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July 27, 2023

Consolidated Financial Results for the Three Months Ended June 30, 2023 (Under Japanese GAAP)

Company name: Kyokuto Securities Co., Ltd.
 Listing: Tokyo Stock Exchange
 Securities code: 8706
 URL: [https:// www.kyokuto-sec.co.jp](https://www.kyokuto-sec.co.jp)
 Representative: Kazuhiro KIKUCHI, President and Chief Executive Officer
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 Scheduled date to file quarterly securities report: August 10, 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 three months ended June 30, 2023 (from April 1, 2023 to June 30, 2023)

(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	%
Three months ended										
June 30, 2023	1,831	52.4	1,817	52.8	626	—	976	675.9	1,096	345.2
June 30, 2022	1,201	△34.1	1,189	△34.3	△37	—	125	△82.5	246	△52.6

Note: Comprehensive income For the three months ended June 30, 2023: ¥2,091 million [387.4%]
 For the three months ended June 30, 2022: ¥429 million [△18.4%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
June 30, 2023	34.36	—
June 30, 2022	7.72	—

(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
June 30, 2023	75,148	48,913	65.1	1,532.95
March 31, 2023	70,902	47,301	66.7	1,482.41

Reference: Equity
 As of June 30, 2023: ¥48,903 million
 As of March 31, 2023: ¥47,291 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, 2023	—	15.00	—	15.00	30.00
Fiscal year ending March 31, 2024	—				

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

Kyokuto Securities Co., Ltd. and its consolidated subsidiaries do not disclose forecast of financial results.
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: None

(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 June 30, 2023	32,779,000 shares
As of March 31, 2023	32,779,000 shares

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

As of June 30, 2023	877,595 shares
As of March 31, 2023	877,595 shares

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

Three months ended June 30, 2023	31,901,405 shares
Three months ended June 30, 2022	31,901,469 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

We don't disclose forecast of financial results. Please refer to page4 for further information.

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BUSINESS RESULTS

1. Qualitative Information on Business Results for the Three Months Ended June 30, 2023

(1) Information on Business Results

During the three months ended June 30, 2023 (from April 1 to June 30, 2023) of the current consolidated fiscal year, high-price levels were maintained in both domestic and international economies, although the inflation rates slowed down. Monetary tightening measures in major countries except Japan to curb inflation have progressed, and there were concerns about the negative impacts of those measures on the economy. The US Federal Reserve Board (FRB) halted interest rate hikes in June, but has hinted at two more hikes in interest rates this year. In addition, the Bank of Canada (Canadian central bank) has raised interest rates again, and the European Central Bank and the Bank of England have also indicated that they will continue to raise interest rates.

In the stock market, the Nikkei Stock Average (Nikkei 225) was on an upward trend, rising by 18.3% from the end of the previous fiscal year to 33,189 yen at the end of the three-month period, the highest price in 33 years. Especially since the Bank of Japan (BOJ) decided to maintain its monetary easing policy under the new Governor Kazuo Ueda, the rising momentum of Nikkei 225 has strengthened since this May. Against the backdrop of expectations for Japan's stock market reforms, overseas investors also moved to buy Japanese stocks significantly for 12 weeks in a row. In June, there was a phase of correction to the rapid rise in stock prices earlier, but it was short-term and small.

On the other hand, the concerns of an economic recession due to FRB's policy interest rate hikes weighed on the U.S. stock price growth. However, as financial instability calmed down and defaults related the debt ceiling problem were avoided, the New York Dow Jones Industrial Average rose by 3.4% to \$34,407 at the end of the three-month period. In addition, NASDAQ Composite Index surged by 12.8% thanks to booming of Generative AI.

In the foreign exchange market, Yen selling stood out. In terms of Dollar-Yen rate, the widening gap in interest rates between Japan and the United States and the clear difference in the monetary policy stance between the two authorities led to the yen's depreciation ending at 144.99 yen to the dollar at the end of the three-month period, the weakest level since November 2022. Similarly, the yen weakened against the euro, ending at 1 euro = 157.60 yen, the weakest level since September 2008.

In the bond market, the yield on 10-year Japanese government bonds (JGB) surged from 0.32% to 0.48% in April due to speculation over changes to the BOJ's monetary policy. However, the monetary policy meeting on April 28 decided to maintain the monetary easing measures and the surge in the yield showed a calmness. There is still a deep-rooted view that its yield curve control policy will eventually be revised, and the 10-year JGB yield ended at 0.395%. In the U.S., the view of market participants that the FRB will cut interest rates by the end of the year was forced to revise, and yields centered on short-term and medium-term bonds were on an upward trend.

