



# ***ANNUAL REPORT***

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**Ending March 31, 2016**

**OKASAN SECURITIES GROUP INC.**



## *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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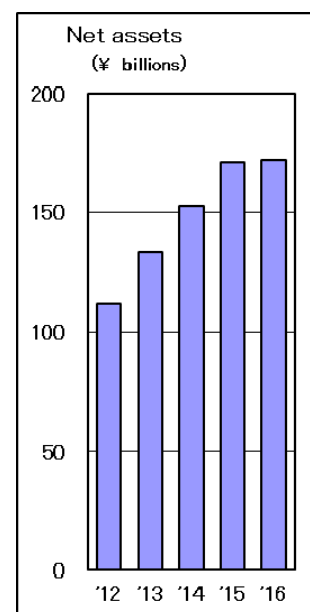
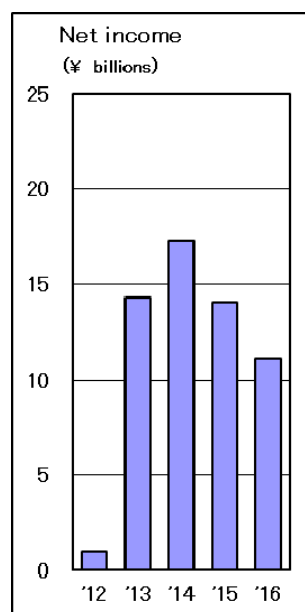
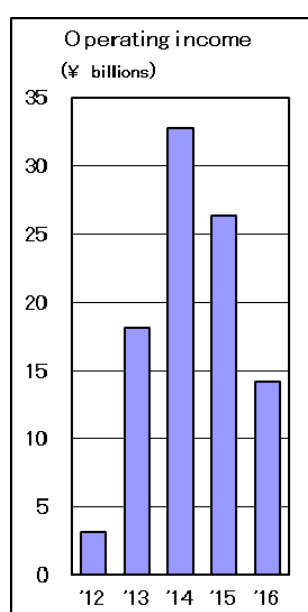
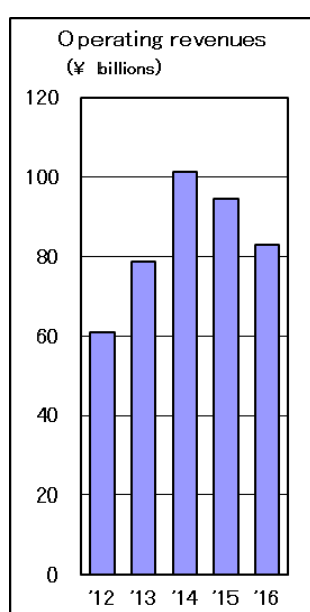
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## Consolidated Financial Highlights

Okasan Securities Group Inc. and consolidated Subsidiaries Years ended March 31, 2016

	Millions of yen		Thousands of U.S.dollars <sup>(note)</sup>
	2016 (4/1/15~3/31/16)	2015 (4/1/14~3/31/15)	2016 (4/1/15~3/31/16)
Operating revenues .....	¥ 82,927	¥ 94,633	\$ 735,951
Operating income .....	14,159	26,295	125,657
Net income .....	11,068	14,100	98,225
Total assets .....	515,743	649,490	4,577,059
Net assets .....	172,097	171,411	1,527,307
Per share of common stock	Yen		U.S.dollars <sup>(note)</sup>
Basic net income .....	¥ 55.94	¥ 71.20	\$ 0.50
Cash dividends applicable to the year··	25.00	25.00	0.22

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, 2016, which was ¥112.68 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 fiscal year under review, the second year of the business plan, we turned the two companies in the same industry with whom memorandums of agreement concerning operational and capital alliances were signed at the end of the preceding fiscal year into equity method affiliates, enabling us to expand our own network of securities companies. We also took steps to strengthen our management structure and management supervision structure through improved corporate governance using various measures, including establishing an audit and supervisory committee and formulating corporate governance guidelines. Subsidiaries such as Okasan Securities Co., Ltd. took action to strengthen sales functions and develop professional human resources. The Group will continue to enhance its operating foundations in pursuit of customer 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

Based on observations of financial markets from a medium- to long-term perspective, the financial economy appears to have grown even larger relative to and to have growing impact on the real economy. For example, the assets of investment companies around the world, particularly hedge funds, have grown after Lehman's fall. However, the US's move away from its ultraliberal monetary policy has upset the money supply, the flow of which had been ample around the world, while uncertainty has grown concerning factors like the Chinese economy and oil prices. All these factors have made financial markets more volatile. In Japan, meanwhile, the so-called "Abenomics"—the Abe administration's package of economic policies—has entered a critical phase in which its success or failure in dragging the country out of deflation will become clearer. Reforms of corporate governance and other factors are making the management of Japanese companies more dynamic than ever before during the postwar period. It is therefore possible that the unwinding of cross-shareholdings and the sale and acquisition of businesses will make clarify far clearer which companies are succeeding and which are failing.

In this environment, the company sees an increasingly important societal role for the Group, which provides optimal investment advice and financial products based on customer needs. Winning support from a broad range of customers will require building a unique brand that fits the Group. We are formulating and implementing various policies to this end.

