

Quarterly Securities Report For the Three Months Ended December 31, 2018

Matsui Securities Co., Ltd.

1-4, Kojimachi, Chiyoda-ku, Tokyo, Japan

Original Japanese Report was filed with the Director of the Kanto Local Finance Bureau on February 13, 2019 pursuant to Article 24-4-7, Paragraph 1 of the Financial Instrument and Exchange Act.

Notice to Readers:

This English translation is prepared for reference purposes only and does not constitute any offer or sale of securities or other similar action whether inside or outside Japan. If any questions arise in this document, please refer to the original Japanese Report.

This document may contain forward-looking statements. These statements are based on our assumptions and beliefs at the end of the period in light of the information available to us at the time. They are subject to risks and uncertainties. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results may vary materially from those we then anticipated. Given these risks and uncertainties, you are cautioned not to place undue reliance on forward-looking statements. We disclaim any obligation to update any of the forward-looking statements contained in this document to reflect future actual events or developments.

1 Company information

Part 1 Overview of company

1 Summary of business results

		Nine months ended December 31, 2017	Nine months ended December 31, 2018	Year ended March 31, 2018
Operating revenue	(Millions of Yen)	23,327	21,505	32,210
Net operating revenue	(Millions of Yen)	22,023	20,523	30,480
Ordinary profit	(Millions of Yen)	13,200	11,380	18,632
Profit	(Millions of Yen)	9,136	7,882	12,908
Equity in earnings of affiliates if equity method is applied	(Millions of Yen)	-	-	-
Capital stock	(Millions of Yen)	11,945	11,945	11,945
Total number of issued shares	(Shares)	259,264,702	259,264,702	259,264,702
Net assets	(Millions of Yen)	94,953	94,649	98,751
Total assets	(Millions of Yen)	882,122	700,666	836,318
Basic earnings per share	(Yen)	35.58	30.70	50.28
Diluted earnings per share	(Yen)	35.56	30.66	50.24
Dividend paid per share	(Yen)	17.00	19.00	44.00
Equity-to-asset ratio	(%)	10.8	13.5	11.8

		Three months ended December 31, 2017	Three months ended December 31, 2018
Basic earnings per share	(Yen)	13.89	9.41

2 Description of business

There are no significant changes in the business of the Company in the nine months ended December 31, 2018.

Part 2 Overview of business

1 Business risks

In the cumulative third quarter period (period from April 1, 2018 to December 31, 2018), of the matters related to business conditions and status of accounting etc. stated in this quarterly report, there are no material changes to the occurrence of matters which could have a material impact on the judgment of investors or on the section entitled “Business Risks” in the annual securities report from the preceding business year.

2 Management analysis of financial position and operating results

Our management analysis of financial position and operating results from perspective of our company is stated below. Since our company is a provider of on-line securities and exchanges services comprising a single segment, descriptions by segment are omitted.

(1) Status and analysis of results of operations

In the domestic stock market this cumulative third quarter period, in March the Nikkei Average fell sharply following the announcement by the U.S. Government of a significant increase in tariffs towards China, and then the market recovered to commence the third quarter at slightly above 21,400 yen. Thereafter, stock prices continued a gradual increase given the strong dollar against the yen due to rising U.S. long-term interest rates and strong financial results of major Japanese domestic companies recovering to the 23,000 yen level for the first time in three months towards the end of May. In July, the Nikkei Average declined to above 21,500 yen against the background of additional tariffs being imposed by the U.S. towards China, and then rebounded given the strong U.S. stock market and strengthening of the dollar against the yen, and continued to rise given the retreat of excessive caution towards U.S.-China trade frictions. In September, the Nikkei Average recovered to 24,000 yen for the first time in eight months. However, going into October, stock prices declined throughout the world due to heightened tensions between the U.S. and China as well as caution towards economic slowdown due to increase in U.S. long-term interest rates, and then the Nikkei Average declined to above 21,000 yen given the background of concern over economic slowdown in China. In November, the Nikkei Average recovered to above 22,000 yen. However, in December the Nikkei Average fell sharply following the decline etc. in U.S. stock prices and oil prices against the background of interest rate hikes by the FRB, and December trading ended at a level slightly over 20,000 yen.

