

Consolidated Financial Summary under Japanese GAAP For the Six months ended September 30, 2022

October 28, 2022

Company Name	AIZAWA SECURITIES GROUP CO., LTD.
Listed Stock Exchange	Tokyo Stock Exchange Prime Market
Securities Code	8708
URL	https://www.aizawa-group.jp/
Representative	Takuya Aizawa, President & CEO
Contact Person	Kazuhiro Mashiba, Director & CFO

Scheduled date of filing quarterly report	November 10, 2022
Scheduled date of dividend payment	December 1, 2022
Supporting explanatory documents on financial results	YES
Briefing on financial results	NO

(All figures are rounded off to the nearest million)

1. Consolidated financial summary (From April 1, 2022 to September 30, 2022)

(1) Consolidated business results

(% represents year-on-year change)

	Operating revenue		Net operating revenue		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%	million yen	%
Six months ended September 30, 2022	5,945	△26.7	5,576	△30.7	△1,902	—	△1,600	—	△1,455	—
Six months ended September 30, 2021	8,115	2.3	8,043	2.1	△313	—	1,033	10.0	2,283	113.8

Note: Comprehensive income

Six months ended September 30, 2022: △1,294 million yen
Six months ended September 30, 2021: 1,782 million yen

	Earnings per share	Diluted earnings per share
	yen	yen
Six months ended September 30, 2022	△37.80	—
Six months ended September 30, 2021	57.59	—

Note: We have introduced ESOP, and average number of company's share bought under this program for the period under review are being accounted under company's own treasury shares.

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	million yen	million yen	%	yen
As of September 30, 2022	103,791	55,667	51.4	1,385.32
Fiscal year ended March 31, 2022	104,723	58,029	53.2	1,440.62

Note: Shareholders' equity

As of September 30, 2022: 53,297 million yen

As of March 31, 2022: 55,712 million yen

2. Dividends

	Dividend per share				
	End of 1Q	End of 2Q	End of 3Q	End of 4Q	Annual Total
	yen	Yen	yen	yen	yen
Fiscal year ended 2022	—	13.00	—	15.00	28.00
Fiscal year ending 2023	—	13.00			
Fiscal year ending 2023 (Forecast)			—	—	—

3. Earning forecast for the fiscal year ending March 31, 2023 (Consolidated)

The Group operates principally in the financial securities business, and its operating results are likely to be affected by economic and market fluctuations. Due to such nature of its business and consequential difficulty in predicting its performance, the group does not disclose the forecast of operating results. Such forecasts may mislead the investors. Instead of it, as we finalize the financial results, we release the preliminary numbers for the quarterly and yearly results.

※ Notes

- (1) Important changes in subsidiaries during the term YES
 (Changes pursuant to the subsidiaries that lead to a change in the scope of consolidation)
 New: 1 (Company name: Ariake Secondary Fund III LP)
 Exclusion: None
- (2) Accounting treatments specific to quarterly financial statements NO
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatements
 - 1) Changes in accounting policies based on revisions of accounting standard YES
 - 2) Changes in accounting policies other than item 1)above NO
 - 3) Change in accounting estimates NO
 - 4) Retrospective restatements NO
- (4) Number of issued shares (Common stock)
 - 1) Number of shares issued at the end of the term including treasury shares
 As of September 30, 2022: 47,525,649 shares As of March 31, 2022: 47,525,649 shares
 - 2) Number of treasury shares at the end of the term
 As of September 30, 2022: 9,052,651 shares As of March 31, 2022: 8,853,110 shares
 - 3) Average number of shares outstanding (Cumulative)
 As of September 30, 2022: 38,495,058 shares As of September 30, 2021: 39,650,879 shares

※ This quarterly financial summary is not subject to quarterly review procedures by certified public accountants or audit corporations.

※ Explanation on forecasts

The group operates principally in the financial securities business, and its operating results are likely to be affected by market fluctuations. Due to such nature of its business and difficulty in predicting its performance, group does not forecast on business results and dividends. At the end of the term, we release the preliminary numbers, as we finalize the financial results.

