

ANNUAL REPORT

Ending March 31, 2015

Corporate Profile

Okasan Securities Group is a stand-alone securities company group established in 1923. Headed by the holding company, Okasan Securities Group Inc., it consists of nine domestic companies and one overseas company. Okasan Securities Group is committed to a wide spectrum of securities investment and asset management businesses, through a network of six domestic and overseas securities firms centering on the core firm, Okasan Securities Co., Ltd. It is also involved in asset-management business, such as investment trusts, information-processing/system-development business, as well as office-support business, such as alternate back-office jobs.

Taking advantage of nurtured expertise since its inception, Okasan Securities Group engages in unique and community-based “face to face” securities sales activities, and it also provides a cutting-edge online trading environment. We are always ready to offer optimum performances by way of highly sophisticated and professional investment and asset management services, which include the development of innovative products, extensive and abundant market information, and high quality analyst information.

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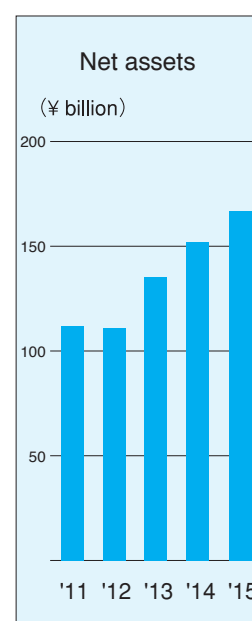
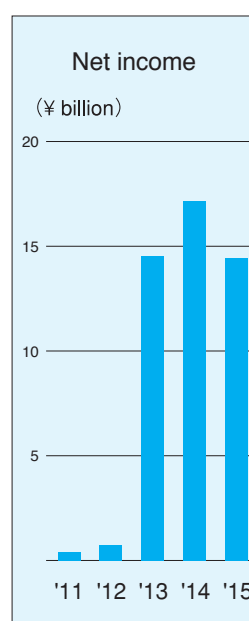
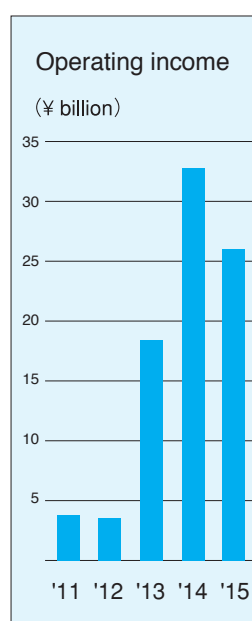
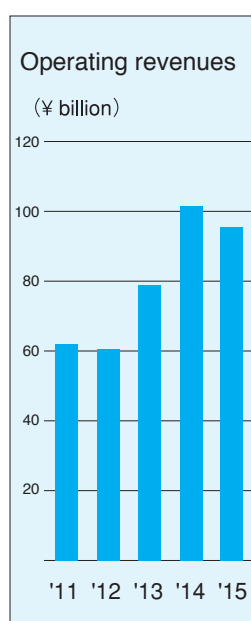
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Consolidated Financial Highlights

Okasan Securities Group Inc. and consolidated Subsidiaries Years ended March 31, 2015

| | Millions of yen | | Thousands of U.S.dollars (note) |
|---|----------------------------|----------------------------|---------------------------------|
| | 2015 (4/1/14 ~ 3/31/15) | 2014 (4/1/13 ~ 3/31/14) | 2015 (4/1/14 ~ 3/31/15) |
| Operating revenues | ¥ 94,633 | ¥ 101,386 | \$ 787,493 |
| Operating income | 26,295 | 32,730 | 218,815 |
| Net income | 14,100 | 17,279 | 117,334 |
| Total assets | 649,490 | 613,135 | 5,404,760 |
| Net assets | 171,411 | 152,840 | 1,426,404 |
| Per share of common stock | Yen | | U.S.dollars(note) |
| Basic net income | ¥ 71.20 | ¥ 87.24 | \$ 0.59 |
| Cash dividends applicable to the year | 25.00 | 25.00 | 0.21 |

Note: The translation of the yen amount into U.S.dollars is included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2015, which was ¥120.17 to U.S.\$1.



Management Policy

Okasan Securities Group Inc. and Consolidated Subsidiaries

1. Basic management policy for the Company

Okasan Securities Group Inc. manages a corporate group comprised of itself, a holding company, and the Group's Japanese and overseas consolidated subsidiaries. The Group strives to strengthen enterprise value in a sustained manner through the provision of investment services centering on the securities business and asset management.

2. Basic policy on the distribution of profits and dividend for the term

The Company sees shareholder returns as an important management benchmark and would like to distribute the payout in consideration of the trends in earnings, while also taking into account the sustainability and continuity of a stable dividend.

3. Important management index

In rapidly changing market conditions, it is important to secure stable profits. Based on this understanding, we consider return on equity (ROE) an important management index. We aim to achieve a stable consolidated ROE of 10% as a business objective.

4. Medium and long-term management strategy

With respect to policies for making significant progress ahead of the 95th and 100th anniversaries of its establishment, the company has formulated and is currently implementing a medium-term business plan for the three-year period from April 2014 to March 2017. Under this medium-term business plan and based on its "Customer First" management philosophy, the company intends to increase enterprise value as a body of professional investment advisors and to improve its management structure to ensure stable growth in any environment.

In the consolidated fiscal year under review, the first year of the business plan, new presidents were appointed at nine of the eleven companies in the Group, including Okasan Securities Group Inc. The new management system reinforces group strengths. In March, to build networks transcending conventional group demarcations, memorandums of agreement concerning operational and capital alliances were signed with two companies within the same industry. The Group will continue to qualitatively strengthen its sales capabilities and strive to enhance its operating foundations based on the pursuit of the customer's interests.

Okasan Securities Group medium-term business plan

There will be no change in the management philosophy emphasizing the "Customer First" that the company has followed since it was established. Different customers certainly have different needs, and customer satisfaction means a variety of things, but we see the ultimate prioritization of the customer's interests by focusing thoroughly on professionalism as our social mission.

To achieve this management philosophy, we train personnel to take "pride" in their work, and to create a group of professionals formed from staff who do have such "pride."

As a result, we think it will be possible to improve Okasan Securities Group's enterprise value.

1. Period of plan

Three years starting April 2014 and ending March 2017

2. Management philosophy

Customer First In the role of professional advisors, we respond to a broad range of customer needs, and

aim to put customer interests first.

3. Management objectives

[Qualitative objectives]

- (1) Aiming for a professional group of investment advisors.
- (2) Being a company of even greater "pride" by thanks to satisfying work.
- (3) Increase enterprise value as a result of (1) and (2) above, and thereby fulfil our responsibilities as a listed company.

[Quantitative objectives]

Achieve following numerical results as a result of pursuing customers' interests.

- (1) Consolidated net assets of 200 billion yen (final year)
- (2) Consolidated ROE of 10% (consistently achieve)

By fully implementing the management philosophy and pursuing the management goals, the company aims to achieve as soon as possible before its 100th anniversary the goals of 1.0 million accounts and assets under custody of ¥10trn.

5. Challenges the Company should address

From a global perspective, despite the global financial crisis, investment company assets have grown, particularly at hedge funds. Their impact on financial markets has been amplified by the expansion of derivatives and securitization products. With the financial economy far exceeding the real economy and with the US moving away from monetary easing policies, uncertainty has grown with respect to future financial markets. In Japan, the so-called "Abenomics," the Abe administration's package of policies, continues to lift the country from its protracted period of deflation, boost corporate capital investment, and improve the outlook of individual investors.

In this environment, the company sees an increasingly important societal role for the Group, who provides optimal investment advice and financial products based on customer needs. The growing interest in investment calls for efforts to build a strong brand in order to get support from a wide range of customers. The company will formulate and implement various policies to this end. Policies granted special priority include reinforcing group strengths, strengthening governance, and qualitatively strengthening sales capabilities.

To reinforce group strengths, the company will expand its network of securities companies, pivoting on Okasan Securities Co., Ltd. Strengthening governance is another key issue. The company is implementing policies to continue improving the transparency of managerial decision-making and to strengthen control functions, including modifying its structure to become a corporation with an Audit & Supervisory Committee meeting. To qualitatively strengthen sales capabilities, under its "Customer First" management philosophy, the company will further develop and expand systems for rapidly and accurately responding to diverse investment needs, with the goal of serving as a body of professional investment advisors. Based on these policies, the company will strive to raise the enterprise value of the Group in a sustained manner.

6. Outline of corporate governance structure

(1) Basic concepts regarding corporate governance

As globalization progresses and a shift in management towards creation of enterprise value accelerates, the importance of corporate governance is increasing. In response to this environmental change, we are committed to high standards of corporate governance as we regard it as one of our management responsibilities. As we face the challenges of a rapidly changing business landscape, we have undertaken to deliver such solutions so as to speed up the decision-making process and to enhance efficiency of the managerial and supervisory systems.

(2) Structure of business execution

With regard to the structure of business execution, the Board of Directors as the supreme decision making organ on management makes a decision on items provided in laws and regulations and articles of incorporation and maps out plans of the management strategy of the Group and supervises them. The President - CEO executes decisions of the Board of Directors and supervises overall management. The Board of Directors consists of 13 directors(including 5 Audit & Supervisory Committee Members), which enables it to make a quick decision.

We have introduced the operating officer system, clarifying the roles of the Board of Directors, which makes management decisions and supervises management, and executive officers, who are in charge of business execution, to strengthen the business management of the Group. The Board of executive officers consists of 13 such officers and, according to the basic management policies adopted in the Board of Directors, deliberates on laying out specific policies and plans of business execution and other important managerial subjects. In addition, we set up the "Management Conference" to realize the planning of uniform and flexible management strategies.

(3) Management monitoring structure

The structure of management monitoring is composed of five total Audit & Supervisory Committee Members, including two statutory members and three outside directors. They make up the Audit & Supervisory Committee and decide on auditing policies in accordance with laws and regulations and the company's articles of incorporation, based on the rules of Audit & Supervisory Committee Members. They will also work to formulate audit opinions for the Audit & Supervisory Committee Members. Other member obligations include attendance at meetings of the Board of Directors and other important meetings, interviews with directors (excluding directors who are Audit & Supervisory Committee Members), and the duty to review important approval documents in order to oversee decision-making by the Board of Directors and the state of business execution by directors. In addition, Audit & Supervisory Committee Members work with independent auditors and the divisions in charge of internal auditing to help ensure effective, appropriate audits. Okasan Securities Group Inc. has entered into agreements with these five Audit & Supervisory Committee Members to curtail their liabilities under Article 423, Paragraph 1 of the Companies Act, in accordance with Article 427, Paragraph 1 of the Act, to the minimum level required under laws and regulations.

(4) Internal auditing structure

As part of efforts to contribute to secure appropriate business operations such as reducing management risks and preventing wrongdoings, we set up internally the auditing division and assigned six staff there. The auditing division makes up an audit plan in each fiscal year, periodically implements an on-the-spot audit based on the plan and inspects documents when necessary. The results of auditing are reported to the Board of Directors from the director in charge of auditing, in the form of the audit report.

Operating and Financial Review

Okasan Securities Group Inc. and Consolidated Subsidiaries Years ended March 31, 2015

I . Analysis of operating results

During the consolidated fiscal year under review, despite some slowing in the pace of improvement in personal consumption, the overall Japanese economy maintained its course of recovery. Employment and the income environment improved, exports continued to recover, and capital investment registered moderate growth alongside improved corporate earnings. At the same time, due to the impact of falling energy prices, the consumer price index (overall index excluding fresh food) decelerated to less than 0.5% year on year, excluding the impact of the consumption tax hike.

In the forex market, a strong sense of deadlock in the dollar/yen rate persisted initially. From the latter part of August, the yen began to depreciate against the dollar. Based on the Bank of Japan's decision to implement additional easing in response to the Federal Reserve Board's decision to end monetary easing in October, the yen's depreciation against the dollar accelerated still further. By March, the rate had risen temporarily to around ¥122/\$. Awareness of further monetary easing by the European Central Bank affected the euro-yen rate after the start of the new year, and that exchange rate ranged around ¥149/€ in early December. The yen had appreciated by March, when the European Central Bank began purchasing government bonds, falling to around ¥126/€.

The equity market at the start of the fiscal year went through a period of adjustments due to concerns about a slumping economy following the consumption tax hike. From the latter part of May, buying by domestic pension funds underpinned stock prices and helped put the market on a course of recovery. Entering the second half of the year, selling increased at certain points due to apprehensions prompted by low global stock prices and overall anxiety concerning the economic outlook. However, additional easing by the Bank of Japan and expectations of further policy development following the dissolution of the House of Representatives for a general election provided a tailwind. After the start of the new year, buying by overseas investors with a positive take on Japanese corporate reforms and other developments drove an increase in Japanese stocks. The Nikkei 225 ended the fiscal year at ¥19,206.99, rising 29.5% over the year and breaking the ¥19,000-barrier for the first time in some fifteen years. In the bond market, supported by monetary easing, yields declined moderately throughout the fiscal year. The decline in yields accelerated after the announcement of additional easing in October. In January, the 10-year government bond yield fell temporarily to a record-low of 0.195%. Any increase in yields thereafter remained limited, and the 10-year government bond yield ended the fiscal year at 0.40%.

In this environment, Okasan Securities Co., Ltd., the core company in the Group, enhanced overseas alliances through partnerships with an Australian securities company. It further strengthened its sales capabilities through various initiatives, including opening the Nihonbashi Muromachi Branch, a new branch, with stronger links to head office functions. At the same time, among other initiatives, Okasan Online Securities Co., Ltd., the Group's specialist online brokerage, sought to improve services by upgrading order tools, enhancing the information provided to investors, and other means. Okasan Asset Management Co., Ltd. pursued flexible investment management in line with market changes and provided timely information while pursuing growth in assets under management through prompt provision of products tailored to investor needs.

Due to these efforts, the Group's operating revenues in the consolidated fiscal year under review were ¥94,633 million (93.3% of the figure for the previous year), and net operating revenues were ¥93,403 million (93.4% of the figure for the previous year). SG&A expenses were ¥67,108 million (99.8% of the figure for the previous year); operating income was ¥26,295 million (80.3% of the figure for the previous year); and net income was ¥14,100 million (81.6% of the figure for the previous year).

1. Fees and commissions received

Fees and commissions received stood at ¥63,342 million (90.5% of the figure for the previous year). The main breakdown was as follows.

(1) Brokerage commissions

Average daily trading volume on the First Section of the Tokyo Stock Exchange (Japanese common shares) was 2,856 million shares (82.6% of the figure for the previous year), while turnover was ¥2,663.9 billion (92.3% of the figure for the previous year). In this environment, equity brokerage commissions were ¥18,954 million (68.0% of the figure for the previous year). Bond brokerage commissions were ¥7 million (42.4% of the figure for the previous year), and other brokerage commissions amounted to ¥529 million (85.3% of the figure for the previous year). Total brokerage commissions were ¥19,490 million (68.4% of the figure for the previous year).

(2) Underwriting fees, selling concessions, and commissions on solicitation for sales of financial instruments to specified investors and others

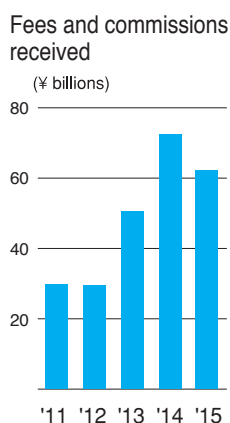
During the fiscal year under review, the area of equity finance featured contributions from large-scale public offerings reflecting gains in the equity market. Okasan Securities Co., Ltd. took part as lead manager in initial public offerings. In bond underwriting, the company served as lead manager for municipal and corporate bonds and took an active role in underwriting major industrial bonds and government-guaranteed bonds. As a result, commissions on equity were ¥313 million (81.9% of the figure for the previous year), while commissions on bonds totaled ¥141 million (99.1% of the figure for the previous year). Total underwriting fees, selling concessions, and commissions on solicitation for sale of financial instruments to specific investors and others amounted to ¥454 million (86.6% of the figure for the previous year).

(3) Administrative charges on offering, selling and solicitation for sales of financial instruments to specified investors, and other fees and commissions received

With regard to administrative charges on offering, selling, and solicitation for sales of financial instruments to specific investors, and other fees and commissions received, the majority of revenue was accounted for by investment trust-related fees.

During the fiscal year, the company enjoyed strong sales of equity funds, which benefited from rising equity prices associated with global quantitative easing; funds investing in high-yield instruments; and related funds focused on the yen's depreciation against the dollar, based on expectations that the US would raise interest rates. The company also introduced some new funds, including a fund investing in the JPX-Nikkei Index 400. Due to these developments, administrative charges on offering, selling, and solicitation for sales of financial instruments to specific investors totaled ¥25,392 million (99.8% of the figure for the previous year). Other fees and commissions received, including trust fees on investment trusts, amounted to ¥18,006 million (116.0% of the figure for the previous year).