Under this market environment, total trading value of stocks etc. in the two markets (Tokyo and Nagoya stock exchanges) increased by 3% compared to the cumulative third quarter period of the preceding year. On the other hand, with respect to individual investors who are our main customer base, they generally refrained from active trading given the sense of

uncertainty towards the future, mainly due to the U.S.-China trade friction issue, and stock etc. brokerage trading value by individual investors in the two markets decreased by 7% compared to the same period in the preceding year. As a result, the percentage of the stock etc. brokerage trading value by individual investors in the two markets declined from 19% in the cumulative third quarter period of the preceding year to 17% in the same period this year. Also, the aggregate stock etc. brokerage trading value of our company was sluggish, and declined by 17% compared to the same period in the preceding year.

As new initiatives by our company in the cumulative third quarter period, we commenced providing the price improvement service “Best Match” and the “stock lending service”, improved procedures for making applications for IPOs (initial public offerings) and POs (public offerings), and enhanced cash credit services, as efforts to improve convenience of transactions. With respect to investment trusts, new robot advisors “Toshin Teian (=investment trust proposal) Robot” and “Toshin Minaoshi (=investment trust review) Robot” commenced providing services to support the selection of investment trusts upon purchase and the review of held investment trusts, as well as continuing to add handled investment trust names including those which are available under Installment (tsumitate) NISA. In addition, we have focused on enhancement of new information tools and transaction channels, for example by establishing an official LINE account which accommodates giving notices of market fluctuations and placing orders for FX transactions, and commencing providing skills to be used by the voice information service “Amazon Alexa”.

Under the above background, during the cumulative third quarter period, net financial revenue was 7,787 million yen (3.4% increase from the cumulative third quarter period of the preceding year) due to an increase in the average balance of margin transactions. However, commissions received was 11,756 million yen (14.5% decrease from the cumulative third quarter period of the preceding year) due to decrease in the stocks etc. brokerage trading value.

As a result, operating revenue was 21,505 million yen (7.8% decrease from the same period of the preceding year), and net operating revenue was 20,523 million yen (6.8% decrease from the same period of the preceding year). Also, operating profit was 11,245 million yen (14.2% decrease from the same period of the preceding year), ordinary profit was 11,380 million yen (13.8% decrease from the same period of the preceding year), and net profit was 7,882 million yen (13.7% decrease from the same period of the preceding year).

Revenue and expense items are as described below.

(Commissions received)

Commissions received was 11,756 million yen (14.5% decrease from the same period of the preceding year). Of this figure, brokerage commissions was 11,231 million yen (15.1%

decrease from the same period of the preceding year), mainly due to a 17% decrease in the stocks etc. brokerage trading value compared to the same period of the preceding year.

(Net trading income)

Net trading income recorded a profit of 980 million yen, mainly due to FX trading profits.

(Net financial revenue)

Net financial revenue derived from subtracting financial expenses from financial revenues was 7,787 million yen (3.4% increase from the same period of the preceding year). This was mainly due to an increase in the average balance of margin transactions.

(Selling, general and administrative expenses)

Selling, general and administrative expenses increased by 4.0% compared to the same period of the preceding year to 9,278 million yen. This was mainly due to increase in personnel expenses due to payment of special bonuses commemorating the 100th anniversary since foundation (14.4% increase compared to the same period of the preceding year), increase in office costs due to an increase in administration commissioning costs (11.7% increase compared to the same period of the preceding year), and increase in depreciation expense (10.4% increase compared to the same period of the preceding year). On the other hand, given the decrease in stock exchange related costs mainly due to a decrease in stocks etc. brokerage trading value, trading related expenses have decreased (3.9% decrease compared to the same period of the preceding year).

(Non-operating Income and expenses)

Net non-operating income totaled 135 million yen. This was mainly due to dividend income of 126 million yen.