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1. Qualitative information for the Six months ended September 30, 2022

(1) Explanation of Management results

For the period under review (April 1, 2022 to September 30, 2022), volatile stock price movements continued in both developed and emerging countries. Countries have been dealing differently with the restrictions over the prolonged COVID-19. Some countries are easing restriction with new life of “With COVID” and few are still maintaining tight restrictions for “COVID Zero”. In addition, the decline in GBP against major currencies in the second half of the year also led to global currency instability. Rising inflation, benchmark interest rate hikes, and currency rate fluctuations are weighing on the global economy and stock markets for the time being.

Japanese stock market also experienced high volatility led by events like Russia's invasion of Ukraine and speculation of monetary policy tightening in the U.S. On August 17, the Nikkei 225 average index hit a high of 29,222.77 yen. The Japanese yen also experienced the volatility and touched at its weakest level against the USD since 1998.

The U.S. stock market changed gears as it started tightening the monetary policies which were implemented during and before the outbreak of COVID-19. The rise in commodity prices and demand for stable employment accelerated the rise in labor costs. CPI for the period from March to September exceeded 8% in all months except for March, which reflected figures of February. This is the first time since 1981 that inflation has been above 8%. The pace and the series of benchmark interest rate hikes by FRB to counter the rising inflation has led to the fears of a recession ahead and impacted the stock markets. In particular, technology stocks, which are said to have benefited from the excess liquidity market caused by QE, fell sharply, with the NASDAQ index falling 25.6% during the period, and other major indices, such as the S&P 500 and the Dow Jones Industrial Average, also falling sharply, by 20.9% and 17.2% respectively.

Asian stock markets were weak led by the economic slowdown in China; interest rate hike in the U.S. to counter inflation; and overall pressure on currency depreciation. In China, “COVID Zero” policy to tackle COVID-19, led to weak consumer spending, weaker real estate market conditions, power shortages, and a weakening of the yuan. Hong Kong’s Hang Seng Index hit its lowest level in September for the year, and the Shanghai Composite Index also continued its downtrend.

In Southeast Asia, even though, economy of various countries improved as they adopted “With COVID” policy, lot of countries increased its benchmark interest rates to counter the currencies depreciation against the USD and rising inflation. In this context, Vietnam has been hit hard by the events like; new restrictions on real estate loan, the depreciation of the Vietnam Dong against major currencies, and 1% benchmark interest rate hike. VN-Index hit a new low of 1,099 points in September, the lowest level for the year.

Under such conditions, group is working with the management philosophy of "Making life better through securities investment" to provide the asset building services in line with the best customer satisfaction.

In order to communicate more effectively with clients, we not only visit and make call, but also use SNS tools such as LINE and e-mail according to the client's priorities. Group is also making efforts to provide better work life balance for its employees by implementing the hybrid work condition through work from home & flexible work timing and introducing business casual wears.

Group is focusing on one of its principle of "thoroughly client-oriented", of the medium-term management plan "Define Next 100 years – More and more for clients", implemented this fiscal year. Group is aiming to establish an asset-building business through close communication with our clients.

In July, group’s subsidiary company “AIZAWA SECURITIES CO., LTD.” made an announcement to open its fifth joint branch, “Ube” Branch (opening in October, 2022), with Saikyo Bank Ltd., its business alliance partner. Through such joint branches, company is already providing clients of Yamaguchi area with combined services such as bank deposits and stock investments. In August and September, company reorganized its branch network to focus on major cities in order to improve the efficiency of branch operations. As a result, the “Abeno Harukas” and “Yokohama” branches were newly opened, and the “Machida” branch was relocated and converted to a large-scale branch.

In addition, in order to target the new clients for asset-building business in the age of 30's and 40's, group introduced a new system for KYC required in account opening. This has simplified the account opening process and reduced the time required to open an account. Group is promoting digitalization for better operations and reducing the burden of clients.