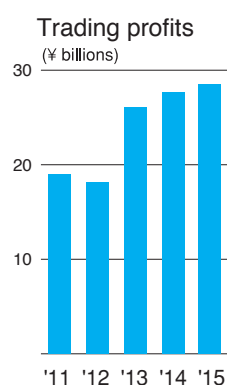
| Fees and commissions received (¥ billions) | Fees and commissions received Breakdown by category | | |
|---|--|-------------------------------|------------------|
| | 2015<A> (4/1/14 ~ 3/31/15) | 2014 (4/1/13 ~ 3/31/14) | Ratio <A>/ |
| | (Millions of yen except percentage) | | |
| | ¥ 19,490 | ¥ 28,512 | 68.4 |
| | 18,954 | 27,876 | 68.0 |
| | 7 | 16 | 42.4 |
| | 529 | 620 | 85.3 |
| | 454 | 525 | 86.6 |
| | 313 | 383 | 81.9 |
| | 141 | 142 | 99.1 |
| | 25,392 | 25,431 | 99.8 |
| | 18,006 | 15,523 | 116.0 |
| Total | ¥ 63,342 | ¥ 69,991 | 90.5 |



| Breakdown by product | (Millions of yen except percentage) | | |
|----------------------|-------------------------------------|-------------------------------|------------------|
| | 2015<A> (4/1/14 ~ 3/31/15) | 2014 (4/1/13 ~ 3/31/14) | Ratio <A>/ |
| Equities | ¥ 19,575 | ¥ 28,572 | 68.5 |
| Bonds | 344 | 302 | 114.0 |
| Investment trusts | 42,264 | 39,942 | 105.8 |
| Others | 1,159 | 1,175 | 98.7 |
| Total | ¥ 63,342 | ¥ 69,991 | 90.5 |

2. Trading profits

The US economy remained solid in the fiscal year under review. While expanded monetary easing by central banks in Japan and Europe and the increasing ratio of risk assets included in domestic pension funds buoyed equity markets both in Japan and abroad, US equity brokerage volumes remained steady. Total profits on equity trading were ¥16,328 million (107.2% of the figure for the previous year), and total bond trading profits were ¥11,837 million (93.2% of the figure for the previous year). Total trading profits, including other trading profits of ¥16 million (loss of ¥278 million the previous year), were ¥28,181 million (101.9% of the figure for the previous year).



| Trading profits | (Millions of yen except percentage) | | |
|-----------------|-------------------------------------|-------------------------------|------------------|
| | 2015<A> (4/1/14 ~ 3/31/15) | 2014 (4/1/13 ~ 3/31/14) | Ratio <A>/ |
| Equities | ¥ 16,328 | ¥ 15,236 | 107.2 |
| Bonds | 11,837 | 12,705 | 93.2 |
| Others | 16 | -278 | - |
| Total | ¥ 28,181 | ¥ 27,663 | 101.9 |

3. Net financial income

Financial income decreased 20.6% year on year to ¥2,340 million, while financial expenses decreased 12.0% to ¥1,230 million, so net financial income decreased 28.4% to ¥1,110 million.

4. Other operating income

Other operating income other than that related to the financial products transaction business and incidental operations declined 1.9% year on year to ¥770 million.

5. Selling, general and administrative expenses

Selling, general and administrative expenses decreased 0.2% year on year to ¥67,108 million, mainly because of decrease in personnel expenses.

6. Other income (expenses)

The Company posted other expenses of ¥814 million, compared to other expenses of ¥1,149 million in the previous fiscal year.

7. Dividends

The company sees shareholder returns as a critical management issue. Its basic policy is to maintain a stable dividend while distributing profits in line with earnings.

Based on the policies above, the company will pay a dividend for the fiscal year of ¥25 per share.

II . Analysis of financial position

1. Assets, liabilities and net assets

Consolidated total assets at fiscal year-end grew ¥36,355 million to ¥649,490 million year on year. This was mainly due to increases of ¥19,601 million in receivables on collateralized securities transactions, ¥6,866 million in cash segregated as deposits, ¥6,347 million in investment securities, and ¥6,116 million in cash and deposits.

Liabilities increased ¥17,784 million year on year to ¥478,079 million. This was mainly due a decline of ¥54,083 million in short-term borrowings, which offset increases of ¥45,433 million in payables on collateralized securities transactions, ¥12,931 million in payables arising from unsettled trades, ¥10,304 in deposits received, and ¥3,788 million in payables on margin transactions.

Net assets increased ¥18,571 million year on year to ¥171,411 million. This was mainly due to increases of ¥9,250 million in retained earnings, ¥5,294 million in unrealized gains on available-for-sale securities, and ¥3,143 million in minority interests.

2. Cash flows

Cash and deposits (“cash” hereafter) at the end of the consolidated fiscal year were ¥50,566 million, up ¥5,130 million year on year.

Each cash flow item and factors affecting it were as follows.

< Cash flows from operating activities >

Cash inflows from operating activities were ¥64,275 million. This was mainly due to cash inflows from an increase of ¥25,481 million in income before income taxes and minority interests, a change of ¥25,833 million in receivables on collateralized securities transactions and payables on collateralized securities transactions, and a change of ¥10,997 million in trading products.

< Cash flows from investing activities >

Cash outflows due to investment activities were ¥806 million. This was mainly due to cash inflows of ¥4,500 million from the sale of marketable securities and ¥3,137 million from the sale of investment securities and cash outflows of ¥3,400 million from the purchase of marketable securities and ¥2,636 million from acquisition of intangible fixed assets.

< Cash flows from financing activities >

Cash outflows due to financing activities were ¥58,898 million. This was mainly due to cash inflows of ¥6,000 million from long-term borrowings and cash outflows of a net change of ¥55,110 million in short-term borrowings, ¥4,874 million from dividend payments, and ¥4,270 million from the repayment of long-term borrowings

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Balance Sheet — March 31, 2015

| | Millions of yen | | Thousands of U.S. dollars (note 3) |
|---|------------------|------------------|--|
| | 2015 | 2014 | 2015 |
| ASSETS | | | |
| Current assets: | | | |
| Cash on hand and in banks (notes 10 and 21) | ¥ 55,583 | ¥ 49,467 | \$ 462,536 |
| Cash segregated as deposits for customers and others | 63,610 | 56,744 | 529,334 |
| Trading assets (notes 4 and 10) | 216,338 | 213,987 | 1,800,266 |
| Receivables on margin transactions (note 5) | 58,273 | 61,604 | 484,921 |
| Receivables on collateralized securities transactions (note 6) | 169,980 | 150,379 | 1,414,496 |
| Short-term investments (note 7) | 503 | 1,100 | 4,186 |
| Deferred income taxes (note 11) | 1,377 | 1,754 | 11,459 |
| Other current assets | 8,030 | 8,308 | 66,822 |
| Allowance for doubtful accounts | (14) | (17) | (116) |
| Total current assets | 573,680 | 543,326 | 4,773,904 |
| Property and equipment, net of accumulated depreciation of ¥12,429 million (\$103,428 thousand) in 2015 and ¥11,743 million in 2014 (note 10) | 18,961 | 19,077 | 157,785 |
| Intangible assets, net | 7,585 | 8,306 | 63,119 |
| Investments and other assets: | | | |
| Investment securities (notes 7, 8 and 10) | 42,049 | 35,702 | 349,912 |
| Long-term guarantee deposits | 3,393 | 3,103 | 28,235 |
| Assets for retirement benefits (note 12) | 994 | - | 8,272 |
| Deferred income taxes (note 11) | 1,445 | 1,839 | 12,025 |
| Other | 3,049 | 3,660 | 25,372 |
| Allowance for doubtful accounts | (1,666) | (1,878) | (13,864) |
| Total investments and other assets | 49,264 | 42,426 | 409,952 |
| TOTAL | ¥ 649,490 | ¥ 613,135 | \$ 5,404,760 |

See accompanying notes to consolidated financial statements.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Balance Sheet — (Continued) — March 31, 2015

| | Millions of yen | | Thousands of U.S. dollars (note 3) |
|---|-----------------|-----------|--|
| | 2015 | 2014 | 2015 |
| LIABILITIES AND NET ASSETS | | | |
| Current liabilities: | | | |
| Trading liabilities (note 4) | ¥ 145,106 | ¥ 144,688 | \$ 1,207,506 |
| Payables arising from unsettled trades | 19,466 | 6,536 | 161,987 |
| Payables on margin transactions (notes 5 and 10) | 18,742 | 14,954 | 155,962 |
| Payables on collateralized securities transactions (note 6) | 69,695 | 24,262 | 579,970 |
| Deposits received | 39,491 | 29,187 | 328,626 |
| Guarantee deposits received | 36,679 | 35,804 | 305,226 |
| Short-term borrowings (notes 9 and 10) | 104,796 | 158,878 | 872,065 |
| Income tax payables (note 11) | 2,770 | 9,452 | 23,051 |
| Deferred income taxes (note 11) | 33 | - | 275 |
| Other current liabilities (notes 9 and 13) | 8,717 | 7,705 | 72,539 |
| Total current liabilities | 445,495 | 431,466 | 3,707,207 |
| Non-current liabilities: | | | |
| Long-term borrowings (notes 9 and 10) | 9,210 | 8,415 | 76,641 |
| Lease liabilities (note 9) | 1,021 | 1,441 | 8,496 |
| Deferred income taxes (note 11) | 9,089 | 6,931 | 75,635 |
| Liabilities for retirement benefits (note 12) | 7,654 | 6,630 | 63,693 |
| Other non-current liabilities (note 13) | 2,992 | 3,085 | 24,898 |
| Total non-current liabilities | 29,966 | 26,502 | 249,363 |
| Financial instruments transactions reserve (note 14) | 2,618 | 2,327 | 21,786 |
| Total liabilities | 478,079 | 460,295 | 3,978,356 |
| Net assets | | | |
| Shareholders' equity (note 15): | | | |
| Common stock | | | |
| Authorized—750,000,000 shares in 2015 and 2014 | | | |
| Issued—208,214,969 shares in 2015 and 2014 | 18,590 | 18,590 | 154,697 |
| Capital surplus | 12,913 | 12,913 | 107,456 |
| Retained earnings | 100,473 | 91,223 | 836,091 |
| Treasury stock, at cost, 10,211,055 shares in 2015 and 10,178,729 shares in 2014 | (3,730) | (3,701) | (31,039) |
| Total shareholders' equity | 128,246 | 119,025 | 1,067,205 |
| Accumulated other comprehensive income (loss): | | | |
| Unrealized gain on available-for-sale securities (note 7) | 14,474 | 9,180 | 120,446 |
| Surplus on land revaluation (note 16) | 389 | 371 | 3,237 |
| Foreign currency translation adjustments | 429 | (144) | 3,570 |
| Remeasurements of defined benefit plans | 660 | 339 | 5,492 |
| Total accumulated other comprehensive income | 15,952 | 9,746 | 132,745 |
| Minority interests | 27,213 | 24,069 | 226,454 |
| Total net assets | 171,411 | 152,840 | 1,426,404 |
| Commitments and contingencies (note 22) | | | |
| TOTAL | ¥ 649,490 | ¥ 613,135 | \$ 5,404,760 |

See accompanying notes to consolidated financial statements.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Statement of Income — Year ended March 31, 2015

| | Millions of yen | | Thousands of U.S. dollars (note 3) |
|---|-----------------|-----------------|--|
| | 2015 | 2014 | 2015 |
| Operating revenues: | | | |
| Commissions | ¥ 63,342 | ¥ 69,991 | \$ 527,103 |
| Net gain on trading | 28,181 | 27,663 | 234,510 |
| Interest and dividend income | 2,340 | 2,947 | 19,472 |
| Service fee and other revenues | 770 | 785 | 6,408 |
| | <u>94,633</u> | <u>101,386</u> | <u>787,493</u> |
| Interest expense | <u>1,230</u> | <u>1,397</u> | <u>10,236</u> |
| Net operating revenues | <u>93,403</u> | <u>99,989</u> | <u>777,257</u> |
| Selling, general and administrative expenses (note 18) | <u>67,108</u> | <u>67,259</u> | <u>558,442</u> |
| Operating income | <u>26,295</u> | <u>32,730</u> | <u>218,815</u> |
| Other income (expenses): | | | |
| Dividend income | 773 | 708 | 6,433 |
| Reversal of allowance for doubtful accounts | 6 | 449 | 50 |
| Gain on sale of investment securities | 339 | 100 | 2,821 |
| Interest expense | (96) | (96) | (799) |
| Equity in losses of affiliates | (10) | - | (83) |
| Impairment loss | - | (146) | - |
| Loss on sale and disposal of property and equipment and intangible assets | (700) | (1,837) | (5,825) |
| Loss on sale of investment securities | (58) | (47) | (483) |
| Loss on devaluation of investment securities | (58) | (242) | (483) |
| Provision for liabilities for retirement benefits for directors and corporate auditors | (1,000) | - | (8,322) |
| Provision for financial instruments transactions reserve | (292) | (650) | (2,430) |
| Other, net | 282 | 612 | 2,347 |
| | <u>(814)</u> | <u>(1,149)</u> | <u>(6,774)</u> |
| Income before income taxes and minority interests | <u>25,481</u> | <u>31,581</u> | <u>212,041</u> |
| Income taxes (note 11): | | | |
| Current | 9,040 | 12,267 | 75,227 |
| Deferred | 617 | 107 | 5,134 |
| | <u>9,657</u> | <u>12,374</u> | <u>80,361</u> |
| Income before minority interests | <u>15,824</u> | <u>19,207</u> | <u>131,680</u> |
| Minority interests | <u>1,724</u> | <u>1,928</u> | <u>14,346</u> |
| Net income | <u>¥ 14,100</u> | <u>¥ 17,279</u> | <u>\$ 117,334</u> |

See accompanying notes to consolidated financial statements.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Statement of Comprehensive Income — Year ended March 31, 2015

| | Millions of yen | | Thousands of U.S. dollars (note 3) |
|--|-----------------|-----------------|--|
| | 2015 | 2014 | 2015 |
| Income before minority interests | ¥ 15,824 | ¥ 19,207 | \$ 131,680 |
| Other comprehensive income (note 19): | | | |
| Unrealized gain on available-for-sale securities | 6,721 | 3,440 | 55,929 |
| Surplus on land revaluation | 88 | - | 732 |
| Foreign currency translation adjustments | 574 | 298 | 4,777 |
| Remeasurements of defined benefit plans | 314 | - | 2,613 |
| Total other comprehensive income | <u>7,697</u> | <u>3,738</u> | <u>64,051</u> |
| Comprehensive income | <u>¥ 23,521</u> | <u>¥ 22,945</u> | <u>\$ 195,731</u> |
| Comprehensive income attributable to: | | | |
| Owners of parent | ¥ 20,313 | ¥ 20,233 | \$ 169,036 |
| Minority interests | 3,208 | 2,712 | 26,695 |