(2) Factors which have a material impact on results of operations

The main business of our company is stocks etc. brokerage trading business targeting individual investors, and of the revenue items, commissions received and in particular commission to consignees relating to the trading of stocks etc. have a material impact on the business performance of our company. Furthermore, financial revenue arising mainly from margin transactions is a factor having a material impact on the business performance of our company. However, the level of such revenues is largely affected by the stock market environment.

(3) Status and analysis of financial conditions

As of the end of the third quarter accounting period, total assets was 700,666 million yen, a 16.2% decrease from the end of the preceding business year. This was mainly due to a 27.3% decrease in loans on margin transactions compared to the end of the preceding business year to 223,961 million yen.

Total liabilities was 606,017 million yen, a 17.8% decrease from the end of the preceding business year. This was mainly due to a 38.1% decrease in short-term loans payable compared to the end of the preceding business year to 116.1 billion yen.

Total net assets was 94,649 million yen, a 4.2% decrease from the end of the preceding business year. In the cumulative third quarter period, dividends for the end of the fiscal year ending March 2018 and interim dividends for the fiscal year ending March 2019 of 11,811 million yen was recorded, and at the same time a profit of 7,882 million yen was recorded.

The main assets of our company are cash segregated as deposits for customers (included in cash segregated as deposits) where deposits received and guarantee deposits received etc. from customers are entrusted to trust banks, and margin transaction assets mainly comprised of loans on margin transactions. On the other hand, funds are being procured through short-term loans payable etc. for the purpose of allocating to loans on margin transactions. The main liabilities of our company are deposits received, guarantee deposits received and short-term loans payable.

As of the end of the third quarter accounting period, deposits received was 244,450 million yen, a 3.4% decrease from the end of the preceding business year, and guarantee deposits received was 211,895 yen, a 1.9% increase from the end of the preceding business year. Accordingly, cash segregated as deposits decreased by 8.6% from the end of the preceding business year to 416,512 million yen. Furthermore, given a decrease in loans on margin transactions by 27.3% from the end of the preceding business year to 223,961 million yen, short-term loans payable also decreased by 38.1% from the end of the preceding business year to 116.1 billion yen, and borrowings on margin transactions decreased by 88.1% from the end of the preceding business year to 4,430 million yen.

(4) Analysis of capital resources and liquidity of funds

At our company, ordinary funding to accommodate increase and decrease in loans on margin transactions is mainly conducted by borrowings from financial institutions such as banks. Our company has made shelf registration in order to be able to execute agile funds procurement through the issue of bonds; however, as of the end of this third quarter accounting period, a major portion of funding has been conducted through short-term loans payable including call money, taking into account loans on margin transactions and the level of internal reserves.

(5) Management policy and management strategy

In the cumulative third quarter period, there were no material changes to our management policy and management strategy.

(6) Business issues and financial issues to be addressed

In the cumulative third quarter period, there were no material changes to our company's business issues and financial issues to be addressed, and no new business issues or financial issues have arisen.

(7) Research and Development (R&D) activities

Not applicable.

3 Critical contracts for operation

Not applicable.

Part 3 Information about reporting company

1 Information about shares, etc.

(1) Total number of shares, etc.

[1] Total number of shares

Total shares authorized	
Common stock	1,050,000,000 shares
Total	1,050,000,000 shares

[2] Issued shares

Class	Total number of issued shares		Stock Exchange Listed on	Details
	As of December 31, 2018 (End of the quarterly period)	As of February 13, 2019 (Date of filing of this report)		
Common stock	259,264,702 shares	259,264,702 shares	Tokyo Stock Exchange (First Section)	1 unit consists of 100 shares
Total	259,264,702 shares	259,264,702 shares	-	-

Note: Total number of issued shares as of February 13, 2019 does not include shares issued upon exercise of share acquisition rights from February 1, 2019 to February 13, 2019.

(2) Share acquisition rights

[1] Details of share option program
Not applicable.

[2] Other information about share acquisition rights
Not applicable.

(3) Exercises, etc. of moving strike convertible bonds, etc.

Not applicable.

(4) Changes in number of issued shares, stated capital, etc.