In the area of cooperation with financial institutions, group signed letter of intent with its business alliance partner Saikyo Bank Ltd., with the aim of establishing a new cooperative framework in the financial products intermediary business. Saikyo Bank Ltd. will consider transferring the rights and obligations related to customers' securities accounts for certain registered financial institution business, such as corporate bonds and mutual funds to securities account of "AIZAWA SECURITIES CO., LTD.".

The Group will continue to strive to become a financial group by leveraging the strengths of each subsidiary and working collectively with each other.

For the Six months ended September 30, 2022, break-down of business results are as follow;
(Percentage indicates a year-on-year change. The same shall apply hereinafter in this section)

(Commission received)

Total commissions received declined by 21.4% to 4,152 million yen, due to decline in the turnover of stocks.

(Net trading income)

Net trading income declined by 48.3% to 1,306 million yen, due to decline in handling of OTC foreign stocks.

(Net financial income)

Net financial income increased by 0.4% to 175 million yen. Under this category, income declined by 0.2% to 210 million yen and expenses declined by 3.1% to 34 million yen.

(Other operating revenue and expenses)

Other operating revenues increased by 189.9% to 276 million yen, due to increase real estate rental income. Other operating expenses increased by 841.0% to 334 million yen, due to increase the cost of operational investment securities.

(Selling, general and administrative expenses)

Selling, general and administrative expenses declined by 10.5% to 7,478 million yen due to decline in office expenses.

(Non-operating profit and losses)

Non-operating profit declined by 77.6% to 302 million yen. Under this category, income were 327 million yen including the dividend income of 258 million yen. While expenses under this category were 25 million yen including the interest expenses and settlement expense of 10 million yen for each.

(Extraordinary profit and losses)

Total extraordinary profit was 282 million yen. Under this category, income were 585 million yen due to the gain from sale on investment securities. While losses were 302 million yen including the 280 million yen loss on valuation of investment securities.

With above factors, for the reporting period, operating revenue declined by 26.7% to 5,945 million yen; operating losses was 1,902 million yen; ordinary losses were 1,600 million yen; and loss attributable to owners of parent was 1,455 million yen.

(2) Explanation of the financial results

(All comparisons in this section (3) are with the same period of previous fiscal year)

(Assets)

As of at the end of the period under review, total assets was 103,791 million yen, a decline of 931 million yen. This was mainly due to increase of 2,114 million yen in cash and deposits; increase of 935 million yen in operational investment securities; decline of 1,955 million yen in cash segregated as deposits; and decline of 2,451 million yen in investment securities.

(Liabilities)

As of at the end of the period under review, total liabilities was 48,124 million yen, an increase of 1,430 million yen. This was due to increase of 1,055 million yen in margin transaction liabilities; decline of 2,557 million yen in loan payable secured by securities and increase in deposit of 788 million yen.

(Net assets)

As for the period under review, total net assets declined by 2,362 million to 55,667 million yen. This was mainly due to decline 2,042 million yen in retained earnings.

(3) Explanation on the forecast of consolidated business results

The group operates principally in the financial securities and investments business. In this industry, there exist uncertainties due to, but not limited, economic and market conditions. Any forecast based on uncertain situations can mislead the investors.

Group tries to monitor and calculate such market risks and its effects on the business results. Due to such nature of its business and consequential difficulty in predicting its performance, the group does not disclose the forecast of business results. Instead of it, as we finalize the financial results, we release the preliminary numbers for the quarterly and yearly results.