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

For the first three months ended June 30, 2023 compared with the same period of previous fiscal year, our operating revenue increased by 52.4% to 1,831 million yen, net operating revenue increased by 52.8% to 1,817 million yen, operating income resulted 626 million yen (operating loss resulted 37 million yen in the same period of the previous year), ordinary profit increased by 675.9% to 976 million yen, and net profit attributable to owners of the parent company increased by 345.2% to 1,096 million yen.

Details of the period's results are as follows:

① Commission Received

The total commission received resulted 610 million yen (up 36.8% from the same period of previous fiscal year), the details of which are shown below:

(Brokerage Commission)

Brokerage commission on equity securities was 354 million yen (up 46.8% from the same period of previous fiscal year). Total amount of brokerage commission including those on beneficiary securities (Exchange Traded Funds) was 358 million yen (up 43.0% 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 3 million yen (down 14.2% from the same period of previous fiscal year).

(Fee 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 164 million yen (up 31.1% from the same period of previous fiscal year), due to an increase 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 83 million yen (up 27.6% from the same period of previous fiscal year).

② Net trading Income

Net trading income of equities, etc. resulted in a gain of 48 million yen (a loss of 233 million yen in the same period of previous fiscal year). Net trading income of bonds etc. resulted in a gain of 921 million yen (up 20.6% 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 201 million yen. (a loss of 361 million yen in the same period of previous fiscal year). From the above, net trading income resulted in a gain of 769 million yen (up 353.1% from the same period of previous fiscal year).

③ Net Financial Income

Net financial income decreased by 25.5% to 424 million yen, as a result of deducting 13 million yen (up 18.7% from the same period of previous fiscal year) of financial expenses from 437 million yen (down 25.6% from the same period of previous fiscal year) of financial revenue.

④ Selling, General and Administrative Expenses

Selling, general and administrative expenses were 1,191 million yen (down 3.0% from the same period of previous fiscal year).

⑤ Non-operating Income and Expenses

Non-operating income, consisting mainly of gain on investments in investment partnerships, totaled 557 million yen (up 76.0% from the same period of previous fiscal year), while non-operating expenses consisting mainly of foreign exchange losses, totaled 208 million yen (up 35.6% from the same period of previous fiscal year). As a result, net non-operating income amounted to gain of 349 million yen (up 114.0% from the same period of previous fiscal year).

⑥ Extraordinary Income and Loss

Extraordinary income was 647 million yen (up 174.5% from the same period of previous fiscal year), as a result of sales of investment securities, while extraordinary loss was 70 million yen (no loss for the same period of previous fiscal year) including losses on sales of investment securities. As a result, net extraordinary income amounted to 577 million yen (up 144.5% from the same period of previous fiscal year).

(2) Information on Financial Condition

① Assets

Current assets as of June 30, 2023 were 48,411 million yen and increased by 836 million yen from previous fiscal year end. This is mainly because, while cash and deposits decreased by 3,559 million yen, trading products increased by 2,621 million yen and segregated deposits increased by 1,615 million yen. Non-current assets as of June 30, 2023 were 26,737 million yen and increased by 3,409 million yen from previous fiscal year end. The main factor was investment securities increased by 3,380 million yen.

As a result, the assets as of June 30, 2023 were 75,148 million yen and increased by 4,246 million yen from previous fiscal year end.

② Liabilities

Current liabilities as of June 30, 2023 were 23,709 million yen and increased by 2,122 million yen from previous fiscal year end. This is mainly because, while short-term borrowings decreased by 1,100 million yen, deposits received increased by 2,977 million yen and income taxes payable increased by 278 million yen. Non-current liabilities as of June 30, 2023 were 2,511 million yen and increased by 511 million yen from previous fiscal year end. This is mainly because other non-current liabilities increased by 507 million yen. As a result, the liabilities as of June 30, 2023 were 26,234 million yen and increased by 2,633 million yen from previous fiscal year end.

③ Net Assets

Within net asset, valuation difference on available for sale securities increased by 994 million yen and retained earnings increased by 617 million yen from previous fiscal year end. As a result, net assets as of June 30, 2023 were 48,913 million yen and increased by 1,612 million yen from previous fiscal year end.

(3) Information on Forecast of Consolidated Financial Results

Consolidated operating revenues are mainly comprised of commissions received and trading income, related to the securities markets, the majority of which are coming from the stock and bond markets. In order to mitigate the impact of favorable or unfavorable conditions in the stock and bond markets on our financial results, we are striving to ensure revenue stability by diversifying our revenue sources. Even so, our business performance may still be affected by trends in the securities markets and may fluctuate significantly. In addition, sharp fluctuations in the domestic and foreign financial instrument markets could result in large valuation gains or losses on financial instruments held by ourselves.

