Total operating revenue	5,188	3,234
Financial expenses	34	39
Net operating revenue	5,154	3,194
Selling, general and administrative expenses		
Trading related expenses	407	404
Personnel expenses	2,247	2,111
Real estate expenses	404	379
Office expenses	424	403
Depreciation	65	63
Taxes and dues	120	94
Provision of allowance for doubtful accounts	4	—
Other	86	86
Total selling, general and administrative expenses	3,761	3,544
Operating profit/loss	1,392	△349
Non-operating income		
Dividend income	344	507
Gain on investments in investment partnerships	112	90
Other	54	36
Total non-operating income	511	634
Non-operating expenses		
Foreign exchange losses	38	136
Mediation settlement	7	2
Other	0	11
Total non-operating expenses	46	150
Ordinary profit	1,858	134

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Extraordinary income		
Gain on sale of investment securities	644	406
Reversal of reserve for financial instruments transaction liabilities	0	—
Total extraordinary income	644	406
Extraordinary losses		
Loss on sale of investment securities	0	64
Loss on valuation of investment securities	31	—
Loss on retirement of non-current assets	1	0
Other	5	—
Total extraordinary losses	38	64
Profit before income taxes	2,464	477
Income taxes - current	608	35
Income taxes - deferred	147	111
Total income taxes	756	146
Profit	1,708	330
Profit attributable to non-controlling interests	0	0
Profit attributable to owners of parent	1,708	330

(Quarterly Consolidated Comprehensive Income Statements)
(Nine months ended December 31, 2022)

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Profit	1,708	330
Other comprehensive income		
Valuation difference on available-for-sale securities	△274	1,157
Total other comprehensive income	△274	1,157
Comprehensive income	1,433	1,488
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,433	1,487
Comprehensive income attributable to non-controlling interests	0	0

(3) Notes to Quarterly Consolidated Financial Statements

(Notes Concerning Going Concern Assumption)

None.

(Notes in the Event of Substantial Changes in Shareholders' Equity)

None.

(Changes in Accounting Policy)

(Application of the Guidance on Accounting Standard for Fair Value Measurement)

The "Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021) is applied from the beginning of the first quarter of the current fiscal year. The new accounting policy stipulated in the Guidance on Accounting Standard for Fair Value Measurement will be applied prospectively in accordance with the transitional treatment stipulated in Paragraph 27-2 of the Guidance. There is no impact on the quarterly consolidated financial statements.

【Referential Data】

1. Referential Data on Consolidated Business Results for the Nine Months Ended December 31, 2022

(1) Commission Received

① Commission received by sources

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022	Change		FY2021
			Amount	%	
Brokerage commission	809	749	△60	△7.4	1,106
(Equities)	(786)	(724)	(△61)	(△7.8)	(1,070)
(Bonds)	(—)	(—)	(—)	(—)	(—)
(Beneficiary securities)	(23)	(24)	(1)	(6.0)	(35)
Commission for underwriting, secondary distribution and solicitation for selling and others for professional investors	29	12	△16	△57.9	32
(Equities)	(29)	(12)	(△16)	(△57.9)	(32)
(Bonds)	(—)	(—)	(—)	(—)	(—)
Fees for offering, secondary distribution and solicitation for selling and others for professional investors	484	373	△111	△22.9	594
Other commission received	197	206	9	4.8	262
Total	1,520	1,341	△178	△11.7	1,995

② Commission received by instruments

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022	Change		FY2021
			Amount	%	
Equities	818	739	△78	△9.6	1,107
Bonds	0	0	0	10.8	0
Beneficiary securities	675	586	△89	△13.2	855
Other	25	15	△10	△41.0	32
Total	1,520	1,341	△178	△11.7	1,995

(2) Net Trading Income

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022	Change		FY2021
			Amount	%	
Equities, etc.	41	△181	△222	—	132
Bonds, etc.	2,698	1,213	△1,485	△55.0	3,282
Other	△113	△344	△230	—	△384
Total	2,627	687	△1,939	△73.8	3,030

(3) Consolidated Income Statement for Latest Five Quarters

(Millions of yen)

	Quarter ended December 31, 2021	Quarter ended March 31, 2022	Quarter ended June 30, 2022	Quarter ended September 30, 2022	Quarter ended December 31, 2022
I . Operating revenue	1,665	1,303	1,201	1,008	1,023
1 Commission received	563	474	446	435	460
2 Net trading income	750	403	169	85	432
3 Financial revenue	346	421	580	482	126
4 Other operating revenue	4	4	4	4	4
II . Financial expenses	10	17	11	15	12
Net operating revenue	1,654	1,286	1,189	993	1,011
III . Selling, general and administrative expenses	1,276	1,379	1,227	1,163	1,153
1 Trading related expenses	131	146	128	147	128
2 Personal expenses	783	871	743	692	675
3 Real estate expenses	120	118	122	128	128
4 Office expenses	143	136	139	131	133
5 Depreciation	22	21	19	21	22
6 Taxes and dues	37	40	42	21	31
7 Provision of allowance for doubtful accounts	△0	1	—	—	—
8 Other	37	42	31	22	32
Operating profit/loss	378	△92	△37	△169	△141
IV . Non-operating income	182	232	316	127	190
V . Non-operating expenses	37	118	153	38	△41
Ordinary profit/loss	523	22	125	△80	89
VI . Extraordinary income	190	784	236	—	170
VII . Extraordinary losses	37	154	—	63	1
Profit/Loss before income taxes	676	652	361	△143	259
Income taxes current	145	347	15	1	18
Income taxes deferred	62	△105	100	△49	61
Profit/Loss	468	409	246	△95	179
Profit attributable to non-controlling interests	0	0	0	0	0
Profit/Loss attributable to owners of parent	467	409	246	△95	179

2.Referential Data on Business Results for the Nine Months Ended December 31, 2022

(1) Capital Adequacy Ratio

(Millions of yen)

		As of December 31, 2021	As of December 31, 2022	As of March 31, 2022
Basic items	(A)	42,079	41,592	41,548
Complementary items	Valuation difference on available-for-sale securities, etc.	136	614	—
	Financial instruments transaction liability reserves	13	14	14
	Allowance for doubtful accounts	13	11	15
	Total (B)	163	639	29
Deductible assets	(C)	9,106	7,528	6,573
Unfixed net capital	(A)+(B)-(C) (D)	33,136	34,704	35,003
Amount of risk correspondents	Market risk equivalent	3,887	3,874	3,735
	Trade party risk equivalent	249	202	281
	Basic risk equivalent	1,271	1,268	1,294
	Total (E)	5,407	5,344	5,311
Capital adequacy ratio	(D)/(E) × 100%	612.7%	649.2%	659.0%

(2) Number of Directors/Auditors and Employees

	As of December 31, 2021	As of December 31, 2022	As of March 31, 2022
Directors and auditors	10	10	10
Employees	240	231	237