2. Financial statements and major notes

(1) Consolidated balance sheets

(million yen)

	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposit	19,126	21,240
Cash segregated as deposits	23,419	21,464
Cash segregated as deposits for customers	23,418	21,463
Other deposits	0	0
Operational investment securities	8,601	9,537
Trading products	361	438
Trading securities and other	361	438
Trade date accrual	776	582
Margin transaction assets	15,810	16,082
Loans on margin transactions	15,528	15,945
Cash collateral pledged for securities borrowing on margin transactions	281	136
Advances paid	176	60
Advances paid to customers	174	44
Other advance payments	2	15
Other current assets	1,215	1,465
Total current assets	69,488	70,872
Non-current assets		
Property, plant and equipment	8,160	8,177
Intangible assets	241	177
Goodwill	182	125
Others	58	51
Investments and other assets	26,815	24,549
Investment securities	24,791	22,339
Net defined benefit asset	1,067	1,113
Others	959	1,100
Allowance for doubtful accounts	△3	△3
Total non-current assets	35,217	32,904
Deferred assets		
Deferred organization expenses	1	1
Business commencement expenses	16	13
Total deferred assets	17	14
Total assets	104,723	103,791

(million yen)

	As of March 31, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Trading products	117	209
Trading securities and other	117	209
Derivatives trading	0	—
Margin transaction liabilities	1,791	2,846
Borrowings on margin transactions	1,115	2,381
Cash received for securities lending on margin transactions	675	465
Loans payable secured by securities	4,800	2,242
Cash received on debt credit transaction of securities	4,800	2,242
Deposits received	20,514	21,302
Deposits from customers	18,088	15,739
Other deposits	2,425	5,563
Guarantee deposits received	4,937	5,219
Short-term loans payable	3,795	5,945
Income taxes payable	1,212	161
Provision for bonuses	423	425
Provision for director bonuses	27	—
Other current liabilities	819	1,160
Total current liabilities	38,440	39,515
Non-current liabilities		
Long-term borrowings	3,036	3,602
Deferred tax liabilities	4,553	4,331
Provision for share based remuneration	226	253
Other non-current liabilities	290	275
Total non-current liabilities	8,107	8,463
Reserves under special laws		
Reserve for financial instruments transaction liabilities	146	146
Total reserves under special laws	146	146
Total liabilities	46,693	48,124
Net assets		
Shareholders' equity		
Capital stock	8,000	8,000
Capital surplus	8,122	8,207
Retained earnings	36,922	34,880
Treasury shares	△4,790	△5,010
Total shareholders' equity	48,254	46,077
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	7,391	6,859
Foreign currency translation reserve	85	378
Remeasurements of defined benefit plans	△19	△18
Total accumulated other comprehensive income	7,457	7,219
Non-controlling interests	2,317	2,369
Total net assets	58,029	55,667
Total liabilities and net assets	104,723	103,791

(2) Consolidated statements of income and comprehensive income statement
Consolidated statements of income (For the Six months ended September 30, 2022)

(million yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Operating revenue		
Commission received	5,283	4,152
Net trading income	2,525	1,306
Financial revenue	211	210
Others	95	276
Total operating revenue	8,115	5,945
Financial expenses	35	34
Other operating expenses	35	334
Net operating revenue	8,043	5,576
Selling, general and administrative expenses		
Trading related expenses	1,301	1,225
Personnel expenses	4,104	3,888
Real estate expenses	895	765
Office expenses	1,310	1,014
Depreciation	284	182
Taxes and dues	180	160
Provision of allowance for doubtful accounts	0	—
Others	280	242
Total selling, general and administrative expenses	8,357	7,478
Operating profit/loss(Δ)	Δ 313	Δ 1,902
Non-operating income		
Interest income	15	19
Dividend income	1,300	258
Profit distributions	92	23
Others	23	26
Total non-operating income	1,432	327
Non-operating expenses		
Interest expenses	0	10
Amortization expenses of deferred asset	0	3
Loss on investments in partnership	69	0
Cancellation penalty	10	0
Settlement expenses	1	10
Commission for purchase of treasury shares	2	0
Others	1	0
Total non-operating expenses	84	25
Ordinary profit/loss(Δ)	1,033	Δ 1,600
Extraordinary income		
Gain on sales of non-current assets	1	0
Gain on sales of investment securities	2,022	585
Reversal of reserve for financial instruments transaction liabilities	0	0
Total extraordinary income	2,023	585
Extraordinary losses		
Loss on sales of non-current assets	—	1
Loss on sales of investment securities	—	15
Loss on settlement of investment securities	1	—
Loss on valuation of investment securities	—	280
Impairment loss	—	4
Total extraordinary losses	1	302
Profit/loss(Δ) before income taxes	3,055	Δ 1,317
Income taxes – current	789	61
Income taxes – deferred	22	96
Total income taxes	811	157
Profit/loss(Δ)	2,244	Δ 1,475
Profit/loss(Δ) attributable to non-controlling owners	Δ 39	Δ 20
Profit/loss(Δ) attributable to owners of parent	2,283	Δ 1,455