In general, securities markets and foreign exchange markets fluctuate, reflecting variety of factors such as domestic and international political and economic conditions, interest rates, and corporate earnings. Therefore, in order to forecast our consolidated financial results, it is necessary to accurately grasp future market trends while predicting these factors in advance, but the reality is that it is nearly impossible to achieve this. In a situation where such uncertain factors are likely to cause a large discrepancy between forecasts and actual results, daring to disclose forecast of financial results may result in sending a false message to the market, which may impede fair stock price formation.

For the aforementioned reasons, we will not disclose forecast of financial results, but will instead endeavor to disclose financial results as early as possible, and will announce such figures as preliminary figures around the 10th business day after the end of the fiscal year or the end of the quarter, when 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, 2023	As of June 30, 2023
Assets		
Current assets		
Cash and deposits	20,784	17,224
Segregated deposits	9,955	11,571
Trading products	13,036	15,658
Trading securities and other	13,035	15,656
Derivatives	1	1
Trade date accrual	259	171
Margin transaction assets	2,867	2,399
Margin loans	2,638	2,031
Cash collateral provided for securities borrowed in margin transactions	229	368
Other current assets	683	1,396
Allowance for doubtful accounts	△12	△10
Total current assets	47,574	48,411
Non-current assets		
Property, plant and equipment	1,872	1,862
Buildings	384	375
Land	1,167	1,167
Other	320	319
Intangible assets	59	61
Investments and other assets	21,396	24,813
Investment securities	20,013	23,394
Other	1,453	1,490
Allowance for doubtful accounts	△71	△71
Total non-current assets	23,327	26,737
Total assets	70,902	75,148
Liabilities		
Current liabilities		
Trading products	4	77
Derivatives	4	77
Margin transaction liabilities	496	453
Margin borrowings	264	81
Cash received for securities sold in margin transactions	231	371
Deposits received	9,330	12,307
Short-term borrowings	10,600	9,500
Income taxes payable	101	380
Provision for bonuses	144	120
Other current liabilities	910	870
Total current liabilities	21,587	23,709
Non-current liabilities		
Long-term borrowings	1,000	1,000
Retirement benefit liability	77	81
Other non-current liabilities	922	1,429
Total non-current liabilities	1,999	2,511
Reserves under special laws		
Reserves for financial instruments transaction liabilities	14	14
Total reserves under special laws	14	14
Total liabilities	23,601	26,234

(Millions of yen)

	As of March 31, 2023	As of June 30, 2023
Net assets		
Shareholders' equity		
Share capital	5,251	5,251
Capital surplus	4,774	4,774
Retained earnings	37,370	37,988
Treasury shares	△863	△863
Total shareholders' equity	46,533	47,150
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	757	1,752
Total accumulated other comprehensive income	757	1,752
Non-controlling interests	10	10
Total net assets	47,301	48,913
Total liabilities and net assets	70,902	75,148

(2) Quarterly Consolidated Income Statements and Quarterly Consolidated Comprehensive Income Statements
 (Quarterly Consolidated Income Statements)
 (Three Months Ended June 30, 2023)

(Millions of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Operating revenue		
Commission received	446	610
Brokerage commission	250	358
Commission for underwriting, secondary distribution and solicitation for selling and others for professional investors	4	3
Fees for offering, secondary distribution and solicitation for selling and others for professional investors	125	164
Other commission received	65	83
Net trading income	169	769
Financial revenue	580	437
Other operating revenue	4	14
Total operating revenue	1,201	1,831
Financial expenses	11	13
Net operating revenue	1,189	1,817
Selling, general and administrative expenses		
Trading related expenses	128	138
Personnel expenses	743	683
Real estate expenses	122	128
Office expenses	139	140
Depreciation	19	20
Taxes and dues	42	48
Other	31	31
Total selling, general and administrative expenses	1,227	1,191
Operating profit (loss)	△37	626
Non-operating income		
Dividend income	201	260
Gain on investments in investment partnerships	102	282
Other	12	14
Total non-operating income	316	557
Non-operating expenses		
Foreign exchange losses	153	201
Other	0	6
Total non-operating expenses	153	208
Ordinary profit	125	976

(Millions of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Extraordinary income		
Gain on sale of investment securities	236	647
Reversal of reserve for financial instruments transaction liabilities	—	0
Total extraordinary income	236	647
Extraordinary losses		
Loss on sale of investment securities	—	70
Total extraordinary losses	—	70
Profit before income taxes	361	1,553
Income taxes - current	15	397
Income taxes - deferred	100	58
Total income taxes	115	456
Profit	246	1,096
Profit attributable to non-controlling interests	0	0
Profit attributable to owners of parent	246	1,096

(Quarterly Consolidated Comprehensive Income Statements)
(Three Months Ended June 30, 2023)

(Millions of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Profit	246	1,096
Other comprehensive income		
Valuation difference on available-for-sale securities	182	994
Total other comprehensive income	182	994
Comprehensive income	429	2,091
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	428	2,090
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.