See accompanying notes to consolidated financial statements.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Statement of Changes in Net Assets — Year ended March 31, 2015

| | Millions of yen | | | | |
|---|----------------------|--------------------|----------------------|-------------------------------|----------------------------------|
| | Shareholders' equity | | | | |
| | Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Total shareholders' equity |
| Balances at March 31, 2013 | ¥ 18,590 | ¥ 12,913 | ¥ 77,845 | ¥ (3,637) | ¥ 105,711 |
| Changes arising during the year: | | | | | |
| Cash dividends | | | (3,901) | | (3,901) |
| Net income | | | 17,279 | | 17,279 |
| Purchase of treasury stock | | | | (65) | (65) |
| Disposition of treasury stock | | 0 | (0) | 1 | 1 |
| Net changes other than shareholders' equity | | | | | |
| Total changes during the year | - | 0 | 13,378 | (64) | 13,314 |
| Balances at March 31, 2014 | 18,590 | 12,913 | 91,223 | (3,701) | 119,025 |
| Cumulative effects of changes in accounting policies | | | 17 | | 17 |
| Restated balance at March 31, 2014 | 18,590 | 12,913 | 91,240 | (3,701) | 119,042 |
| Changes arising during the year: | | | | | |
| Cash dividends | | | (4,874) | | (4,874) |
| Net income | | | 14,100 | | 14,100 |
| Purchase of treasury stock | | | | (29) | (29) |
| Disposition of treasury stock | | 0 | (0) | 0 | 0 |
| Reversal of surplus on land revaluation | | | 7 | | 7 |
| Net changes other than shareholders' equity | | | | | |
| Total changes during the year | - | 0 | 9,233 | (29) | 9,204 |
| Balances at March 31, 2015 | ¥ 18,590 | ¥ 12,913 | ¥ 100,473 | ¥ (3,730) | ¥ 128,246 |

| | Millions of yen | | | | | | |
|--|--|-----------------------------|--|---|---|--------------------|------------------|
| | Accumulated other comprehensive income (loss) | | | | | Minority interests | Total net assets |
| | Unrealized gain on available-for-sale securities | Surplus on land revaluation | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Total accumulated other comprehensive income (loss) | | |
| Balances at March 31, 2013 | ¥ 6,524 | ¥ 371 | ¥ (442) | ¥ - | ¥ 6,453 | ¥ 21,408 | ¥ 133,572 |
| Changes arising during the year: | | | | | | | |
| Cash dividends | | | | | | | (3,901) |
| Net income | | | | | | | 17,279 |
| Purchase of treasury stock | | | | | | | (65) |
| Disposition of treasury stock | | | | | | | 1 |
| Net changes other than shareholders' equity | 2,656 | | 298 | 339 | 3,293 | 2,661 | 5,954 |
| Total changes during the year | 2,656 | - | 298 | 339 | 3,293 | 2,661 | 19,268 |
| Balances at March 31, 2014 | 9,180 | 371 | (144) | 339 | 9,746 | 24,069 | 152,840 |
| Cumulative effects of changes in accounting policies | | | | | | 1 | 18 |
| Restated balance at March 31, 2014 | 9,180 | 371 | (144) | 339 | 9,746 | 24,070 | 152,858 |
| Changes arising during the year: | | | | | | | |
| Cash dividends | | | | | | | (4,874) |
| Net income | | | | | | | 14,100 |
| Purchase of treasury stock | | | | | | | (29) |
| Disposition of treasury stock | | | | | | | 0 |
| Reversal of surplus on land revaluation | | | | | | | 7 |
| Net changes other than shareholders' equity | 5,294 | 18 | 573 | 321 | 6,206 | 3,143 | 9,349 |
| Total changes during the year | 5,294 | 18 | 573 | 321 | 6,206 | 3,143 | 18,553 |
| Balances at March 31, 2015 | ¥ 14,474 | ¥ 389 | ¥ 429 | ¥ 660 | ¥ 15,952 | ¥ 27,213 | ¥ 171,411 |

| | Thousands of U.S. dollars (note 3) | | | | |
|---|---------------------------------------|--------------------|----------------------|-------------------------------|----------------------------------|
| | Shareholders' equity | | | | |
| | Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Total shareholders' equity |
| Balances at March 31, 2014 | \$ 154,697 | \$ 107,456 | \$ 759,116 | \$ (30,798) | \$ 990,471 |
| Cumulative effects of changes in accounting policies | | | 142 | | 142 |
| Restated balance at March 31, 2014 | 154,697 | 107,456 | 759,258 | (30,798) | 990,613 |
| Changes arising during the year: | | | | | |
| Cash dividends | | | (40,559) | | (40,559) |
| Net income | | | 117,334 | | 117,334 |
| Purchase of treasury stock | | | | (241) | (241) |
| Disposition of treasury stock | | 0 | 0 | 0 | 0 |
| Reversal of surplus on land revaluation | | | 58 | | 58 |
| Net changes other than shareholders' equity | | | | | |
| Total changes during the year | - | 0 | 76,833 | (241) | 76,592 |
| Balances at March 31, 2015 | \$ 154,697 | \$ 107,456 | \$ 836,091 | \$ (31,039) | \$ 1,067,205 |

| | Thousands of U.S. dollars (note 3) | | | | | | |
|---|--|-----------------------------------|---|--|---|-----------------------|---------------------|
| | Accumulated other comprehensive income (loss) | | | | | | |
| | Unrealized gain on available-for- -sale securities | Surplus on land revaluation | Foreign currency translation adjustments | Remeasure- ments of defined benefit plans | Total accumulated other comprehensive income (loss) | Minority interests | Total net assets |
| Balances at March 31, 2014 | \$ 76,392 | \$ 3,087 | \$ (1,198) | \$ 2,821 | \$ 81,102 | \$ 200,292 | \$ 1,271,865 |
| Cumulative effects of changes in accounting policies | | | | | | 8 | 150 |
| Restated balance at March 31, 2014 | 76,392 | 3,087 | (1,198) | 2,821 | 81,102 | 200,300 | 1,272,015 |
| Changes arising during the year: | | | | | | | |
| Cash dividends | | | | | | | (40,559) |
| Net income | | | | | | | 117,334 |
| Purchase of treasury stock | | | | | | | (241) |
| Disposition of treasury stock | | | | | | | 0 |
| Reversal of surplus on land revaluation | | | | | | | 58 |
| Net changes other than shareholders' equity | 44,054 | 150 | 4,768 | 2,671 | 51,643 | 26,154 | 77,797 |
| Total changes during the year | 44,054 | 150 | 4,768 | 2,671 | 51,643 | 26,154 | 154,389 |
| Balances at March 31, 2015 | \$ 120,446 | \$ 3,237 | \$ 3,570 | \$ 5,492 | \$ 132,745 | \$ 226,454 | \$ 1,426,404 |

See accompanying notes to consolidated financial statements.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Statement of Cash Flows — Year ended March 31, 2015

| | Millions of yen | | Thousands of U.S. dollars (note 3) |
|--|-----------------|----------|--|
| | 2015 | 2014 | 2015 |
| Cash flows from operating activities: | | | |
| Income before income taxes and minority interests | ¥ 25,481 | ¥ 31,581 | \$ 212,041 |
| Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities: | | | |
| Depreciation and amortization | 4,042 | 4,044 | 33,636 |
| Impairment loss | - | 146 | - |
| Interest and dividend income | (3,119) | (3,660) | (25,955) |
| Interest expense | 1,326 | 1,494 | 11,034 |
| Loss on sale and disposal of intangible assets | 621 | 1,592 | 5,168 |
| Gain on sale of investment securities | (292) | (67) | (2,430) |
| Loss on devaluation of investment securities | 58 | 242 | 483 |
| Decrease (increase) in deposits segregated for customer | (6,100) | 8,560 | (50,761) |
| Decrease (increase) in trading assets and increase (decrease) in trading liabilities | 10,997 | 75,761 | 91,512 |
| Decrease (increase) in receivables on margin transactions and increase (decrease) in payables on margin transactions | 7,179 | (10,625) | 59,740 |
| Decrease (increase) in receivables on collateralized securities transactions and increase (decrease) in payables on collateralized securities transactions | 25,833 | (72,511) | 214,970 |
| Increase (decrease) in deposits received | 9,972 | (1,028) | 82,982 |
| Decrease (increase) in short-term guarantee deposits | 734 | 668 | 6,108 |
| Increase (decrease) in guarantee deposits received | 874 | 2,456 | 7,273 |
| Increase (decrease) in allowance for doubtful accounts | (215) | (524) | (1,789) |
| Increase (decrease) in liabilities for retirement benefits | 59 | (398) | 491 |
| Increase (decrease) in financial instruments transactions reserve | 292 | 650 | 2,430 |
| Other, net | 348 | 1,994 | 2,896 |
| Sub-total | 78,090 | 40,375 | 649,829 |
| Interest and dividend received | 3,229 | 3,473 | 26,870 |
| Interest paid | (1,318) | (1,508) | (10,968) |
| Income taxes paid | (15,726) | (7,024) | (130,864) |
| Net cash provided by operating activities | 64,275 | 35,316 | 534,867 |
| Cash flows from investing activities: | | | |
| Payment for short-term investments | (3,400) | (3,900) | (28,293) |
| Proceeds from sale of short-term investments | 4,500 | 5,800 | 37,447 |
| Payment for purchase of property and equipment | (1,039) | (3,034) | (8,646) |
| Payment for purchase of intangible assets | (2,636) | (4,626) | (21,936) |
| Payment for purchase of investment securities | (748) | (688) | (6,225) |
| Proceeds from sale of investment securities | 3,137 | 565 | 26,105 |
| Payment for investments in affiliates | (20) | - | (166) |
| Other, net | (600) | 1,140 | (4,993) |
| Net cash used in investing activities | (806) | (4,743) | (6,707) |

| | | | |
|--|-----------------|-----------------|-------------------|
| Cash flows from financing activities: | | | |
| Increase (decrease) in short-term borrowings | (55,110) | (18,832) | (458,600) |
| Proceeds from long-term borrowings | 6,000 | - | 49,929 |
| Payments on long-term borrowings | (4,270) | (1,502) | (35,533) |
| Proceeds from sale of treasury stock | 0 | 1 | 0 |
| Purchase of treasury stock | (29) | (65) | (241) |
| Dividends paid to shareholders | (4,874) | (3,901) | (40,559) |
| Dividends paid to minority shareholders of subsidiaries | (65) | (49) | (541) |
| Other, net | (550) | (652) | (4,577) |
| Net cash used in financing activities | <u>(58,898)</u> | <u>(25,000)</u> | <u>(490,122)</u> |
| Effect of exchange rate changes on cash and cash equivalents | 559 | 323 | 4,652 |
| Net increase (decrease) in cash and cash equivalents | <u>5,130</u> | <u>5,896</u> | <u>42,690</u> |
| Cash and cash equivalents, beginning of year | <u>45,436</u> | <u>39,540</u> | <u>378,097</u> |
| Cash and cash equivalents, end of year (note 21) | <u>¥ 50,566</u> | <u>¥ 45,436</u> | <u>\$ 420,787</u> |

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Okasan Securities Group Inc. and Consolidated Subsidiaries — Year ended March 31, 2015

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements include the accounts of Okasan Securities Group Inc. (the “Company”) and its subsidiaries.

The Company and its domestic subsidiaries maintain their books of account and prepare their financial statements in conformity with financial accounting standards of Japan, and its foreign subsidiary in conformity with those of the country of its domicile.

“Practical Solution on unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (ASBJ Practical Issues Task Force (PITF) No. 18, May 17, 2006) requires that for the preparation of consolidated financial statements, the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should be unified, in principle, and financial statements prepared by foreign subsidiaries in accordance with IFRSs or the generally accepted accounting principles in the United States (U.S. GAAP) tentatively may be used for the consolidation process, however, the items listed in the PITF should be adjusted in the consolidation process so that net income is accounted for in accordance with Japan GAAP unless they are not material. The Company made necessary modification to the consolidated financial statements according to the PITF.

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan and applicable to Japanese securities companies.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the financial statements issued domestically in Japan in order to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation – The consolidated financial statements include the accounts of the Company and its 10 subsidiaries. One affiliate is accounted for by equity method at March 31, 2015. The “Accounting Standards for Consolidation” require the control or influence concept for the consolidation scope of subsidiaries and affiliates. Under the control or influence concept, a company in which the Company or its consolidated subsidiaries, directly or indirectly, are able to exercise control over operations is fully consolidated, and a company over which the Company and/or its consolidated subsidiaries have the ability to exercise significant influence is accounted for by the equity method. Investments in affiliates are accounted for by the equity method.

All significant intercompany balances and transactions have been eliminated in consolidation.

b. Cash and cash equivalents – For the purposes of the statement of cash flows, the Company considers all highly liquid investments with insignificant risk of changes in value which have maturities of generally three months or less when purchased to be cash equivalents.

c. Trading assets and liabilities – Trading assets and liabilities, including securities and financial derivatives for trading purposes are recorded on a trade date basis at fair value. Revenues and

expenses related to trading securities transactions are recorded on a trade date basis. Changes in the fair values are reflected in “net gain on trading” in the accompanying consolidated statement of income. Gains and losses arose from derivatives held or issued for trading purposes are also reported as “net gain on trading” in the accompanying consolidated statement of income, which includes realized gains and losses as well as changes in the fair values of such instruments. Securities owned for non-trading purposes, shown in the accompanying consolidated balance sheet as “Short-term investments” and “Investment securities” are discussed below.

- d. *Securities*** – The Company examines the intent of holding securities for non-trading purposes, and classifies those securities as (a) debt securities intended to be held to maturity (“held-to-maturity debt securities”), (b) equity securities issued by an affiliated company and (c) all other securities not classified in any of the above categories (“available-for-sale securities”).

Held-to-maturity debt securities are stated at amortized cost. Available-for-sale securities with market value are stated at market, based on quoted market prices. Realized gains and losses on sale of such securities are computed using the gross-average cost. Unrealized gains or losses on such securities, net of related taxes, are recorded in other accumulated comprehensive income. Debt securities classified as “available-for-sale securities” for which fair value is not available are stated at the amortized cost. Equity securities classified as “available-for-sale securities” for which market value is not available are stated at the gross-average cost.

- e. *Hedging transactions*** – The Company states derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes. Valuation gains or losses on hedging instruments are mainly deferred as assets or liabilities until the gains or losses on underlying hedged instruments are realized. The Company and certain subsidiaries have entered into interest rate swap agreements for hedging interest rate exposures. The difference in amounts to be paid or received on interest rate swap agreements is recognized over the life of the agreement as an adjustment to interest expense.

- f. *Collateralized securities transactions*** – Collateralized securities transactions consist of securities borrowed and loaned transactions and Gensaki transactions. Securities borrowed transactions generally require the Company to provide the counterparty with collateral in the form of cash. And securities loaned transactions, the Company generally receives collateral in the form of cash. The Company monitors the market value of the securities borrowed or loaned and requires additional cash, as necessary, to ensure that such transactions are adequately collateralized. Under the “Uniform Accounting Standards of Securities Companies”, securities borrowed and loaned transactions are accounted for as financing transactions. Securities borrowed or loaned that are cash collateralized are recorded at the amount of cash collateral advanced or received. Gensaki transactions originate in the Japanese financial markets, and involve the selling (“Sell Gensaki”)/purchasing (“Buy Gensaki”) of commercial paper, certificates of deposit, Japanese government bonds and various other debt securities to/from an institution wishing to make a short-term investment, with the Company agreeing to repurchase/resell them from/to the institution on a specified date at a specified price. Under the “Accounting Standards for Financial Instruments”, Gensaki transactions are accounted for as financing transactions. Gensaki transactions are carried at their contractual amounts.

- g. *Allowance for doubtful accounts*** – Allowance for doubtful accounts of the Company and its domestic consolidated subsidiaries are provided on the estimated historical deterioration rate for normal accounts, and based on specifically assessed amounts for doubtful accounts. An overseas consolidated subsidiary provides specifically assessed amount for doubtful accounts.

- h. *Property and equipment*** – Property and equipment are stated at cost. Depreciation of property and equipment of the Company and its domestic consolidated subsidiaries is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings purchased in Japan after April 1, 1998. And in an overseas subsidiary, depreciation is computed by the straight-line method.

The range of useful lives is principally from 3 to 50 years for buildings and from 3 to 15 years for equipment.

i. Intangible assets – Intangible assets are carried at cost less amortization. Software for internal use is amortized under straight-line method based on internally estimated useful life (5 years). Amortization of other intangible assets is calculated by the straight-line method at rates based on the estimated useful lives of respective assets.

j. Retirement and severance benefits – Liabilities for retirement benefits are provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet dates, as adjusted for the unrecognized actuarial gain or loss and unrecognized prior service benefit or cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of services of the eligible employees. Actuarial gain or loss is amortized in the subsequent year that it occurs by the straight-line method within the average remaining years of service of the employees. Prior service benefit or cost is amortized beginning the year it is incurred by the straight-line method within the average remaining years of service of the employees.

The Company has applied ASBJ Statement No. 26 Accounting Standard for Retirement Benefits (released on March 26, 2015, hereinafter the “Standard”) and ASBJ Guidance No. 25 Guidance on Accounting Standard for Retirement Benefits (released on May 17, 2012, hereinafter the “Guidance”) effective from the year ended March 31, 2015, in accordance with the provisions stated in Paragraph 35 of the Standard and Paragraph 67 of the Guidance.

In applying these accounting standards, the method for attributing projected benefits to periods has been changed from the straight-line basis to the benefit formula basis, and the method for determining the discount rate has been changed to use a single weighted-average discount rate that reflects the periods until the expected payment of retirement benefits and the amount of projected benefits every such period.

According to the transitional treatment provided in Paragraph 37 of the Standard, the effect of changing the method for calculating retirement benefit obligations and service costs was recognized by adjusting retained earnings at the beginning of the year ended March 31, 2015.

As a result, liabilities for retirement benefits decreased ¥28 million (\$233 thousand) and retained earnings increased ¥18 million (\$150 thousand) at the beginning of the year ended March 31, 2015. The effect of this change on consolidated operating income and income before income taxes and minority interests for the year ended March 31, 2015 is immaterial. As of and for the year ended March 31, 2015, the effect of this change on net income per share and net assets per share is immaterial.