	Issued shares (shares)		Capital stock (Millions of Yen)		Legal capital surplus (Millions of Yen)	
	Change	Outstanding amount	Change	Outstanding amount	Change	Outstanding amount
From October 1, 2018 to December 31, 2018	-	259,264,702	-	11,945	-	9,793

(5) Major shareholders

Information of major shareholders is omitted because this quarterly period is the third one for the fiscal year ends March 31, 2019.

(6) Voting rights

The following tables show the status of voting rights as of September 30, 2018 because the Company is not able to settle the list of shareholders as of December 31, 2018.

[1] Issued shares

(As of September 30, 2018)

	Number of shares	Number of voting rights	Details
Shares without voting rights	-	-	-
Shares with limited voting rights (Treasury shares, etc.)	-	-	-
Shares with limited voting rights (Other than treasury shares)	-	-	-
Shares with full voting rights (Treasury shares, etc.)	(Treasury shares) Common stock 2,479,700	-	-
Shares with full voting rights (Other than treasury shares)	Common stock 256,767,800	2,567,124	-
Odd lot shares (1 lot = 100 shares)	Common stock 17,202	-	-
Total number of issued shares	259,264,702	-	-
Total number of voting rights	-	2,567,124	-

Note:

- 400 shares under the title of Japan Securities Depository Center, Inc. and 55,400 shares of securities bought by customers using money loaned from the Company's own fund are included in "Shares with full voting rights (Other than treasury shares, etc.)." 4 voting rights under the title of Japan Securities Depository Center, Inc. are included in "Shares with full voting rights (Other than treasury shares, etc.)." 554 voting rights of securities bought by customers using money loaned from the Company's own fund are not included in "Shares with full voting rights (Other than treasury shares, etc.)."
- 63 treasury shares are included in odd-lot shares.

[2] Treasury shares, etc.

(As of September 30, 2018)

Name of shareholders	Address	Treasury shares held by the Company's own name	Treasury shares held by other person's name	Total number of shares held	Shareholding ratio (%)
(Treasury shares held by the Company) Matsui Securities Co., Ltd.	1-4, Kojimachi, Chiyoda-ku, Tokyo, Japan	2,479,700	-	2,479,700	0.96
Total	-	2,479,700	-	2,479,700	0.96

2 Information about officers

Following is the change in officers' title from June 18, 2018 when the Company filed its Annual Security Report for the year ended March 31, 2018 to the end of this quarterly period excluding those described in the Annual Security Report.

New title	Former title	Name	Date of change
Director	Managing Director (Managing Director of Compliance Dept. and System Dept.)	Takashi Moribe	October 1, 2018

Part 4 Financial information

1. Note on quarterly financial statements

Pursuant to Article 54 and 73 of the “Regulations of Quarterly Financial Statements” (Cabinet Office Ordinance No. 63, 2007), the quarterly financial statements of the Company are prepared in accordance with the “Cabinet Office Ordinance Concerning Financial Instruments Business” (Cabinet Office Ordinance No. 52, 2007) and the “Uniform Accounting Standards of Securities Business” (set by the board of governors of the Japan Securities Dealers’ Association, November 14, 1974) along with the “Regulations of Quarterly Financial Statements”.

2. Note on independent audit

The quarterly financial statements for the three months ended December 31, 2018 (from October 1, 2018 to December 31, 2018) and nine months ended December 31, 2018 (from April 1, 2018 to December 31, 2018) were reviewed by PricewaterhouseCoopers Aarata LLC in accordance with the Article 193-2, Paragraph 1 of Financial Instruments and Exchange Act.

3. Note on quarterly consolidated financial statements

The consolidated financial statements of the Company are not prepared because the Company has no subsidiaries.

Notice to readers:

The accompanying quarterly financial statements are prepared in accordance with the provision set forth in the Financial Instruments and Exchange Act and in conformity with accounting principles and practices generally accepted in Japan, which are different from International Financial Reporting Standards in certain aspects of application and disclosure requirements.

The quarterly financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries or jurisdictions other than Japan.