【Referential Data】

1. Referential Data on Consolidated Financial Results for the Three Months Ended June 30, 2023

(1) Commission Received

① Commission received by sources

(Millions of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023	Change		FY2022
			Amount	%	
Brokerage commission	250	358	107	43.0	1,001
(Equities)	(241)	(354)	(113)	(46.8)	(972)
(Bonds)	(—)	(—)	(—)	(—)	(—)
(Beneficiary securities)	(9)	(3)	(△5)	(△59.3)	(29)
Commission for underwriting, secondary distribution and solicitation for selling and others for professional investors	4	3	△0	△14.2	16
(Equities)	(4)	(3)	(△0)	(△14.2)	(16)
(Bonds)	(—)	(—)	(—)	(—)	(—)
Fees for offering, secondary distribution and solicitation for selling and others for professional investors	125	164	39	31.1	535
Other commission received	65	83	18	27.6	280
Total	446	610	164	36.8	1,834

② Commission received by instruments

(Millions of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023	Change		FY2022
			Amount	%	
Equities	246	358	112	45.6	993
Bonds	0	0	0	47.9	0
Beneficiary securities	193	246	52	27.0	821
Other	5	5	△0	△8.4	18
Total	446	610	164	36.8	1,834

(2) Net Trading Income

(Millions of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023	Change		FY2022
			Amount	%	
Equities, etc.	△233	48	282	—	△154
Bonds, etc.	764	921	157	20.6	1,565
Other	△361	△201	159	—	△395
Total	169	769	599	353.1	1,015

(3) Consolidated Income Statement for the Latest Five Quarters

(Millions of yen)

	Quarter ended June 30, 2022	Quarter ended September 30, 2022	Quarter ended December 31, 2022	Quarter ended March 31, 2023	Quarter ended June 30, 2023
I . Operating revenue	1,201	1,008	1,023	1,081	1,831
1 Commission received	446	435	460	492	610
2 Net trading income	169	85	432	327	769
3 Financial revenue	580	482	126	255	437
4 Other operating revenue	4	4	4	5	14
II . Financial expenses	11	15	12	16	13
Net operating revenue	1,189	993	1,011	1,064	1,817
III . Selling, general and administrative expenses	1,227	1,163	1,153	1,028	1,191
1 Trading related expenses	128	147	128	134	138
2 Personal expenses	743	692	675	519	683
3 Real estate expenses	122	128	128	127	128
4 Office expenses	139	131	133	131	140
5 Depreciation	19	21	22	23	20
6 Taxes and dues	42	21	31	44	48
7 Provision of allowance for doubtful accounts	—	—	—	—	—
8 Other	31	22	32	47	31
Operating profit/loss	△37	△169	△141	36	626
IV . Non-operating income	316	127	190	378	557
V . Non-operating expenses	153	38	△41	58	208
Ordinary profit/loss	125	△80	89	356	976
VI . Extraordinary income	236	—	170	906	647
VII . Extraordinary losses	—	63	1	40	70
Profit/Loss before income taxes	361	△143	259	1,222	1,553
Income taxes current	15	1	18	369	397
Income taxes deferred	100	△49	61	14	58
Profit/Loss	246	△95	179	838	1,096
Profit attributable to non-controlling interests	0	0	0	0	0
Profit/Loss attributable to owners of parent	246	△95	179	837	1,096

2. Referential Data on Financial Results for the Three Months Ended June 30, 2023

(1) Capital Adequacy Ratio

(Millions of yen)

		As of June 30, 2022	As of June 30, 2023	As of March 31, 2023
Basic items (A)		41,769	42,782	41,817
Complementary items	Valuation difference on available-for-sale securities, etc.	—	1,625	689
	Financial instruments transaction liability reserves	14	14	14
	Allowance for doubtful accounts	12	10	12
	Total (B)	26	1,650	715
Deductible assets (C)		6,410	8,345	7,651
Unfixed net capital (A)+(B)-(C) (D)		35,386	36,087	34,882
Amount of risk correspondents	Market risk equivalent	3,750	4,913	3,978
	Trade party risk equivalent	226	275	179
	Basic risk equivalent	1,270	1,148	1,199
	Total (E)	5,247	6,337	5,357
Capital adequacy ratio (D)/(E)×100%		674.3%	569.4%	651.0%

(2) Number of Directors/Auditors and Employees

	As of June 30, 2022	As of June 30, 2023	As of March 31, 2023
Directors and auditors	10	10	10
Employees	243	240	225