The Company and its domestic consolidated subsidiaries have unfunded defined benefit pension plans for directors and corporate auditors. The provision for the plans has been made in the accompanying consolidated financial statements for vested benefits to which directors and corporate auditors are entitled if they were to retire and sever immediately at the balance sheet date.

k. Leases – Leased assets related to finance lease transactions without title transfer are depreciated on a straight-line basis, with the lease periods as their useful lives and no residual value. Regarding finance leases transactions without title transfer for which the starting date for the lease transactions is prior to March 31, 2008, the Company and its domestic consolidated subsidiaries have continued recognize lease payments as expenses.

l. Income taxes – Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporate tax, inhabitant tax and business tax.

The “Accounting Standards for Income Taxes” require that deferred income taxes be accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included on the financial statements or tax return. Under this method, deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary difference are expected to be recovered or settled, and the effect on deferred tax assets and liabilities of a change in tax rates is recognized in

income in the period that includes the enactment date.
The Company has filed consolidated tax returns in Japan.

- m. Foreign currency transactions* – Under the “Accounting Standards for Foreign Currency Transactions,” receivables and payables denominated in foreign currencies are translated into yen at the rate of exchange at the balance sheet dates and gains or losses resulting from the translation of foreign currencies are credited or charged to income. Assets and liabilities, and revenues and expenses of an overseas subsidiary are translated into yen at the rate of exchange at the balance sheet dates, a comprehensive adjustment resulting from translation is presented as “Foreign currency translation adjustments” in a component of net assets.
- n. Asset retirement obligations* – The Company recognizes an asset retirement obligation which is a statutory or similar obligation with regard to the removal of assets as a liability. An asset retirement obligation is recognized as a liability at the time that the asset is incurred by its acquisition, construction, development or ordinary use. When an asset retirement obligation is recognized as a liability, the asset retirement cost corresponding to it is included in the cost of the relevant asset by the same amount.
- o. Reclassifications* – Certain reclassifications have been made to the prior years’ consolidated financial statements to conform to the presentation used in consolidated statements as of and for the year ended March 31, 2015.
- p. New accounting pronouncements not yet adopted* – “Accounting Standard for Business Combinations” (ASBJ Statement No. 21), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22), “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7) and other related standards and implementation guidance were revised on September 13, 2013. The Company is scheduled to apply these accounting standards from the beginning of the year ending March 31, 2016.

In accordance with these revisions, the following accounting policies of the Company will be changed.

- the treatment of the parent company’s changes in equity of its subsidiary while the parent company’s control is continuing because of additional acquisition of shares of the subsidiary
- the treatment of acquisition-related expenses
- the presentation of net income and the change from minority interests to non-controlling interests
- the treatment of provisional accounting

The effect of adoption of these revised accounting standards is now under assessment at the time of preparation of the accompanying consolidated financial statements.

3. BASIS OF FINANCIAL STATEMENT TRANSLATION

The translations of the yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2015, which was ¥120.17 to U.S. \$1. The convenience translations should not be construed as representations that the yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

4. TRADING ASSETS AND LIABILITIES

Trading assets and trading liabilities at March 31, 2015 and 2014 consist of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------------------------|------------------|------------------|------------------------------|
| | 2015 | 2014 | 2015 |
| Trading assets: | | | |
| Equity securities and warrants | ¥ 1,943 | ¥ 1,946 | \$ 16,169 |
| Government, corporate and other bonds | 214,319 | 212,022 | 1,783,465 |
| Derivatives | 76 | 19 | 632 |
| | <u>¥ 216,338</u> | <u>¥ 213,987</u> | <u>\$ 1,800,266</u> |
| Trading liabilities: | | | |
| Equity securities and warrants | ¥ 819 | ¥ 690 | \$ 6,815 |
| Government, corporate and other bonds | 144,284 | 143,946 | 1,200,666 |
| Derivatives | 3 | 52 | 25 |
| | <u>¥ 145,106</u> | <u>¥ 144,688</u> | <u>\$ 1,207,506</u> |

5. MARGIN TRANSACTIONS

Margin transactions at March 31, 2015 and 2014 consist of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|-----------------|------------------------------|
| | 2015 | 2014 | 2015 |
| Assets: | | | |
| Loans receivable from customers | ¥ 54,678 | ¥ 58,968 | \$ 455,005 |
| Cash deposits as collateral for securities borrowed from securities finance companies | 3,595 | 2,636 | 29,916 |
| | <u>¥ 58,273</u> | <u>¥ 61,604</u> | <u>\$ 484,921</u> |
| Liabilities: | | | |
| Borrowings from securities finance companies | ¥ 10,531 | ¥ 9,314 | \$ 87,634 |
| Proceeds from securities sold for customers' accounts | 8,211 | 5,640 | 68,328 |
| | <u>¥ 18,742</u> | <u>¥ 14,954</u> | <u>\$ 155,962</u> |

Loans receivable from customers are stated at amounts equal to the purchase price of the relevant securities, which are collateralized by customers' securities and customers' deposits in the form of cash or securities. Proceeds from securities sold for customers' accounts are stated at the sales prices of the relevant securities on the respective transaction dates.

6. COLLATERALIZED SECURITIES TRANSACTIONS

Collateralized securities transactions at March 31, 2015 and 2014 consist of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|-----------|------------------------------|
| | 2015 | 2014 | 2015 |
| Assets: | | | |
| Cash collateral for securities borrowed | ¥ 169,980 | ¥ 150,379 | \$ 1,414,496 |
| Liabilities: | | | |
| Cash collateral for securities loaned | ¥ 69,695 | ¥ 24,262 | \$ 579,970 |

7. SECURITIES FOR NON-TRADING PURPOSES

Balance sheet amount, fair value, gross unrealized gain and gross unrealized loss of held-to-maturity debt securities with fair value at March 31, 2015 are summarized as follows:

| | Millions of yen | | | |
|---------------------------------------|---------------------------|-----------------------|-----------------------|------------|
| | Balance sheet amount | Gross unrealized gain | Gross unrealized loss | Fair value |
| Government, corporate and other bonds | ¥ 54 | ¥ - | ¥ 6 | ¥ 48 |
| | Thousands of U.S. dollars | | | |
| | Balance sheet amount | Gross unrealized gain | Gross unrealized loss | Fair value |
| Government, corporate and other bonds | \$ 449 | \$ - | \$ 50 | \$ 399 |

Acquisition cost, balance sheet amount, gross unrealized gain and gross unrealized loss of available-for-sale securities with fair value at March 31, 2015 and 2014 are summarized as follows:

| | Millions of yen | | | |
|---------------------------------------|------------------|-----------------------|-----------------------|----------------------|
| | Acquisition cost | Gross unrealized gain | Gross unrealized loss | Balance sheet amount |
| At March 31, 2015 | | | | |
| Current: | | | | |
| Government, corporate and other bonds | ¥ 300 | ¥ 3 | ¥ - | ¥ 303 |
| Other | 143 | 57 | - | 200 |
| | ¥ 443 | ¥ 60 | ¥ - | ¥ 503 |
| Non-current: | | | | |
| Equity securities | ¥ 12,604 | ¥ 27,067 | ¥ (16) | ¥ 39,655 |
| Government, corporate and other bonds | - | - | - | - |
| Other | 745 | 98 | (34) | 809 |
| | ¥ 13,349 | ¥ 27,165 | ¥ (50) | ¥ 40,464 |
| At March 31, 2014 | | | | |
| Current: | | | | |
| Government, corporate and other bonds | ¥ 1,100 | ¥ 0 | ¥ (0) | ¥ 1,100 |
| Other | - | - | - | - |
| | ¥ 1,100 | ¥ 0 | ¥ (0) | ¥ 1,100 |
| Non-current: | | | | |
| Equity securities | ¥ 12,513 | ¥ 18,374 | ¥ (225) | ¥ 30,662 |
| Government, corporate and other bonds | 322 | 8 | - | 330 |
| Other | 1,140 | 59 | (62) | 1,137 |
| | ¥ 13,975 | ¥ 18,441 | ¥ (287) | ¥ 32,129 |

| Thousands of U.S. dollars | | | | |
|---------------------------------------|---------------------|-----------------------------|-----------------------------|-------------------------|
| | Acquisition cost | Gross unrealized gain | Gross unrealized loss | Balance sheet amount |
| At March 31, 2015 | | | | |
| Current: | | | | |
| Government, corporate and other bonds | \$ 2,497 | \$ 25 | \$ - | \$ 2,522 |
| Other | 1,190 | 474 | - | 1,664 |
| | <u>\$ 3,687</u> | <u>\$ 499</u> | <u>\$ -</u> | <u>\$ 4,186</u> |
| Non-current: | | | | |
| Equity securities | \$ 104,885 | \$ 225,239 | \$ (133) | \$ 329,991 |
| Government, corporate and other bonds | - | - | - | - |
| Other | 6,200 | 815 | (283) | 6,732 |
| | <u>\$ 111,085</u> | <u>\$ 226,054</u> | <u>\$ (416)</u> | <u>\$ 336,723</u> |

Securities classified as available-for-sale securities for which fair value is not available are unlisted equity securities amounting to ¥1,523 million (\$12,674 thousand) and ¥3,544 million, and investments in limited partnership and similar partnership amounting to ¥18 million (\$150 thousand) and ¥30 million at March 31, 2015 and 2014, respectively.

For the years ended March 31, 2015 and 2014, proceeds from sales of available-for-sale securities, gross realized gains and gross realized losses are as follows:

| Millions of yen | | | | |
|---------------------------------------|---|-------------------------|--------------------------|--|
| | Proceeds from sales of available-for-sale securities | Gross realized gains | Gross realized losses | |
| March 31, 2015 | | | | |
| Equity securities | ¥ 2,617 | ¥ 299 | ¥ (41) | |
| Government, corporate and other bonds | 4,500 | - | - | |
| Other | 520 | 51 | (17) | |
| | <u>¥ 7,637</u> | <u>¥ 350</u> | <u>¥ (58)</u> | |
| March 31, 2014 | | | | |
| Equity securities | ¥ 126 | ¥ 51 | ¥ (0) | |
| Government, corporate and other bonds | 5,800 | - | - | |
| Other | 439 | 63 | (47) | |
| | <u>¥ 6,365</u> | <u>¥ 114</u> | <u>¥ (47)</u> | |

| Thousands of U.S. dollars | | | | |
|---------------------------------------|---|-------------------------|--------------------------|--|
| | Proceeds from sales of available-for-sale securities | Gross realized gains | Gross realized losses | |
| March 31, 2015 | | | | |
| Equity securities | \$ 21,778 | \$ 2,488 | \$ (341) | |
| Government, corporate and other bonds | 37,447 | - | - | |
| Other | 4,327 | 425 | (142) | |
| | <u>\$ 63,552</u> | <u>\$ 2,913</u> | <u>\$ (483)</u> | |

8. INVESTMENTS IN AN AFFILIATE

The aggregate carrying amount of investments in affiliates at March 31, 2015 and 2014 are ¥57 million (\$474 thousand) and ¥47 million, respectively.

9. BORROWINGS

The weighted-average interest rates applicable to the short-term borrowings are 0.68% and 0.50% at March 31, 2015 and 2014, respectively.

Long-term borrowings at March 31, 2015 and 2014 consist of the following:

| | Millions of yen | | Thousands of |
|---|-----------------|----------------|------------------|
| | 2015 | 2014 | U.S. dollars |
| | | | 2015 |
| Borrowings, maturing in installments through 2020; bearing weighted average interest of 2.53% at March 31, 2015 | ¥ 15,465 | ¥ - | \$ 128,692 |
| Borrowings, maturing in installments through 2017; bearing weighted average interest of 2.36% at March 31, 2014 | - | 13,735 | - |
| Less current installments | 6,255 | 5,320 | 52,051 |
| | <u>¥ 9,210</u> | <u>¥ 8,415</u> | <u>\$ 76,641</u> |

Lease liabilities at March 31, 2015 and 2014 consist of the following:

| | Millions of yen | | Thousands of |
|---|-----------------|----------------|-----------------|
| | 2015 | 2014 | U.S. dollars |
| | | | 2015 |
| Lease liabilities maturing in installments through 2021; bearing weighted average interest of 3.16% at March 31, 2015 | ¥ 1,552 | ¥ - | \$ 12,915 |
| Lease liabilities maturing in installments through 2021; bearing weighted average interest of 3.17% at March 31, 2014 | - | 1,988 | - |
| Less current installments | 531 | 547 | 4,419 |
| | <u>¥ 1,021</u> | <u>¥ 1,441</u> | <u>\$ 8,496</u> |

- (1) Current installments of long-term borrowings are included in short-term borrowings in the accompanying balance sheet.
- (2) Long-term borrowings included subordinated borrowings provided in Article 176 of the “Cabinet Office Ordinance Concerning Financial Instruments Business” (the Prime Minister’s Office Ordinance No. 52, 2007) as follows:

| | Millions of Yen | | Thousands of |
|--|-----------------|---------|--------------|
| | 2015 | 2014 | U.S. dollars |
| Long-term borrowings | ¥ 6,000 | ¥ 2,775 | \$ 49,929 |
| Current installments of long-term borrowings | 2,775 | 3,950 | 23,092 |

Annual maturities of borrowings after March 31, 2016, are as follows:

| Year ending March 31 | Millions of | | Thousands of |
|----------------------|-------------|-------|--------------|
| | yen | | U.S. dollars |
| 2017 | ¥ 1,000 | | \$ 8,322 |
| 2018 | | 2,210 | 18,391 |
| 2019 | | 2,000 | 16,643 |
| 2020 | | 4,000 | 33,286 |

Annual maturities of lease liabilities after March 31, 2016, are as follows:

| Year ending March 31 | Millions of | | Thousands of |
|----------------------|-------------|-----|--------------|
| | yen | | U.S. dollars |
| 2017 | ¥ 472 | | \$ 3,928 |
| 2018 | | 356 | 2,962 |
| 2019 | | 168 | 1,398 |
| 2020 | | 19 | 158 |

To meet its liquidity needs stably and expeditiously and to strengthen financial operations, the Company established a commitment line of ¥21,000 million (\$174,752 thousand) with 7 financial institutions at both March 31, 2015 and 2014, respectively.

As is customary in Japan, both short-term and long-term bank borrowings are made under general agreements which provide that security and guarantees for present and future indebtedness will be given upon request of the bank, and that the bank shall have the right to offset cash deposits against obligations that have become due or, in the event of default, against all obligations due the bank.

10. PLEDGED ASSETS

At March 31, 2015 and 2014, the carrying value of assets pledged is as follows:

| | Millions of Yen | | Thousands of U.S. dollars |
|------------------------|-----------------|----------|------------------------------|
| | 2015 | 2014 | 2015 |
| Cash in banks | ¥ 2,214 | ¥ 2,115 | \$ 18,424 |
| Trading assets | 7,049 | 52,779 | 58,659 |
| Property and equipment | 7,911 | 8,060 | 65,832 |
| Investment securities | 23,939 | 19,709 | 199,209 |
| | ¥ 41,113 | ¥ 82,663 | \$ 342,124 |

Assets in the above table are pledged for the following liabilities:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|----------|------------------------------|
| | 2015 | 2014 | 2015 |
| Short-term borrowings | ¥ 19,431 | ¥ 61,409 | \$ 161,696 |
| Borrowings from securities finance companies | 4,772 | 1,802 | 39,710 |
| Long-term borrowings | 3,210 | 5,640 | 26,712 |
| | ¥ 27,413 | ¥ 68,851 | \$ 228,118 |

In addition to above, at March 31, 2015, trading assets, etc. amounting to ¥70,834 million (\$589,448 thousand) and investments securities amounting to ¥204 million (\$1,698 thousand) are deposited as guarantee for settlement of trading accounts and securities borrowed, respectively. At March 31, 2014, trading assets, etc. amounting to ¥65,015 million and investments securities amounting to ¥45 million are deposited as guarantee for settlement of trading accounts and securities borrowed, respectively.

The fair value of the securities pledged as collateral at March 31, 2015 and 2014, except for those disclosed in the above table, are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|----------|------------------------------|
| | 2015 | 2014 | 2015 |
| Securities loaned on margin transactions | ¥ 8,627 | ¥ 5,945 | \$ 71,790 |
| Securities pledged for borrowings on margin transactions | 10,634 | 9,773 | 88,492 |
| Securities loaned | 69,509 | 24,246 | 578,422 |
| Other | 31,828 | 24,504 | 264,858 |
| | ¥ 120,598 | ¥ 64,468 | \$ 1,003,562 |

The fair value of the securities received as collateral at March 31, 2015 and 2014 are as follows:

| | Millions of Yen | | Thousands of U.S. dollars |
|--|-----------------|-----------|------------------------------|
| | 2015 | 2014 | 2015 |
| Securities received on margin transactions | ¥ 52,533 | ¥ 52,732 | \$ 437,156 |
| Securities borrowed | 174,377 | 155,112 | 1,451,086 |
| Securities pledged as collateral | 59,878 | 58,018 | 498,277 |
| Other | 4,276 | 3,536 | 35,583 |
| | ¥ 291,064 | ¥ 269,398 | \$ 2,422,102 |

11. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese corporate, inhabitant and business taxes based on income.