1 Quarterly financial statements

(1) Quarterly balance sheet

(Millions of Yen)

	March 31, 2018	December 31, 2018
Assets		
Current Assets		
Cash and deposits	36,256	32,175
Cash segregated as deposits	455,512	416,512
Money held in trust	5,813	2,988
Trading products:	2,258	1,764
Trading securities and other	0	0
Derivatives	2,258	1,764
Margin transaction assets:	310,574	226,121
Loans on margin transactions	308,037	223,961
Cash collateral pledged for securities borrowing on margin transactions	2,537	2,160
Loans secured by securities:	7,331	2,721
Cash collateral pledged for securities borrowed	7,331	2,721
Advances paid	177	419
Cash paid for offering	93	52
Short-term guarantee deposits	3,352	3,583
Other	4,886	4,738
Allowance for doubtful accounts	(156)	(130)
Total current assets	826,096	690,943
Non-current assets		
Property, plant and equipment	845	828
Intangible assets:	4,465	4,342
Software	4,465	4,342
Other	0	0
Investments and other assets:	4,912	4,553
Investment securities	3,572	3,260
Other	2,724	2,671
Allowance for doubtful accounts	(1,384)	(1,378)
Total non-current assets	10,222	9,723
Total assets	836,318	700,666

(Millions of Yen)

	March 31, 2018	December 31, 2018
Liabilities		
Current liabilities		
Trading products:	143	179
Derivatives	143	179
Trade date accrual	2	38
Margin transaction liabilities:	66,423	21,528
Borrowings on margin transactions	37,158	4,430
Cash received for securities lending on margin transactions	29,266	17,098
Loans payable secured by securities:	13,499	5,756
Cash received on debt credit transaction of securities	13,499	5,756
Deposits received	253,016	244,450
Guarantee deposits received	207,875	211,895
Accounts for non-received securities and others	8	11
Short-term loans payable	187,600	116,100
Income taxes payable	3,659	1,068
Provision for bonuses	227	144
Other	1,870	1,621
Total current liabilities	734,322	602,789
Non-current liabilities		
Long-term loans payable	50	-
Reserve for retirement bonuses for directors	204	204
Other	3	36
Total non-current liabilities	258	241
Reserves under special laws		
Reserve for financial products transaction liabilities	2,987	2,987
Total reserves under special laws	2,987	2,987
Total liabilities	737,567	606,017
Net assets		
Shareholders' equity		
Capital stock	11,945	11,945
Capital surplus	9,793	9,795
Retained earnings	76,426	72,497
Treasury shares	(1,896)	(1,866)
Total shareholders' equity	96,268	92,371
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	2,359	2,129
Total valuation and translation adjustments	2,359	2,129
Share acquisition rights	125	150
Total net assets	98,751	94,649
Total liabilities and net assets	836,318	700,666

(2) Quarterly statement of income

(Millions of Yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Operating revenue		
Commission received	13,751	11,756
Commission to consignees	13,232	11,231
Commission for underwriting, secondary distribution and solicitation for selling and others for professional investors	9	18
Fee for offering, secondary distribution and solicitation for selling and others for professional investors	2	22
Other fees received	508	484
Net trading income	743	980
Financial revenue	8,832	8,768
Other operating revenue	1	1
Total operating revenue	23,327	21,505
Financial expenses	1,304	982
Net operating revenue	22,023	20,523
Selling, general and administrative expenses		
Trading related expenses	3,375	3,243
Personnel expenses	1,770	2,025
Real estate expenses	635	638
Office cost	1,563	1,745
Depreciation	1,146	1,265
Taxes and dues	295	273
Provision of allowance for doubtful accounts	41	(13)
Other	98	103
Total selling, general and administrative expenses	8,923	9,278
Operating profit	13,099	11,245
Non-operating income		
Dividend income	91	126
Other	13	11
Total non-operating income	104	137
Non-operating expenses		
Other	3	2
Total non-operating expenses	3	2
Ordinary profit	13,200	11,380
Extraordinary losses		
Loss on sales and retirement of non-current assets	0	9
Total extraordinary losses	0	9
Profit before income taxes	13,200	11,370
Income taxes – current	3,985	3,341
Income taxes – deferred	79	147
Total income taxes	4,064	3,488
Profit	9,136	7,882

Notes

Notes – Additional information

(Application of "Partial revision of 'Accounting Standards for Tax Effect Accounting'", etc.)