Consolidated comprehensive income statement (For the Six months ended September 30, 2022)

(million yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Profit/loss(Δ)	2,244	Δ 1,475
Other comprehensive income		
Valuation difference on available-for-sale securities	Δ 524	Δ 532
Foreign currency translation reserve	76	711
Remeasurements of defined benefit plans	Δ 13	1
Total accumulated other comprehensive income	Δ 461	181
Comprehensive income	1,782	Δ 1,294
(Description)		
Comprehensive income attributable to owners of parent	1,776	Δ 1,692
Comprehensive income attributable to non-controlling owners	5	398

(3) Notes on quarterly consolidated financial statements**(Notes on going concern assumption)**

Not applicable.

(Notes on material changes in shareholders' equity)

Not applicable

(Change in accounting policy)

Application of "Accounting standard for fair value measurement"

From the beginning of the consolidated 1st quarter of current accounting period, company has applied the "Accounting standard for fair value measurement" under ASBJ statement no. 31 as of June 17, 2021.

The transitional treatment will be applied in accordance with the paragraph 27-2 of "Accounting standard for fair value measurement". New accounting policy will be applied in the future.

There is no impact on the quarterly consolidated financial statements due to change in accounting policy.

(Additional information)**Introduction of ESOP**

The company has introduced an Employee Stock Ownership Plan Trust ("ESOP Trust") from July 22, 2019 with the motive to increase the enterprise value over mid to long term. The Company's stock held by the ESOP Trust is included in treasury shares under net assets with a book value of 625 million yen for 951 thousand shares as of September 30, 2022.

(Important subsequent events)**Purchase of treasury shares**

Company decided to purchase the treasury shares in accordance with the paragraph 1 of article 459, company law. Decision was taken in the board meeting conducted on January 28, 2022. Company pursued the purchase of its treasury shares.

1. Minutes of board meeting on purchase of treasury shares

(1) Reason for pursuing purchase of treasury shares

To maintain flexible capital policy and increase the capital efficiency and return on equity

(2) Details on purchase of treasury shares

- | | |
|-------------------------------|---|
| 1) Share type: | Common share |
| 2) Number of treasury shares: | Maximum of 1,000,000 shares (Within 2.6% of outstanding shares excluding the treasury shares) |
| 3) Value of treasury share: | Maximum of 1,200 million yen |
| 4) Term for purchase: | From February 1, 2022 to January 31, 2023 |
| 5) Mode of purchase: | Direct trade through Tokyo Stock Exchange |

2. Details on completed purchase of treasury shares

- | | |
|-----------------------|---|
| (1) Share type: | Common share |
| (2) Number of shares: | 118,000 shares |
| (3) Value of shares: | 80 million yen |
| (4) Buyback term: | From October 1, 2022 to October 26, 2022 |
| (5) Mode of purchase: | Direct trade through Tokyo Stock Exchange |

In line with above mentioned board decision, the status of purchase of treasury shares as of October 26, 2022 is as follow:

- | | |
|---|-----------------|
| (1) Number of treasury shares purchase completed: | 569,900 shares |
| (2) Value of treasury shares purchase completed: | 424 million yen |