Following the promulgation of the law “Partial Amendment of the Income Tax Act, etc.” (Act No.9 of 2015) and “Partial Amendment of the Local Tax Act, etc.” (Act No.2 of 2015) on March 31, 2015, the effective statutory tax rate is to be lowered from the year beginning on or after April 1, 2015.

As a result of the change in tax rates, the amount of deferred tax assets (the amount after offsetting deferred tax liabilities) decreased by ¥488 million (\$4,061 thousand) and income taxes-deferred for the current year increased by ¥401 million (\$3,337 thousand), unrealized gain on available-for-sale securities increased by ¥859 million (\$7,148 thousand) and remeasurements of defined benefit plans increased by ¥31 million (\$258 thousand).

And deferred tax liabilities on land revaluation excess decreased by ¥88 million (\$732 thousand) and surplus on land revaluation increased by the same amount.

In addition, due to the revision of the carry-forward system of the net operating losses, the amount of net operating losses that can be deducted has been limited to the equivalent of 65% of taxable income before such deductions from the year beginning on April 1, 2015 through the year beginning on April 1, 2016, while the amount of net operating losses that can be deducted has been limited to the equivalent of 50% of taxable income before such deductions on or after the year beginning on April 1, 2017. As a result of the revision, the amount of deferred tax assets decreased by ¥96 million (\$799 thousand) and income taxes-deferred for the current year increased by ¥96 million (\$799 thousand).

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and deferred tax liabilities at March 31, 2015 and 2014 are as follows:

| | Millions of yen | | Thousands of |
|--|-----------------|-----------|--------------|
| | 2015 | 2014 | U.S. dollars |
| | | | 2015 |
| Deferred tax assets: | | | |
| Tax loss carryforwards | ¥ 3,304 | ¥ 4,237 | \$ 27,494 |
| Liabilities for retirement benefits (employees) | 1,415 | 1,843 | 11,775 |
| Financial instruments transactions reserve | 845 | 827 | 7,032 |
| Accrued bonuses | 785 | 772 | 6,532 |
| Liabilities for retirement benefits (directors and corporate auditors) | 765 | 511 | 6,366 |
| Allowance for doubtful accounts | 506 | 606 | 4,211 |
| Impairment loss | 362 | 389 | 3,012 |
| Accrued business tax | 299 | 714 | 2,488 |
| Asset retirement obligations | 279 | 354 | 2,322 |
| Loss on devaluation of investment securities | 241 | 300 | 2,006 |
| Depreciation and amortization | 186 | 164 | 1,548 |
| Loss on devaluation of golf memberships | 114 | 135 | 949 |
| Other | 545 | 477 | 4,535 |
| | 9,646 | 11,329 | 80,270 |
| Valuation allowance | (5,487) | (6,418) | (45,661) |
| Total | 4,159 | 4,911 | 34,609 |
| Deferred tax liabilities: | | | |
| Unrealized gain on available-for-sale securities | (8,694) | (6,390) | (72,348) |
| Land revaluation excess | (1,503) | (1,605) | (12,507) |
| Other | (262) | (254) | (2,180) |
| Total | (10,459) | (8,249) | (87,035) |
| Net deferred tax liabilities | ¥ (6,300) | ¥ (3,338) | \$ (52,426) |

Net deferred tax assets at March 31, 2015 and 2014 are reflected in the accompanying consolidated balance sheet under the following captions:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|-----------|------------------------------|
| | 2015 | 2014 | 2015 |
| Current assets – Deferred income taxes | ¥ 1,377 | ¥ 1,754 | \$ 11,459 |
| Investments and other assets – Deferred income taxes | 1,445 | 1,839 | 12,025 |
| Current liabilities – Deferred income taxes | (33) | - | (275) |
| Non-current liabilities – Deferred income taxes | (9,089) | (6,931) | (75,635) |
| | ¥ (6,300) | ¥ (3,338) | \$ (52,426) |

A reconciliation of the statutory tax rate and the effective tax rate as a percentage of income before income taxes and minority interests for the year ended March 31, 2015 is as follows:

| | 2015 |
|--|-------|
| Statutory tax rate | 35.5% |
| Expenses not deductible for tax purposes | 0.6 |
| Income not credited for tax purposes | (0.3) |
| Per capita tax | 0.3 |
| Valuation allowance | (1.0) |
| Adjustments of deferred tax assets due to change in tax rate | 1.6 |
| Expiration of tax loss carryforwards | 2.4 |
| Tax credits for salary increase | (2.0) |
| Other | 0.8 |
| Effective tax rate | 37.9% |

The reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2014 was not subject to disclosure because the difference between the rates does not exceed 5% of the statutory tax rate.

12. RETIREMENT AND PENSION PLANS

The Company and its domestic consolidated subsidiaries have a defined contribution retirement and pension plan (Securities Omnibus DC Okasan Plan), a corporate defined benefit pension plan and an unfunded retirement and severance plan that provide for lump-sum payment of benefits.

Defined benefit plans

Followings are the information of defined benefit plans at March 31, 2015 and 2014 and for the years then ended.

(1) Reconciliation of changes in retirement benefit obligation

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|----------|------------------------------|
| | 2015 | 2014 | 2015 |
| Retirement benefit obligation at beginning of year | ¥ 13,594 | ¥ 13,539 | \$ 113,123 |
| Cumulative effects of changes in accounting policies | (28) | - | (233) |
| Restated balance at beginning of year | 13,566 | 13,539 | 112,890 |
| Service cost | 633 | 654 | 5,268 |
| Interest cost | 83 | 126 | 691 |
| Actuarial gain and loss | 333 | 20 | 2,771 |
| Benefits paid | (885) | (745) | (7,365) |
| Retirement benefit obligation at end of year | ¥ 13,730 | ¥ 13,594 | \$ 114,255 |

Note: 1. Certain consolidated subsidiaries adopt the simplified method for calculation of retirement benefit obligation

2. Retirement benefit expenses of the consolidated subsidiaries adopted the simplified method are included in above service cost.

(2) Reconciliation of changes in plan assets

| | Millions of yen | | Thousands of |
|----------------------------------|-----------------|---------|--------------|
| | 2015 | 2014 | U.S. dollars |
| Plan assets at beginning of year | ¥ 8,404 | ¥ 7,676 | \$ 69,934 |
| Expected return on plan assets | 40 | 36 | 333 |
| Actuarial gain and loss | 897 | 527 | 7,464 |
| Employer contributions | 564 | 553 | 4,693 |
| Benefits paid | (502) | (388) | (4,177) |
| Plan assets at end of year | ¥ 9,403 | ¥ 8,404 | \$ 78,247 |

(3) Reconciliation between net of retirement benefit obligation and plan assets, and liability or asset for retirement benefits recognized in consolidated balance sheet

| | Millions of yen | | Thousands of |
|---|-----------------|---------|--------------|
| | 2015 | 2014 | U.S. dollars |
| Funded retirement benefit obligation | ¥ 8,409 | ¥ 8,444 | \$ 69,976 |
| Plan assets | (9,403) | (8,404) | (78,248) |
| | (994) | 40 | (8,272) |
| Unfunded retirement benefit obligation | 5,321 | 5,150 | 44,279 |
| Net of liabilities and assets for retirement benefits | ¥ 4,327 | ¥ 5,190 | \$ 36,007 |
| Liabilities for retirement benefits | ¥ 5,321 | ¥ 5,190 | \$ 44,279 |
| Assets for retirement benefits | 994 | - | 8,272 |
| Net of liabilities and assets for retirement benefits | ¥ 4,327 | ¥ 5,190 | \$ 36,007 |

(4) The components of retirement benefit expenses

| | Millions of yen | | Thousands of |
|---------------------------------------|-----------------|-------|--------------|
| | 2015 | 2014 | U.S. dollars |
| Service cost | ¥ 633 | ¥ 654 | \$ 5,268 |
| Interest cost | 82 | 126 | 682 |
| Expected return on plan assets | (40) | (37) | (333) |
| Amortization of actuarial loss (gain) | (124) | 173 | (1,032) |
| Retirement benefit expenses | ¥ 551 | ¥ 916 | \$ 4,585 |

(5) Remeasurements of retirement benefit plans before related tax effects

| | Millions of yen | | Thousands of |
|----------------|-----------------|------|--------------|
| | 2015 | 2014 | U.S. dollars |
| Actuarial loss | ¥ 440 | ¥ - | \$ 3,661 |

(6) Accumulated remeasurements of retirement benefit plans before related tax effects

| | Millions of yen | | Thousands of |
|-----------------------------|-----------------|-------|--------------|
| | 2015 | 2014 | U.S. dollars |
| Unrecognized actuarial loss | ¥ 961 | ¥ 521 | \$ 7,997 |

(7) Plan assets

(a) Percentage by major category of plan assets

| | 2015 | 2014 |
|-------------------|------|------|
| Equity securities | 42% | 40% |
| General account | 34 | 37 |
| Debt securities | 21 | 20 |
| Other | 3 | 3 |
| Total | 100% | 100% |

(b) Determination procedure of long-term expected rate of return

In determining long-term expected rate of return on plan assets, the Company considers the current portfolio of plans assets, actual performance result, investment policy and market trend.

(8) Basis for calculation of actuarial assumptions

The assumptions used in accounting for the above plans at March 31, 2015 and 2014 are as follows:

| | 2015 | 2014 |
|---------------------------------------|-------|-------|
| (a) Discount rate | 0.41% | 0.64% |
| (b) Long-term expected rate of return | 0.50% | 0.50% |

Defined contribution plans

The amount to be paid by the Company and consolidated subsidiaries to the defined contribution plans is ¥192 million (\$1,598 thousand) and ¥190 million for the years ended March 31, 2015 and 2014, respectively.

Retirement benefits for directors and corporate auditors

Directors and corporate auditors are not covered by the plans described above. For such persons, the Company and certain consolidated subsidiaries have unfunded defined benefit pension plans. Under the plans, directors and corporate auditors are entitled to lump-sum payments based on the current rate of pay and length of service when they leave the Company. The Company and certain domestic consolidated subsidiaries provide for the amount of vested benefits to which directors and corporate auditors are entitled if they were to retire or sever immediately at the balance sheet date. For the year ended March 31, 2015, the Company decided to pay a merit bonus of ¥1,000 million (\$8,322 thousand) for Mr. Seiichi Kato, Director subject to the approval by the Shareholders' Meeting because he made a great contribution in developing the Company's business for a long time, and charged to income as other expense. The liabilities for retirement and severance benefits related to these plans is ¥2,334 million (\$19,422 thousand) and ¥1,440 million at March 31, 2015 and 2014, respectively.

13. ASSET RETIREMENT OBLIGATIONS

The asset retirement obligation is based on estimated future restoration liabilities related to leasehold contracts of branch offices and so on.

The obligation is calculated based on the estimated period of use of 1 to 58 years and discounted rate of 0.034% to 2.33%.

The following table provides the Company's total asset retirement obligation for the years ended March 31, 2015 and 2014:

| | Millions of yen | | Thousands of |
|---|-----------------|-------|--------------|
| | 2015 | 2014 | U.S. dollars |
| Balance, beginning of year | ¥ 633 | ¥ 600 | \$ 5,267 |
| Liabilities incurred by asset acquisition | 112 | 108 | 932 |
| Accretion expenses | 12 | 12 | 100 |
| Liabilities settled | (66) | (101) | (549) |
| Other increase (decrease) | 9 | 14 | 75 |
| Balance, end of year | ¥ 700 | ¥ 633 | \$ 5,825 |

14. FINANCIAL INSTRUMENTS TRANSACTIONS RESERVE

The Financial Instruments and Exchange Law of Japan requires a securities company to set aside a reserve in proportion to its securities and other related trading or derivative transactions to cover possible customer losses incurred by default of the securities company on securities or derivative transactions. Financial instruments transactions reserve is calculated based on Article 46-5, Paragraph 1 of the Financial Instruments and Exchange Law.

15. SHAREHOLDERS' EQUITY

The Companies Act provides that an amount equal to 10% of distributions from retained earnings paid by the Company and its Japanese subsidiaries be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus). No further appropriations are required when the total amount of the additional paid-in capital and the legal reserve equals 25% of their respective stated capital. The Companies Act also provides that additional paid-in capital and legal reserve are available for appropriations by the resolution of the shareholders. Balances of the legal reserve are included in retained earnings in the accompanying consolidated balance sheet.

Cash dividends and appropriations to the legal reserve charged to retained earnings for the years ended March 31, 2015 and 2014 represent dividends paid out during those years and the related appropriations to the legal reserve. The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Companies Act.

Dividends paid during the year ended March 31, 2014 which was approved by the General Meeting of Shareholders held on June 27, 2013 are as follows:

| | |
|-------------------------------------|----------------|
| (a) Total dividends | ¥3,901 million |
| (b) Cash dividends per common share | ¥20 |
| (c) Record date | March 31, 2013 |
| (d) Effective date | June 28, 2013 |

Cash dividends for treasury stock held by subsidiaries of ¥98 million were excluded from the above table.

Dividends paid during the year ended March 31, 2015 which was approved by the General Meeting of Shareholders held on June 27, 2014 are as follows:

| | |
|-------------------------------------|------------------------------------|
| (a) Total dividends | ¥4,874 million (\$40,559 thousand) |
| (b) Cash dividends per common share | ¥25 (\$0.20) |
| (c) Record date | March 31, 2014 |
| (d) Effective date | June 30, 2014 |

Cash dividends for treasury stock held by subsidiaries of ¥122 million (\$1,015 thousand) were excluded from the above table.

Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2015 which was approved by the General Meeting of Shareholders held on June 26, 2015 are as follows:

| | |
|-------------------------------------|------------------------------------|
| (a) Total dividends | ¥4,996 million (\$41,574 thousand) |
| (b) Dividend source | Retained earnings |
| (c) Cash dividends per common share | ¥25 (\$0.20) |
| (d) Record date | March 31, 2015 |
| (e) Effective date | June 29, 2015 |

16. SURPLUS ON LAND REVALUATION

At March 31, 2002, a consolidated subsidiary revaluated its own land for business activities in accordance with the "Law Concerning Land Revaluation" (the "Law") effective March 31, 1998. The net unrealized gain, net of related taxes and minority interests, are reported as "Surplus on land revaluation" in a component of net assets and the related deferred tax liabilities are included in non-current deferred income taxes.

Fair values of the land are determined based on the values specified in Article 2-1, 2-3 and 2-5 of the Enforcement Ordinance of the Law concerning Land Revaluation.

The value of the land at March 31, 2015 decreased by ¥883 million (\$7,348 thousand) in comparison with the book value of the land after the revaluation.

17. CAPITAL ADEQUACY REQUIREMENTS

In Japan, securities companies are subjected to risk-based capital adequacy rules established and administered by the Financial Services Agency. Securities subsidiaries report their capital adequacy ratio as defined pursuant to these rules. The authorities will take certain administrative measures if such ratio declines below 140%. Capital adequacy ratios of Okasan Securities Co., Ltd. are 467.3% and 394.8% at March 31, 2015 and 2014, respectively.