"Partial revision of 'Accounting Standards for Tax Effect Accounting'" (Corporate Accounting Standard No. 28, February 16, 2018), etc., has been applied from the beginning of the first quarter of this fiscal year, and deferred tax assets are displayed in the categories of investments and other assets.

Notes – Quarterly statement of cash flows

The Company does not prepare the quarterly statement of cash flows for the nine months ended December 31, 2018. Depreciation expense including the amortization of intangible assets for the nine months ended December 31, 2017 and 2018 is as follows.

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Depreciation	1,146 million yen	1,265 million yen

Notes – Equity

(Nine months ended December 31, 2017)

1. Dividend payment

Date of resolution	Ordinary general meeting of shareholders held on June 25, 2017	Board of directors' meeting held on October 26, 2017
Class of shares	Common stock	Common stock
Amount of dividend payment	5,135 million yen	4,364 million yen
Dividends per share	20 yen	17 yen
Date of record for dividends	March 31, 2017	September 30, 2017
Effective date	June 26, 2017	November 24, 2017
Source of dividends	Retained earnings	Retained earnings

2. Dividends whose date of record is in the nine months ended December 31, 2017 and whose effective date is after December 31, 2017

Not applicable.

(Nine months ended December 31, 2018)

1. Dividend payment

Date of resolution	Ordinary general meeting of shareholders held on June 24, 2018	Board of directors' meeting held on October 26, 2018
Class of shares	Common stock	Common stock
Amount of dividend payment	6,932 million yen	4,879 million yen
Dividends per share	27 yen	19 yen
Date of record for dividends	March 31, 2018	September 30, 2018
Effective date	June 25, 2018	November 22, 2018
Source of dividends	Retained earnings	Retained earnings

2. Dividends whose date of record is in the nine months ended December 31, 2018 and whose effective date is after December 31, 2018

Not applicable.

Notes – Segment information, etc.

(Segment information)

Since the Company is a provider of on-line securities and exchanges service comprising a single segment, segment information is omitted.

Notes – Financial instruments

Margin transaction liabilities is important in Company's business and there is a significant change in the book value as of December 31, 2018 compared to the book value as of March 31, 2018. However, disclosure on financial instruments is omitted, as the difference between the book value and the fair value of margin transaction liabilities on March 31, 2018 and the difference between them on December 31, 2018 are not material.

Notes – Securities

Not applicable.

Notes – Derivatives

Not applicable.

Notes – Per share information

The basic earnings per share and diluted earnings per share with their respective bases of calculation are as follows.

Items	Nine months ended December 31, 2017	Nine months ended December 31, 2018
(1)Basic earnings per share (Yen)	35.58	30.70
(Calculation basis)		
Profit (Millions of Yen)	9,136	7,882
Profit not attributed to common stock (Millions of Yen)	-	-
Profit attributed to common stock (Millions of Yen)	9,136	7,882
Average number of common stock outstanding (Shares)	256,737,384	256,777,368
(2)Diluted earnings per share (Yen)	35.56	30.66
(Calculation basis)		
Adjustment to the profit (Millions of Yen)	-	-
Increase of common stock (Shares)	178,508	272,460
Significant changes in the share acquisition rights or others without dilution effects which are not considered in the calculation of diluted earnings per share	-	-

2 Other information

At the meeting held on October 26, 2018, the board of directors of the Company resolved to distribute interim dividends for shareholders recorded on September 30, 2018. The details are as follows.

Amount of dividend payment	4,879 million yen
Dividend paid per share	19 yen
Effective date	November 22, 2018

2 Information about company which provides guarantee to reporting company

Not applicable.

Note: The Original Quarterly Securities Report includes the quarterly review by PricewaterhouseCoopers Aarata LLC for the quarterly financial statements for the three months ended December 31, 2018 and for the nine months ended December 31, 2018.