3. Supplementary information

Consolidated business results for the Six months ended September 30, 2022

(1) Commission received

A) Breakdown of commission received

(million yen)

	Six months ended September 30, 2021 (A)	Six months ended September 30, 2022 (B)	Change (B/A)	Consolidated fiscal year ended March 31, 2022
Brokerage commission	2,880	2,141	74.3%	5,571
Equities	2,841	2,082	73.3%	5,471
Bonds	—	—	—	—
Beneficiary securities	38	59	151.5%	99
Commission from underwriting, secondary distribution and solicitation towards professional investors	6	33	502.7%	25
Equities	5	32	592.2%	24
Bonds	1	1	95.2%	1
Fee from offering, secondary distribution and solicitation towards professional investors	916	779	85.1%	1,705
Other fees received	1,479	1,198	81.0%	2,873
Total	5,283	4,152	78.6%	10,176

B) Product wise breakdown

(million yen)

	Six months ended September 30, 2021 (A)	Six months ended September 30, 2022 (B)	Change (B/A)	Consolidated fiscal year ended March 31, 2022
Equities	2,874	2,136	74.3%	5,556
Bonds	1	1	114.2%	1
Beneficiary securities	1,428	1,410	98.8%	2,820
Others	979	604	61.7%	1,798
Total	5,283	4,152	78.6%	10,176

(2) Net trading income

(million yen)

	Six months ended September 30, 2021 (A)	Six months ended September 30, 2022 (B)	Change (B/A)	Consolidated fiscal year ended March 31, 2022
Equities etc.	2,158	893	41.4%	4,031
Bonds, forex etc.	367	412	112.2%	719
Bonds etc.	64	70	109.2%	101
forex etc.	302	341	112.8%	617
Total	2,525	1,306	51.7%	4,751

(3) Comparative quarterly consolidated income statement

(million yen)

	FY 2022			FY 2023	
	Second quarter ended September 30	Third quarter ended December 31	Fourth quarter ended March 31	First quarter ended June 30	Second quarter ended September 30
Operating revenue					
Commission received	2,887	2,771	2,181	2,010	2,142
Brokerage commission	1,502	1,503	1,186	1,060	1,080
Commission from underwriting, secondary distribution and solicitation towards professional investors	3	18	0	1	31
Fee from offering, secondary distribution and solicitation towards professional investors	491	463	326	363	416
Other fees received	890	726	668	584	613
Net trading income	1,410	1,516	708	560	745
Financial revenue	108	105	105	93	116
Others	51	65	540	81	195
Total operating revenue	4,457	4,399	3,535	2,746	3,199
Financial expenses	19	27	23	17	16
Other operating expenses	20	31	278	51	283
Net operating revenue	4,417	4,341	3,234	2,676	2,899
Selling, general and administrative expenses					
Trading related expenses	721	761	627	605	619
Personnel expenses	2,173	2,127	1,758	1,958	1,930
Real estate expenses	473	347	392	350	414
Office expenses	781	549	535	517	496
Depreciation	143	88	81	75	107
Taxes and dues	92	234	60	82	77
Provision of allowance for doubtful accounts	△0	△0	△0	—	—
Others	149	123	106	114	128
Total selling, general and administrative expenses	4,535	4,232	3,563	3,705	3,773
Operating profit/loss(△)	△117	108	△328	△1,028	△874
Non-operating income	76	205	420	281	46
Non-operating expenses	80	2	8	6	18
Ordinary profit/loss(△)	△122	311	83	△753	△846
Extraordinary income	1,934	1,069	274	259	326
Extraordinary losses	△277	112	9	283	18
Profit/loss(△) before income taxes	2,089	1,268	348	△778	△539
Income tax expenses	764	333	661	131	26
Profit/loss(△)	1,325	934	△312	△909	△566
Profit/loss(△) attributable to non-controlling interests	△9	△6	9	△12	△8
Profit/loss(△) attributable to owners of parent	1,334	940	△322	△897	△558