18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major elements of selling, general and administrative expenses for the years ended March 31, 2015 and 2014 are summarized as follows:

| | Millions of yen | | Thousands of |
|--------------------------------------|-----------------|----------|--------------|
| | 2015 | 2014 | U.S. dollars |
| Commissions and brokerage | ¥ 13,518 | ¥ 13,327 | \$ 112,491 |
| Employees' compensation and benefits | 34,440 | 34,840 | 286,594 |
| Occupancy and rental | 6,159 | 6,154 | 51,252 |
| Data processing and office supplies | 5,083 | 4,951 | 42,298 |
| Depreciation and amortization | 4,042 | 4,044 | 33,636 |
| Taxes other than income taxes | 754 | 727 | 6,274 |
| Provision for doubtful accounts | (7) | (1) | (58) |
| Other | 3,119 | 3,217 | 25,955 |
| | ¥ 67,108 | ¥ 67,259 | \$ 558,442 |

19. OTHER COMPREHENSIVE INCOME

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive income for the years ended March 31, 2015 and 2014 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|---------|------------------------------|
| | 2015 | 2014 | 2015 |
| Net unrealized holding gain on other securities: | | | |
| Arising during the year | ¥ 9,297 | ¥ 5,164 | \$ 77,366 |
| Reclassification adjustment | (276) | 185 | (2,297) |
| Before tax amount | 9,021 | 5,349 | 75,069 |
| Tax benefit (expense) | (2,300) | (1,909) | (19,140) |
| Net-of-tax amount | 6,721 | 3,440 | 55,929 |
| Surplus on land revaluation: | | | |
| Tax benefit (expense) | 88 | - | 732 |
| Foreign currency translation adjustments: | | | |
| Arising during the year | 574 | 298 | 4,777 |
| Remeasurements of defined benefit plans | | | |
| Arising during the year | 564 | - | 4,693 |
| Reclassification adjustment | (124) | - | (1,032) |
| Before tax amount | 440 | - | 3,661 |
| Tax benefit (expense) | (126) | - | (1,048) |
| Net-of-tax amount | 314 | - | 2,613 |
| Total other comprehensive income | ¥ 7,697 | ¥ 3,738 | \$ 64,051 |

20. PER SHARE INFORMATION

(a) Net Income per Share

Basic net income per share, and reconciliation of the numbers and the amounts used in the basic net income per share computations for the years ended March 31, 2015 and 2014 are as follows:

| | Yen | | U.S. dollars |
|----------------------------|---------|---------|--------------|
| | 2015 | 2014 | 2015 |
| Basic net income per share | ¥ 71.20 | ¥ 87.24 | \$ 0.59 |

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|----------|------------------------------|
| | 2015 | 2014 | 2015 |
| Net income | ¥ 14,100 | ¥ 17,279 | \$ 117,334 |
| Net income not applicable to common shareholders | - | - | - |
| Net income applicable to common shareholders | ¥ 14,100 | ¥ 17,279 | \$ 117,334 |

| | Number of shares (Thousand) | |
|--|--------------------------------|---------|
| | 2015 | 2014 |
| Weighted average number of shares outstanding on which basic net income per share is calculated | 198,021 | 198,058 |

(b) Net Assets per Share

Net assets per share, and reconciliation of the numbers and the amounts used in the net assets per share computations at March 31, 2015 and 2014 are as follows:

| | Yen | | U.S. dollars |
|---|--------------------------------|-----------|---------------------------|
| | 2015 | 2014 | 2015 |
| Net assets per share | ¥ 728.26 | ¥ 650.24 | \$ 6.06 |
| | Millions of yen | | Thousands of U.S. dollars |
| | 2015 | 2014 | 2015 |
| Total net assets | ¥ 171,411 | ¥ 152,840 | \$ 1,426,404 |
| Amount deducted from total net assets: | | | |
| Minority interests | 27,213 | 24,069 | 226,454 |
| Net assets applicable to common stockholders | ¥ 144,198 | ¥ 128,771 | \$ 1,199,950 |
| | Number of shares (Thousand) | | |
| | 2015 | 2014 | |
| Number of shares outstanding at the end of year on which net assets per share is calculated | 198,004 | 198,036 | |

21. SUPPLEMENTARY CASH FLOW INFORMATION

Reconciliation between “Cash on hand and in banks” in the accompanying consolidated balance sheet and “Cash and cash equivalents” in the accompanying consolidated statement of cash flows at March 31, 2015 and 2014 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|---------------------------|
| | 2015 | 2014 | 2015 |
| Cash on hand and in banks | ¥ 55,583 | ¥ 49,467 | \$ 462,536 |
| Time deposits that have maturities of over three months when acquired | (5,017) | (4,031) | (41,749) |
| Cash and cash equivalents | ¥ 50,566 | ¥ 45,436 | \$ 420,787 |

22. COMMITMENTS AND CONTINGENCIES

At March 31, 2015 and 2014, the Company and certain subsidiaries have guaranteed approximately ¥18 million (\$150 thousand) and ¥24 million of employee mortgage loans to financial institutions, respectively. If an employee defaults on his/her loan payments, the Company and/or certain subsidiaries are required to perform under the guarantee.

23.LEASES

(a) Finance Lease

The Company leases certain computer terminals, communication equipment and software under finance leases.

(b) Operating Lease

Future minimum lease payments required under noncancellable operating leases at March 31, 2015 and 2014 are as follows:

| | Millions of yen | | Thousands of |
|-----------------|-----------------|---------|--------------|
| | 2015 | 2014 | U.S. dollars |
| Within one year | ¥ 1,225 | ¥ 855 | \$ 10,194 |
| Over one year | 677 | 1,291 | 5,634 |
| | ¥ 1,902 | ¥ 2,146 | \$ 15,828 |

24.FINANCIAL INSTRUMENTS

Conditions of Financial instruments

(1) Management policy

The Company and subsidiaries (the "Group") primary engages in financial instruments trading business, which include trading in securities, brokerage for trading in securities, underwriting and distribution of securities, public offering and secondary distribution of securities and private offering of securities. For the above mentioned business, the Group uses its own resources and finances funds through bank loans and call money etc.

The Group makes short-term deposits and loans for margin transaction, and operates securities trading for the Group own accounts for fund management purposes.

Regarding the trading business, the Group works to do brokerage for trading in securities smoothly and contribute to a sound market system in an Exchange transaction, and works to make fair prices and transact smoothly in a Non-Exchange transaction.

Regarding the derivative financial instruments, the Group uses interest rate swaps to hedge future fluctuations of interest rates and does not enter into interest rate swaps for trading or speculative purposes.

(2) Financial instruments and risks

The main financial assets of the Group consist of cash on hand and in banks, cash segregated as deposits for customers and others, trading assets, receivables on margin transactions, receivables on collateralized securities transactions and investment securities.

The cash in banks are exposed to credit risk of banks. Most of cash segregated as deposits for customers and others are cash segregated as deposits for customers, and are segregated from the Group own assets and trusted to banks in accordance with the Japanese Financial Instruments and Exchange Law. The trusted funds are secured by the Trust Act.

Trading position is made for meeting customers' various needs, complementing the market and hedging the position. Such trading involves market and counterparty risks which possibly effect on the financial position of the Group. Market risk is the risk arising from future changes in the market values of securities, interest rates and foreign currency exchange rates, and counterparty risk is the risk arising from default by the counterparty.

Receivables on margin transactions consist of loans receivable from customers and cash deposits as collateral for securities borrowed from securities finance companies, and are exposed to credit risk of counterparties. Receivables on collateralized securities transactions consist of cash collateral for securities borrowed, and are exposed to counterparty risk. Investment securities are exposed to issuer's credit risk and market risk.

The main financial liabilities of the Group consist of trading liabilities, payables on margin transactions, payables on collateralized securities transactions, deposits received, guarantee deposits received and borrowings.

Payables on margin transactions consist of borrowings from securities finance companies and proceeds from securities sold for customers' accounts. Payables on collateralized securities transactions consist of

cash collateral for securities loaned and are received as collateral for a loan of bonds such as government bonds. Deposit received is temporary unsettled amount arising from transaction with customers. Guarantee deposits received is deposit received for margin transactions from customers. Part of financial liabilities, such as borrowings, are exposed to liquidity risk that is the risk for the Group not to make a payment on due date. The borrowings with variable interest rate are exposed to interest rate fluctuation risk.

The Group uses derivative financial instruments as part of asset and liability management. For trading purpose, the Group uses derivatives listed on exchange such as stock index futures and bond futures, as well as over-the-counter derivatives such as forward foreign exchange transactions. For non-trading purpose, the Group uses interest rate swaps. Interest rate swaps are used to hedge future cash flow fluctuation arising from interest rate fluctuations on the borrowings. The difference in amounts to be paid or received on interest rate swaps is recognized over the life of the agreements as an adjustment to interest expense, if the agreements meet certain hedging criteria ("exceptional accounting method"). Interest rate swaps are exposed to interest rate fluctuation risk, however, counterparties are limited to the lender.

(3) Financial instruments risk management

The Group maintains appropriate risk management and control measures in order to maintain the Group financial stability and to effectively use the Group business resources.

The Company controls its purchases, sales and market risk of investment securities in accordance with investment securities management rules.

Okasan Securities Co., Ltd., our core firm, controls market fluctuation risk principally through position limits, and counterparty risk principally through credit limits by each financial instrument. Primarily, trading department checks the position and the gain or loss. Secondly, risk control department ascertains the position and the assessed risks reported by the trading department, and supervise the position.

The loss on proprietary trading position estimated by VaR is ¥339 million (\$2,821 thousand) calculated using historical method (holding period: one day, confidence interval: 99%, observation period: 1,250 days) at March 31, 2015. The Company ascertained the reliability and validity of the model daily by performing a comparison back-test of VaR and actual profit and loss.

In order to reduce the risks, receivables on margin transactions are controlled by daily credit management through setup of inception criteria for margin transactions and limits for open interest, deposits reception when market fluctuates in accordance with customer management rules. Liquidity risk is controlled based on fund management plan in accordance with liquidity risk management rules. The Group also makes contingency plan to mitigate liquidity crisis.

Securities subsidiaries other than Okasan Securities Co., Ltd. also maintain appropriate risk controls.

(4) Supplemental explanation regarding fair value of financial instruments

The contract amount of the derivative transactions does not represent the risk of the derivative transactions.

Fair value of financial instruments

The carrying amounts on the consolidated balance sheet, fair value, and differences at March 31, 2015 and 2014 are as follows.

Financial instruments, of which it is extremely difficult to measure the fair value, are not included. (Please see “(2) Financial instruments of which the fair value is extremely difficult to measure”.)

| | Millions of yen | | | | | |
|--|------------------|------------------|--------------|------------------|------------------|-------------|
| | 2015 | | | 2014 | | |
| | Carrying value | Fair value | Differences | Carrying value | Fair value | Differences |
| Assets: | | | | | | |
| Cash on hand and in banks | ¥ 55,583 | ¥ 55,583 | ¥ - | ¥ 49,467 | ¥ 49,467 | ¥ - |
| Cash segregated as deposits for customers and others | 63,610 | 63,610 | - | 56,744 | 56,744 | - |
| Trading assets, short-term investments and investment securities | | | | | | |
| Trading securities | 216,262 | 216,262 | - | 213,968 | 213,968 | - |
| Held-to-maturity debt securities | 54 | 49 | (5) | - | - | - |
| Available-for-sale securities | 40,967 | 40,967 | - | 33,228 | 33,228 | - |
| Receivables on margin transactions | 58,273 | 58,273 | - | 61,604 | 61,604 | - |
| Receivables on collateralized securities transactions | 169,980 | 169,980 | - | 150,379 | 150,379 | - |
| Short-term guarantee deposits | 2,802 | 2,802 | - | 3,536 | 3,536 | - |
| Total | ¥ 607,531 | ¥ 607,526 | ¥ (5) | ¥ 568,926 | ¥ 568,926 | ¥ - |
| Liabilities: | | | | | | |
| Trading liabilities | | | | | | |
| Trading securities | ¥ 145,103 | ¥ 145,103 | ¥ - | ¥ 144,636 | ¥ 144,636 | ¥ - |
| Payables arising from unsettled trades | 19,466 | 19,466 | - | 6,536 | 6,536 | - |
| Payables on margin transactions | 18,742 | 18,742 | - | 14,954 | 14,954 | - |
| Payables on collateralized securities transactions | 69,695 | 69,695 | - | 24,262 | 24,262 | - |
| Deposits received | 39,491 | 39,491 | - | 29,187 | 29,187 | - |
| Guarantee deposits received | 36,679 | 36,679 | - | 35,804 | 35,804 | - |
| Short-term borrowings | 104,796 | 104,825 | 29 | 158,878 | 158,886 | 8 |
| Long-term borrowings | 9,210 | 9,401 | 191 | 8,415 | 8,473 | 58 |
| Total | ¥ 443,182 | ¥ 443,402 | ¥ 220 | ¥ 422,672 | ¥ 422,738 | ¥ 66 |
| Derivative transactions | ¥ 73 | ¥ 73 | ¥ - | ¥ (32) | ¥ (32) | ¥ - |

| | Thousands of U.S. dollars | | |
|--|---------------------------|---------------------|-----------------|
| | 2015 | | |
| | Carrying value | Fair value | Differences |
| Assets: | | | |
| Cash on hand and in banks | \$ 462,536 | \$ 462,536 | \$ - |
| Cash segregated as deposits for customers and others | 529,334 | 529,334 | - |
| Trading assets, short-term investments and investment securities | | | |
| Trading securities | 1,799,634 | 1,799,634 | - |
| Held-to-maturity debt securities | 449 | 407 | (42) |
| Available-for-sale securities | 340,909 | 340,909 | - |
| Receivables on margin transactions | 484,921 | 484,921 | - |
| Receivables on collateralized securities transactions | 1,414,496 | 1,414,496 | - |
| Short-term guarantee deposits | 23,317 | 23,317 | - |
| Total | <u>\$ 5,055,596</u> | <u>\$ 5,055,554</u> | <u>\$ (42)</u> |
| Liabilities: | | | |
| Trading liabilities | | | |
| Trading securities | \$ 1,207,481 | \$ 1,207,481 | \$ - |
| Payables arising from unsettled trades | 161,987 | 161,987 | - |
| Payables on margin transactions | 155,962 | 155,962 | - |
| Payables on collateralized securities transactions | 579,970 | 579,970 | - |
| Deposits received | 328,626 | 328,626 | - |
| Guarantee deposits received | 305,226 | 305,226 | - |
| Short-term borrowings | 872,065 | 872,306 | 241 |
| Long-term borrowings | 76,641 | 78,231 | 1,590 |
| Total | <u>\$ 3,687,958</u> | <u>\$ 3,689,789</u> | <u>\$ 1,831</u> |
| Derivative transactions | <u>\$ 607</u> | <u>\$ 607</u> | <u>\$ -</u> |

* Derivative receivables and payables are on net basis. Items that are net payables are shown in parenthesis.

(1) Fair value measurement of financial instruments

Assets:

Cash on hand and in banks, Cash segregated as deposits for customers and others, Receivables on margin transactions, Receivables on collateralized securities transactions and Short-term guarantee deposits

The carrying amount approximates fair value because of the short maturity of these instruments.

Trading assets, short-term investments and investment securities

The carrying amount approximates fair value because the carrying amount of equity securities, debt securities and beneficiary certificates is calculated by quoted market price. Please see note 4. TRADING ASSETS AND LIABILITIES and see note 7. SECURITIES FOR NON-TRADING PURPOSES for information by category.

Liabilities:

Trading liabilities

The carrying amount approximates fair value because the carrying amount of equity securities, debt securities and beneficiary certificates is calculated by quoted market price. Please see note 4. TRADING ASSETS AND LIABILITIES for information by category.

Payables arising from unsettled trades, Payables on margin transactions, Payables on collateralized securities transactions, Deposits received, Guarantee deposits received and Short-term borrowings

The carrying amount approximates fair value because of the short maturity of these instruments. Fair value of current installments of long-term borrowings included in short-term borrowings is calculated as below. (See Long-term borrowings.)

Long-term borrowings

The carrying amount of long-term borrowings with variable interest rate approximates fair value because the fair value is reflected the fluctuation of interest market in a short period and credit status of the Company does not change so much from when the Company borrowed. Fair value of long-term borrowings with fixed interest rate is based on the present value of future cash flows of interest and principal payments discounted using the current borrowing rate for similar borrowings of a comparable maturity.

Fair value of certain long-term borrowings with interest rate swaps for which exceptional accounting method applied are based on the present value of future cash flows of interest and principal payments discounted using the current borrowing rate for similar borrowings of a comparable maturity.

Derivative Transactions:

Please see note 25. DERIVATIVES.

(2) Financial instruments of which the fair value is extremely difficult to measure

| | Millions of yen | | Thousands of |
|--|-----------------|---------|--------------|
| | 2015 | 2014 | U.S. dollars |
| Unlisted equity securities | ¥ 1,523 | ¥ 3,544 | \$ 12,674 |
| Investments in limited partnership and similar partnership | 18 | 30 | 150 |
| Total | ¥ 1,541 | ¥ 3,574 | \$ 12,824 |

(3) Projected future redemption of monetary claim and securities with maturities
March 31, 2015

| | Millions of yen | | | |
|--|------------------------|--|---|------------------------|
| | Due within one year | Due after one year through five years | Due after five years through ten years | Due after ten years |
| Cash on hand and in banks | ¥ 55,583 | ¥ - | ¥ - | ¥ - |
| Cash segregated as deposits for customers and others | 63,610 | - | - | - |
| Trading assets, short-term investments and investment securities: | | | | |
| Held-to-maturity debt securities: | | | | |
| Government bonds | - | - | 55 | - |
| Available-for-sale securities with maturities: | | | | |
| Debt securities: | | | | |
| Government bonds | 300 | - | - | - |
| Other | 200 | 475 | 278 | - |
| Receivables on margin transactions | 58,273 | - | - | - |
| Receivables on collateralized securities transactions | 169,980 | - | - | - |
| Short-term guarantee deposits | 2,802 | - | - | - |
| | ¥ 350,748 | ¥ 475 | ¥ 333 | ¥ - |

| | Thousands of U.S. dollars | | | |
|--|---------------------------|--|---|------------------------|
| | Due within one year | Due after one year through five years | Due after five years through ten years | Due after ten years |
| Cash on hand and in banks | \$ 462,536 | \$ - | \$ - | \$ - |
| Cash segregated as deposits for customers and others | 529,334 | - | - | - |
| Trading assets, short-term investments and investment securities: | | | | |
| Held-to-maturity debt securities: | | | | |
| Government bonds | - | - | 458 | - |
| Available-for-sale securities with maturities: | | | | |
| Debt securities: | | | | |
| Government bonds | 2,496 | - | - | - |
| Other | 1,665 | 3,953 | 2,313 | - |
| Receivables on margin transactions | 484,921 | - | - | - |
| Receivables on collateralized securities transactions | 1,414,496 | - | - | - |
| Short-term guarantee deposits | 23,317 | - | - | - |
| | \$ 2,918,765 | \$ 3,953 | \$ 2,771 | \$ - |

March 31, 2014

| | Millions of yen | | | |
|---|------------------------|--|---|------------------------|
| | Due within one year | Due after one year through five years | Due after five years through ten years | Due after ten years |
| Cash on hand and in banks | ¥ 49,467 | ¥ - | ¥ - | ¥ - |
| Cash segregated as deposits for customers and others | 56,744 | - | - | - |
| Trading assets, short-term investments and investment securities: Available-for-sale securities with maturities: Debt securities: Government bonds | 1,100 | 300 | 23 | - |
| Other | - | 566 | 405 | - |
| Receivables on margin transactions | 61,604 | - | - | - |
| Receivables on collateralized securities transactions | 150,379 | - | - | - |
| Short-term guarantee deposits | 3,536 | - | - | - |
| | ¥ 322,830 | ¥ 866 | ¥ 428 | ¥ - |

(4) The annual maturities of the long-term debt and other interest-bearing debt

March 31, 2015

| | Millions of yen | | | | | |
|---|---------------------------|---|--|---|--|-------------------------|
| | Due within one year | Due after one year through two years | Due after two years through three years | Due after three years through four years | Due after four years through five years | Due after five years |
| Short-term borrowings | ¥ 98,541 | ¥ - | ¥ - | ¥ - | ¥ - | ¥ - |
| Long-term borrowings | 6,255 | 1,000 | 2,210 | 2,000 | 4,000 | - |
| Borrowings from securities finance companies | 10,531 | - | - | - | - | - |
| Total | ¥ 115,327 | ¥ 1,000 | ¥ 2,210 | ¥ 2,000 | ¥ 4,000 | ¥ - |

| | Thousands of U.S. dollars | | | | | |
|---|---------------------------|---|--|---|--|-------------------------|
| | Due within one year | Due after one year through two years | Due after two years through three years | Due after three years through four years | Due after four years through five years | Due after five years |
| Short-term borrowings | \$ 820,014 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Long-term borrowings | 52,051 | 8,322 | 18,391 | 16,643 | 33,286 | - |
| Borrowings from securities finance companies | 87,634 | - | - | - | - | - |
| Total | \$ 959,699 | \$ 8,322 | \$ 18,391 | \$ 16,643 | \$ 33,286 | \$ - |

March 31, 2014

| | Millions of yen | | | | | |
|---|---------------------------|---|--|---|--|-------------------------|
| | Due within one year | Due after one year through two years | Due after two years through three years | Due after three years through four years | Due after four years through five years | Due after five years |
| Short-term borrowings | ¥ 153,558 | ¥ - | ¥ - | ¥ - | ¥ - | ¥ - |
| Long-term borrowings | 5,320 | 6,255 | - | 2,160 | - | - |
| Borrowings from securities finance companies | 9,314 | - | - | - | - | - |
| Total | ¥ 168,192 | ¥ 6,255 | ¥ - | ¥ 2,160 | ¥ - | ¥ - |

* Borrowings from securities finance companies are deemed to be settled within one year.

25.DERIVATIVES

Derivatives utilized for trading purposes

The contract or notional amounts and fair value of derivative financial instruments for trading purposes held at March 31, 2015 and 2014 are summarized as follows:

(1) Stocks

| | Millions of yen | | | | | |
|---------------------------------|------------------------------------|------------|--------------------------|------------------------------------|------------|--------------------------|
| | 2015 | | | 2014 | | |
| | Contract or notional amounts | Fair value | Valuation gain (loss) | Contract or notional amounts | Fair value | Valuation gain (loss) |
| Stock index futures: | | | | | | |
| Written | ¥ 1,289 | ¥ 4 | ¥ 4 | ¥ 945 | ¥ (5) | ¥ (5) |
| Purchased | 1,621 | (1) | (1) | 586 | 1 | 1 |
| Stock index options: | | | | | | |
| Written | | 2 | 3 | - | - | - |
| Purchased | | 2 | 2 | 6 | 2 | (4) |
| Over-the-counter stock options: | | | | | | |
| Written | | - | - | 12 | 16 | (4) |
| Purchased | | - | - | 5 | 16 | 11 |
| | | | <u>¥ 2</u> | | | <u>¥ (1)</u> |

| | Thousands of U.S. dollars | | |
|----------------------|------------------------------------|------------|--------------------------|
| | 2015 | | |
| | Contract or notional amounts | Fair value | Valuation gain (loss) |
| Stock index futures: | | | |
| Written | \$ 10,726 | \$ 33 | \$ 33 |
| Purchased | 13,489 | (8) | (8) |
| Stock index options: | | | |
| Written | | 17 | 25 |
| Purchased | | 17 | 17 |
| | | | <u>\$ 17</u> |

The fair value of stock index futures and stock index options is computed using prices on the market. The fair value of over-the-counter stock options is a reasonable and fair price which is computed based on fair value of underlying securities, volatility and interest.

Gain or loss on deemed settlement is disclosed in the "Fair value" column of stock index futures above.

(2) Bond

| | Millions of yen | | | | | |
|---------------|------------------------------------|------------|--------------------------|------------------------------------|------------|--------------------------|
| | 2015 | | | 2014 | | |
| | Contract or notional amounts | Fair value | Valuation gain (loss) | Contract or notional amounts | Fair value | Valuation gain (loss) |
| Bond futures: | | | | | | |
| Written | ¥ 2,800 | ¥ 3 | ¥ 3 | ¥ 1,301 | ¥ (0) | ¥ (0) |
| Purchased | 5,741 | 0 | 0 | 11,283 | (2) | (2) |
| Bond options: | | | | | | |
| Written | - | - | - | - | - | - |
| Purchased | 3 | 3 | (0) | - | - | - |
| | | | <u>¥ 3</u> | | | <u>¥ (2)</u> |

| | Thousands of U.S. dollars | | |
|---------------|------------------------------------|------------|--------------------------|
| | 2015 | | |
| | Contract or notional amounts | Fair value | Valuation gain (loss) |
| Bond futures: | | | |
| Written | \$ 23,300 | \$ 25 | \$ 25 |
| Purchased | 47,774 | 0 | 0 |
| Bond options: | | | |
| Written | - | - | - |
| Purchased | 25 | 25 | 0 |
| | | | <u>\$ 25</u> |

The fair value of bond futures is computed using prices on the market. Gain or loss on deemed settlement is disclosed in the "Fair value" column above.

(3) Foreign exchange

| | Millions of yen | | |
|----------------------------------|------------------------------------|------------|--------------------------|
| | 2014 | | |
| | Contract or notional amounts | Fair value | Valuation gain (loss) |
| Foreign exchange margin trading: | | | |
| Written: | ¥ 155 | ¥ 0 | ¥ 0 |
| Forward foreign exchange: | | | |
| Written: | | | |
| Australian dollar | 897 | (7) | (7) |
| Mexican Peso | 467 | (6) | (6) |
| South Africa Rand | 247 | (6) | (6) |
| Russian ruble | 230 | (0) | (0) |
| Turkish lira | 138 | (4) | (4) |
| Brazilian real | 110 | (4) | (4) |
| Other | 220 | (2) | (2) |
| | | | <u>¥ (29)</u> |

| Millions of yen | | | | | | |
|----------------------------------|-------------|------------|-------------|-----|---|-----|
| 2015 | | | | | | |
| | Contract or | | Valuation | | | |
| | notional | Fair value | gain (loss) | | | |
| amounts | | | | | | |
| Foreign exchange margin trading: | | | | | | |
| Written: | ¥ | 26 | ¥ | 0 | ¥ | 0 |
| Forward foreign exchange: | | | | | | |
| Written: | | | | | | |
| Australian dollar | | 1,223 | | 27 | | 27 |
| Brazilian real | | 605 | | 18 | | 18 |
| Mexican Peso | | 536 | | 9 | | 9 |
| U.S. dollar | | 430 | | (3) | | (3) |
| New Zealand dollar | | 429 | | 5 | | 5 |
| Turkish lira | | 284 | | 3 | | 3 |
| Other | | 443 | | 6 | | 6 |
| | | | | ¥ | | 65 |

| Thousands of U.S. dollars | | | | | | |
|----------------------------------|-------------|------------|-------------|------|----|------|
| 2015 | | | | | | |
| | Contract or | | Valuation | | | |
| | notional | Fair value | gain (loss) | | | |
| amounts | | | | | | |
| Foreign exchange margin trading: | | | | | | |
| Written: | \$ | 216 | \$ | 0 | \$ | 0 |
| Forward foreign exchange: | | | | | | |
| Written: | | | | | | |
| Australian dollar | | 10,177 | | 225 | | 225 |
| Brazilian real | | 5,035 | | 150 | | 150 |
| Mexican Peso | | 4,460 | | 75 | | 75 |
| U.S. dollar | | 3,578 | | (25) | | (25) |
| New Zealand dollar | | 3,570 | | 41 | | 41 |
| Turkish lira | | 2,363 | | 25 | | 25 |
| Other | | 3,686 | | 50 | | 50 |
| | | | | \$ | | 541 |

The fair value of foreign exchange margin trading is computed using prices on the market. The fair value of forward foreign exchange is based on the difference between the present value of future cash flows of receipt amount and the present value of future cash flows of payment amount. Gain or loss on deemed settlement is disclosed in the "Fair value" column of forward foreign exchange above.

Derivatives utilized for non-trading purposes

Derivative transactions to which hedge accounting are applied at March 31, 2015 and 2014 are summarized as follows:

| Nature of transaction | Hedged items | Contract or notional amounts | | | | | |
|---------------------------------------|----------------------|------------------------------|-------|---------------------------|-------|----|--------|
| | | Millions of yen | | Thousands of U.S. dollars | | | |
| | | 2015 | 2014 | 2015 | | | |
| Interest rate swaps: | | | | | | | |
| Variable rate received for fixed rate | Long-term borrowings | ¥ | 7,915 | ¥ | 4,965 | \$ | 65,865 |

*1 Hedge accounting method is the exceptional accounting method which is the difference in amounts to be paid or received on interest rate swaps being recognized over the life of the agreements as an adjustment to interest expense.

*2 Fair value of derivative financial instrument is included in fair value of the long-term borrowings as hedged items for certain long-term borrowings for which interest rate swap contracts are used to hedge the interest rate fluctuations.

26. INVESTMENT AND RENTAL PROPERTY

“Accounting Standard for Disclosures about Fair Value of Investment and Rental Property” (ASBJ Statement No. 20, November 28, 2008) and its “Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property” (ASBJ Guidance No. 23, November 28, 2008) require to disclose fair value of investment and rental property in the notes to financial statements.

The Company and certain consolidated subsidiaries own their rental office buildings, land etc (hereafter “rental property”). Income from the rental property is ¥133 million (\$1,107 thousand) and ¥163 million for the years ended March 31, 2015 and 2014, respectively.

The amounts recognized in the consolidated balance sheet and fair values related to the rental property are as follows:

| | Millions of yen | | Thousands of |
|------------------------------------|-----------------|---------|--------------|
| | 2015 | 2014 | U.S. dollars |
| Consolidated balance sheet amount: | | | 2015 |
| Balance at beginning of the year | ¥ 5,333 | ¥ 5,538 | \$ 44,379 |
| Increase/(decrease) | (22) | (205) | (183) |
| Balance at end of the year | ¥ 5,311 | ¥ 5,333 | \$ 44,196 |
| Fair value | ¥ 5,359 | ¥ 5,367 | \$ 44,595 |

The above fair value is based on real-estate appraisals, and is estimated by the Company.

27. BALANCES AND TRANSACTIONS WITH RELATED PARTY

The subsidiary of the Company purchased land at a price of ¥21 million (\$175 thousand) from Mr. Seiichi Kato, chairman of the Board of Directors who owns 0.1% shares of the Company during the year ended March 31, 2015.

The transaction price is determined based on the appraisal value calculated by a real estate appraiser.

There were no related party transactions for the year ended March 31, 2014.

28. SEGMENT INFORMATION

“The Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Statement No.17, March 27, 2009) and “the Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Guidance No.20, March 21, 2008) adopt the management approach. Disclosures about segments of an enterprise and related information should provide proper information on the nature of various business activities in which it engages and the economic environments in which it operates.

The reported segments of the Company are the business units for which the Company is able to obtain respective financial information separately in order for the Board of Directors to conduct periodic investigation to determine distribution of management resources and evaluate their business results.

“Securities business”, “Asset management business” and “Support business” are the Company’s reported segments.

“Securities business” renders trading and brokerage for trading in securities, underwriting and distribution of securities, public offering and secondary distribution of securities and private offering of securities. “Asset management business” renders investment management and investment advisory. “Support business” renders information processing services, administrative support services, custodianship and temping services, etc.

Segment operating revenues, income, assets, liabilities and others are calculated by accounting methods similar to those employed to prepare the accompanying consolidated financial statements.

Segment income is calculated based on operating income in the consolidated statement of income.

Intersegment revenues and transfer are based on arms-length transactions.

Operating revenues, income, assets, liabilities and others by reported segments

The reported segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2015 and 2014 are summarized as follows:

| | Millions of yen | | | | | | |
|--|-------------------|----------|----------|-----------|-------------|--------------|--|
| | 2015 | | | | | | |
| | Reported segments | | | | Adjustments | Consolidated | |
| Securities | Asset management | Support | Total | | | | |
| Operating revenues: | | | | | | | |
| Revenues from third parties | ¥ 79,667 | ¥ 14,070 | ¥ 886 | ¥ 94,623 | ¥ 10 | ¥ 94,633 | |
| Intersegment revenues | 5,411 | - | 11,419 | 16,830 | (16,830) | - | |
| Total | ¥ 85,078 | ¥ 14,070 | ¥ 12,305 | ¥ 111,453 | ¥ (16,820) | ¥ 94,633 | |
| Segment income | ¥ 24,054 | ¥ 1,570 | ¥ 1,035 | ¥ 26,659 | ¥ (364) | ¥ 26,295 | |
| Segment assets | ¥ 609,552 | ¥ 16,973 | ¥ 28,579 | ¥ 655,104 | ¥ (5,614) | ¥ 649,490 | |
| Segment liabilities | ¥ 492,661 | ¥ 2,684 | ¥ 16,995 | ¥ 512,340 | ¥ (34,261) | ¥ 478,079 | |
| Others: | | | | | | | |
| Depreciation | ¥ 689 | ¥ 30 | ¥ 3,048 | ¥ 3,767 | ¥ 275 | ¥ 4,042 | |
| Interest and dividend income | 2,683 | - | 15 | 2,698 | (358) | 2,340 | |
| Interest expense | 1,515 | - | - | 1,515 | (285) | 1,230 | |
| Equity in losses of an affiliates | - | - | (10) | (10) | - | (10) | |
| Investments in affiliates | - | - | 10 | 10 | - | 10 | |
| Increase in property and equipment and intangible assets | 866 | 40 | 2,784 | 3,690 | 187 | 3,877 | |
| | | | | | | | |
| | Millions of yen | | | | | | |
| | 2014 | | | | | | |
| | Reported segments | | | | Adjustments | Consolidated | |
| Securities | Asset management | Support | Total | | | | |
| Operating revenues: | | | | | | | |
| Revenues from third parties | ¥ 88,125 | ¥ 12,348 | ¥ 905 | ¥ 101,378 | ¥ 8 | ¥ 101,386 | |
| Intersegment revenues | 5,747 | - | 10,466 | 16,213 | (16,213) | - | |
| Total | ¥ 93,872 | ¥ 12,348 | ¥ 11,371 | ¥ 117,591 | ¥ (16,205) | ¥ 101,386 | |
| Segment income | ¥ 30,630 | ¥ 1,327 | ¥ 963 | ¥ 32,920 | ¥ (190) | ¥ 32,730 | |
| Segment assets | ¥ 574,242 | ¥ 15,108 | ¥ 28,720 | ¥ 618,070 | ¥ (4,935) | ¥ 613,135 | |
| Segment liabilities | ¥ 470,454 | ¥ 2,075 | ¥ 17,969 | ¥ 490,498 | ¥ (30,203) | ¥ 460,295 | |
| Others: | | | | | | | |
| Depreciation | ¥ 794 | ¥ 30 | ¥ 2,964 | ¥ 3,788 | ¥ 256 | ¥ 4,044 | |
| Interest and dividend income | 3,473 | - | 16 | 3,489 | (542) | 2,947 | |
| Interest expense | 1,861 | - | - | 1,861 | (464) | 1,397 | |
| Increase in property and equipment and intangible assets | 2,074 | 15 | 5,684 | 7,773 | 1,350 | 9,123 | |

| Thousands of U.S. dollars | | | | | | |
|--|---------------------|---------------------|-------------------|---------------------|---------------------|---------------------|
| 2015 | | | | | | |
| Reported segments | | | | | | |
| | Securities | Asset management | Support | Total | Adjustments | Consolidated |
| Operating revenues: | | | | | | |
| Revenues from third parties | \$ 662,953 | \$ 117,084 | \$ 7,373 | \$ 787,410 | \$ 83 | \$ 787,493 |
| Intersegment revenues | 45,027 | - | 95,024 | 140,051 | (140,051) | - |
| Total | <u>707,980</u> | <u>117,084</u> | <u>102,397</u> | <u>927,461</u> | <u>(139,968)</u> | <u>787,493</u> |
| Segment income | <u>\$ 200,166</u> | <u>\$ 13,065</u> | <u>\$ 8,613</u> | <u>\$ 221,844</u> | <u>\$ (3,029)</u> | <u>\$ 218,815</u> |
| Segment assets | <u>\$ 5,072,414</u> | <u>\$ 141,242</u> | <u>\$ 237,821</u> | <u>\$ 5,451,477</u> | <u>\$ (46,717)</u> | <u>\$ 5,404,760</u> |
| Segment liabilities | <u>\$ 4,099,700</u> | <u>\$ 22,335</u> | <u>\$ 141,425</u> | <u>\$ 4,263,460</u> | <u>\$ (285,104)</u> | <u>\$ 3,978,356</u> |
| Others: | | | | | | |
| Depreciation | \$ 5,733 | \$ 250 | \$ 25,364 | \$ 31,347 | \$ 2,289 | \$ 33,636 |
| Interest and dividend income | 22,326 | - | 125 | 22,451 | (2,979) | 19,472 |
| Interest expense | 12,607 | - | - | 12,607 | (2,371) | 10,236 |
| Equity in losses of an affiliates | - | - | (83) | (83) | - | (83) |
| Investments in affiliates | - | - | 83 | 83 | - | 83 |
| Increase in property and equipment and intangible assets | 7,207 | 333 | 23,167 | 30,707 | 1,556 | 32,263 |

1. (1) Components of “Adjustments in segment income” are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|----------------|------------------------------|
| | 2015 | 2014 | 2015 |
| Elimination of intersegment transactions | ¥ 2,771 | ¥ 2,786 | \$ 23,059 |
| Unallocated company-wide expenses | (3,135) | (2,976) | (26,088) |
| | <u>¥ (364)</u> | <u>¥ (190)</u> | <u>\$ (3,029)</u> |

Company-wide expenses are holding company’s expenses.

(2) Components of “Adjustments in segment assets” are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--------------------------------------|------------------|------------------|------------------------------|
| | 2015 | 2014 | 2015 |
| Elimination of intersegment balances | ¥ (60,588) | ¥ (59,416) | \$ (504,186) |
| Unallocated company-wide assets | 54,974 | 54,481 | 457,469 |
| | <u>¥ (5,614)</u> | <u>¥ (4,935)</u> | <u>\$ (46,717)</u> |

Company-wide assets are holding company’s assets.

(3) Components of “Adjustments in segment liabilities” are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--------------------------------------|-------------------|-------------------|------------------------------|
| | 2015 | 2014 | 2015 |
| Elimination of intersegment balances | ¥ (54,063) | ¥ (53,034) | \$ (449,887) |
| Unallocated company-wide liabilities | 19,802 | 22,831 | 164,783 |
| | <u>¥ (34,261)</u> | <u>¥ (30,203)</u> | <u>\$ (285,104)</u> |

Company-wide liabilities are holding company’s liabilities.

2. Segment income is adjusted with operating income in the consolidated statement of income.

Related information

1. Information by products and services

Disclosures are omitted because operating revenues from third parties of a single product and service are over 90% of operating revenues in the consolidated statement of income.

2. Geographical information

(1) Operating revenues

Disclosures are omitted because operating revenues from customers in Japan are over 90% of operating revenues in the consolidated statement of income.

(2) Property and equipment

Disclosures are omitted because property and equipment located in Japan are over 90% of property and equipment in the consolidated balance sheet.

3. Information by major customers

Disclosures are omitted because no particular third party whose operating revenues are over 10% of operating revenues in the consolidated statement of income exists.

Information of impairment loss on fixed assets by reported segments

The information is not applicable for the year ended March 31, 2015.

The information for the year ended March 31, 2014 was as follows:

| | Millions of yen | | | | | | | | | | | |
|-----------------|-------------------|------------|---------|-------|-------------|--------------|---|----|---|----|---|-----|
| | 2014 | | | | | | | | | | | |
| | Reported segments | | | | | | | | | | | |
| | Asset | | | | | | | | | | | |
| | Securities | management | Support | Total | Adjustments | Consolidated | | | | | | |
| Impairment loss | ¥ | - | ¥ | - | ¥ | 52 | ¥ | 52 | ¥ | 94 | ¥ | 146 |

Adjustments are holding company's impairment loss.

Goodwill by reported segments

The information is not applicable for the years ended March 31, 2015 and 2014.

Negative goodwill incurred by reported segments

The information is not applicable for the years ended March 31, 2015 and 2014.

29. SUBSEQUENT EVENT

The Company resolved the abolishment of retirement benefits plans for directors and corporate auditors, and the introduction of stock-based compensation stock option to be allotted to directors of the Company and Okasan Securities Co., Ltd. at the General Meeting of Shareholders and the Board of Directors held on June 26, 2015

A summary of information for the stock options is as follows:

- 1) Person to be granted the stock options: 6 directors of the Company and 23 directors of Okasan Securities Co., Ltd., the Company's subsidiary
- 2) Stocks to be issued upon the exercise of the stock options: Common stocks
- 3) Number of stock options granted: 129,400 shares (the number of shares for each stock options shall be 100)
- 4) Exercise period: From July 14, 2015 to July 13, 2045

Independent Auditor's Report

To the Board of Directors of
Okasan Securities Group Inc.

We have audited the accompanying consolidated financial statements of Okasan Securities Group Inc., which comprise the consolidated balance sheet as of March 31, 2015, and the consolidated statement of income, comprehensive income, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Okasan Securities Group Inc. as of March 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audits also comprehended the translation of Japanese yen amounts into United States dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in note 3 to the consolidated financial statements. Such United States dollar amounts are presented solely for the convenience of readers outside Japan.

BDO Toyo & Co.
Tokyo, Japan
June 29, 2015

BDO Toyo & Co.

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REFERENCE DATA

Okasan Securities Co., Ltd.

Balance Sheet — March 31, 2015

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|-----------|------------------------------|
| | 2015 | 2014 | 2015 |
| ASSETS | | | |
| Current assets: | | | |
| Cash on hand and in banks | ¥ 15,457 | ¥ 13,781 | \$ 128,626 |
| Cash segregated as deposits for customers and others | 22,444 | 20,384 | 186,769 |
| Trading assets | 215,909 | 213,775 | 1,796,696 |
| Receivables on margin transactions | 48,318 | 55,629 | 402,080 |
| Receivables on collateralized securities transactions | 169,980 | 150,379 | 1,414,496 |
| Short-term guarantee deposits | 1,913 | 2,767 | 15,919 |
| Deferred income taxes | 1,080 | 1,381 | 8,987 |
| Other current assets | 2,786 | 2,899 | 23,184 |
| Allowance for doubtful accounts | (14) | (17) | (116) |
| Total current assets | 477,873 | 460,978 | 3,976,641 |
| Property and equipment, net of accumulated depreciation | 2,633 | 2,361 | 21,911 |
| Intangible assets, net | 304 | 341 | 2,530 |
| Investments and other assets: | | | |
| Investment securities | 439 | 420 | 3,653 |
| Securities in associated companies | 211 | 211 | 1,756 |
| Long-term guarantee deposits | 3,338 | 3,000 | 27,777 |
| Deferred income taxes | 1,490 | 1,716 | 12,399 |
| Other | 1,124 | 1,295 | 9,354 |
| Allowance for doubtful accounts | (809) | (923) | (6,732) |
| Total investments and other assets | 5,793 | 5,719 | 48,207 |
| TOTAL | ¥ 486,603 | ¥ 469,399 | \$ 4,049,289 |

Okasan Securities Co., Ltd.

Balance Sheet — (Continued) — March 31, 2015

| | Millions of yen | | Thousands of U.S. dollar |
|--|-----------------|-----------|-----------------------------|
| | 2015 | 2014 | 2015 |
| LIABILITIES AND NET ASSETS | | | |
| Current liabilities: | | | |
| Trading liabilities | ¥ 145,103 | ¥ 144,678 | \$ 1,207,481 |
| Payables arising from unsettled trades | 20,360 | 7,147 | 169,427 |
| Payables on margin transactions | 13,794 | 13,787 | 114,787 |
| Payables on collateralized securities transactions | 69,696 | 24,262 | 579,978 |
| Deposits received | 25,397 | 19,715 | 211,342 |
| Guarantee deposits received | 7,942 | 9,418 | 66,090 |
| Short-term borrowings | 95,040 | 151,215 | 790,880 |
| Income tax payables | 1,116 | 2,553 | 9,287 |
| Other current liabilities | 10,520 | 12,648 | 87,543 |
| Total current liabilities | 388,968 | 385,423 | 3,236,815 |
| Non-current liabilities: | | | |
| Long-term borrowings | 7,000 | 2,775 | 58,251 |
| Liabilities for retirement benefits | 4,700 | 5,052 | 39,111 |
| Other non-current liabilities | 1,149 | 1,114 | 9,561 |
| Total non-current liabilities | 12,849 | 8,941 | 106,923 |
| Financial instruments transactions reserve | 1,461 | 1,281 | 12,158 |
| Total liabilities | 403,278 | 395,645 | 3,355,896 |
| Net assets | | | |
| Shareholder's equity: | | | |
| Common stock | | | |
| Authorized—240,000 shares | | | |
| Issued—100,000 shares in 2015 and 2014 | 5,000 | 5,000 | 41,608 |
| Capital surplus | 29,200 | 29,200 | 242,989 |
| Retained earnings | 49,114 | 39,551 | 408,704 |
| Total shareholder's equity | 83,314 | 73,751 | 693,301 |
| Accumulated other comprehensive income: | | | |
| Unrealized gain on available-for-sale securities | 11 | 3 | 92 |
| Total net assets | 83,325 | 73,754 | 693,393 |
| TOTAL | ¥ 486,603 | ¥ 469,399 | \$ 4,049,289 |

Okasan Securities Co., Ltd.

Statement of Income — Year ended March 31, 2015

| | Millions of yen | | Thousands of U.S. dollar |
|---|-----------------|-----------------|-----------------------------|
| | 2015 | 2014 | 2015 |
| Operating revenues: | | | |
| Commissions | ¥ 45,589 | ¥ 53,193 | \$ 379,371 |
| Net gain on trading | 27,040 | 24,943 | 225,014 |
| Interest and dividend income | 1,716 | 2,104 | 14,280 |
| | <u>74,345</u> | <u>80,240</u> | <u>618,665</u> |
| Interest expense | <u>1,148</u> | <u>1,371</u> | <u>9,553</u> |
| Net operating revenues | <u>73,197</u> | <u>78,869</u> | <u>609,112</u> |
| Selling, general and administrative expenses | <u>50,633</u> | <u>51,507</u> | <u>421,345</u> |
| Operating income | <u>22,564</u> | <u>27,362</u> | <u>187,767</u> |
| Other income (expenses): | | | |
| Provision for financial instruments transactions reserve | (181) | (367) | (1,506) |
| Other, net | 300 | 179 | 2,496 |
| | <u>119</u> | <u>(188)</u> | <u>990</u> |
| Income before income taxes | 22,683 | 27,174 | 188,757 |
| Income taxes: | | | |
| Current | 7,621 | 10,392 | 63,418 |
| Deferred | 516 | 83 | 4,294 |
| | <u>8,137</u> | <u>10,475</u> | <u>67,712</u> |
| Net income | <u>¥ 14,546</u> | <u>¥ 16,699</u> | <u>\$ 121,045</u> |

CORPORATE DATA

(At July, 2015)

Company Name

OKASAN SECURITIES GROUP INC.

Date of Establishment

August 25, 1944

Head Office

1-17-6 Nihonbashi, Chuo-ku,
Tokyo 103-8268, Japan

Muromachi Head Office

2-2-1 Nihonbashi Muromachi, Chuo-ku,
Tokyo 103-0022, Japan

Phone Number

+81-3-3272-2222

Paid-in Capital

18,590 Million Yen

Subsidiaries

10 companies

Listed Stock Exchanges

Tokyo Stock Exchange
Nagoya Stock Exchange

BOARD OF DIRECTORS

(At July, 2015)

Chairman

Seiichi Kato

Vice Chairman

Tetsuo Kato

President

Hiroyuki Shinshiba

Senior Managing Director

Kazuhiko Nonaka

Director

Hiroyuki Shindo

Director

Mitsuru Tanaka

Director

Hiroyuki Murai

Director

Masahiro Hayakawa

Audit & Supervisory Committee Members

Director

Tetsumi Iwaki

Director

Nobuyuki Natsume

Outside Director

Tetsuo Narukawa

Outside Director

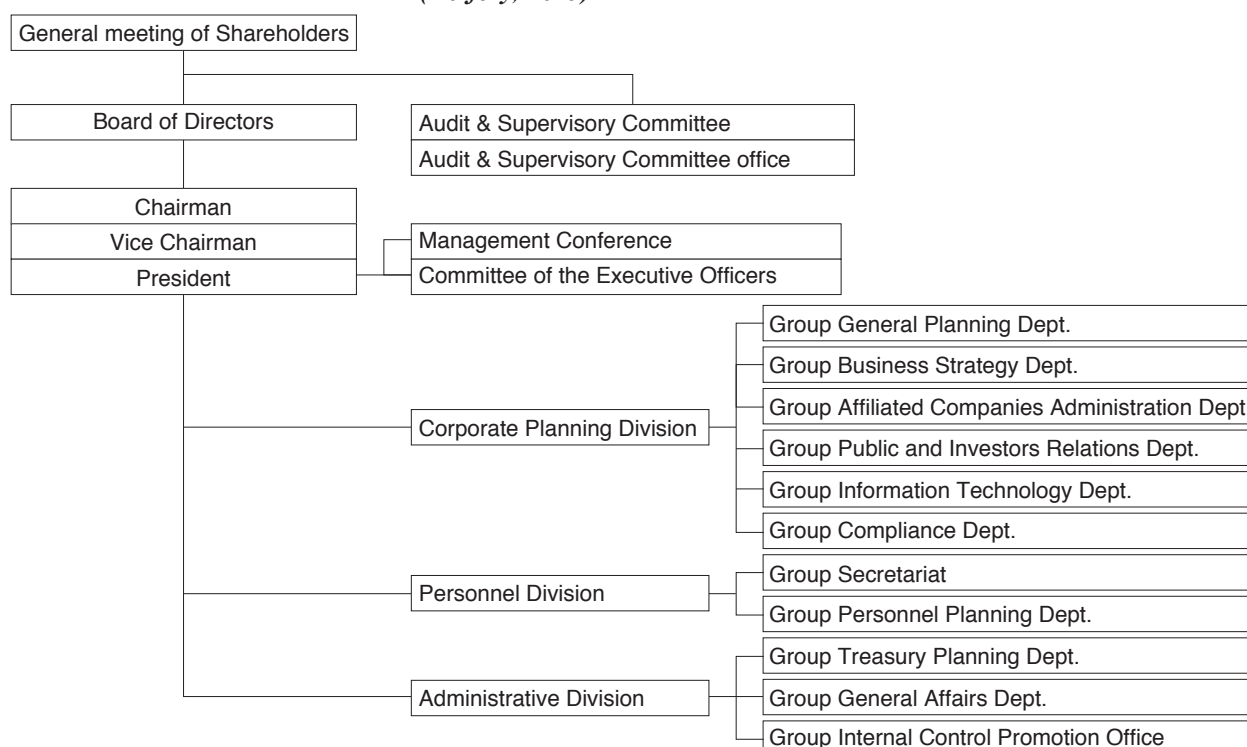
Seishi Higo

Outside Director

Hirokazu Kono

ORGANIZATION CHART

(At July, 2015)



OKASAN SECURITIES GROUP INC.

<http://www.okasan.jp/>