In particular, to further strengthen the foundations of the Group's mainstay face-to-face business, we are aiming to become, as stated in our medium-term business plan, Aiming for a professional group of investment advisors. To achieve this goal, we are strengthening investment information capabilities, developing human resources, and enhancing the quality of our sales operations. In addition to reinforcing our core face-to-face business, we are strengthening areas such as asset management, alliances, and online trading. In the area of asset management, for example, we are raising the profile of the Okasan brand by providing customers products from both inside and outside the Group. At the same time, we are expanding our unique network of securities companies through operational

and capital alliances. And with regard to the online business, we are stepping up our approaches to new customer segments. Through initiatives like these, we are striving to raise the enterprise value of the Group in a sustained manner.

## **6. Outline of corporate governance structure**

### **(1) Basic concepts regarding corporate governance**

To remain a company that retains society's trust, we have positioned corporate governance as a key management issue. By securing the rights and equality of shareholders, making the right decisions in a timely manner, and putting together the structures for business execution and appropriate management supervision and monitoring, we will fulfill our fiduciary duties and obligations to shareholders and forge cordial relationships with stakeholders.

### **(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 15 directors(including 5 Audit & Supervisory Committee Members), which enables it to make a quick decision.

We set up the "Management Conference" to clarify the roles of the Board of Directors, which makes management decisions and supervises management, and the Management Conference, which is in charge of business execution, to strengthen the business management of the Group.

The Management Conference, 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.

### **(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 Group Compliance Dept. and assigned seven staff there. Group Compliance Dept. 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, 2016

#### I . Analysis of operating results

During the fiscal year under review, the Japanese economy continued to tread water. Although capital investment by companies registered moderate growth, the lackluster performance of the world economy, particularly in emerging countries, made declining exports increasingly likely. Production ebbed and flowed accordingly. The number of foreign visitors to Japan continued to grow rapidly and employment continued to improve, with the unemployment rate hovering at around 3%. Nevertheless, wage increases were minor, and personal consumption stalled.

In the forex market, the yen dropped to ¥125/\$ at one point in June, after which the dollar/yen rate became unstable. In December, the FRB (Federal Reserve Board) raised interest rates, while the Bank of Japan adopted a policy of negative interest rates in January, the following month. However, even with market participants moving to offload risk, the yen actually began to climb against the dollar. The fiscal year ended with the yen/dollar rate at ¥112/\$. Similarly, the euro initially appreciated against the yen, with rates temporarily hitting ¥141/€ in June; from the end of the year, however, the ECB (European Central Bank) further loosened its monetary policies and the euro/dollar rate stood at around ¥128/€ at the end of the fiscal year.

In the equity market, corporate governance reforms and strong operating performance by Japanese companies initially spurred buying by overseas investors, boosting stock prices. On June 24, the Nikkei 225 reached ¥20,868.03, surpassing the peak set during the IT bubble of 2000. However, selling accelerated from August on developing concerns for the outlook of the world economy. This situation abated temporarily at the end of the year, with a bullish outlook returning due to various factors, including yen depreciation. Once the new year began, however, turmoil in the Chinese stock market, uncertainty regarding the impact of US interest rate hikes, and other factors generated turbulence once again. The Nikkei 225 dropped below the ¥15,000 barrier at one point and stood at ¥16,758.67 at the end of the fiscal year.

In bond markets, yields initially climbed, as share prices rose and the likelihood grew of an interest rate hike in the US. However, yields began falling thereafter and continued to do so throughout the year, supported by aggressive monetary easing by the Bank of Japan. The drop in yields accelerated in January, when the Bank of Japan decided to adopt its negative interest rate policy. The 10-year government bond yield ended the fiscal year at -0.05%.

In this environment, Okasan Securities Co., Ltd., the core Group company, further strengthened its sales capabilities through various initiatives, including opening new branches and refurbishing existing branches. Its sales activities remained firmly rooted in local communities, taking advantage of the company's wealth of investment information and strong product lineup. At the same time, Okasan Online Securities Co., Ltd., the Group's specialist online brokerage, sought to improve services in various ways: for example, upgrading order tools, introducing a new futures trading service, and offering a new on-exchange FX margin trading product called "Click 365 Large." Okasan Asset Management Co., Ltd., made systematic investments that emphasized fundamentals; distributed information in timely fashion; and endeavored to grow its assets under management by offering products suited to the medium- to long-term investment environment.

Due to these efforts, Group operating revenues in the fiscal year under review were ¥82,927 million (87.6% of the figure for the previous year), and net operating revenues were ¥81,617 million (87.4% of the figure for the previous year). SG&A expenses were ¥67,459 million (100.5% of the figure for the previous year); operating income was ¥14,158 million (53.8% of the figure for the previous year); and net income was ¥11,068 million (78.5% of the figure for the previous year).



## 1. Fees and commissions received

Fees and commissions received stood at ¥57,666 million (91.0% of the figure for the previous year). These can be broken down as follows.

### (1) Brokerage commissions

Average daily trading volumes on the First Section of the Tokyo Stock Exchange (Japanese common shares) were 2,954 million shares (103.4% of the figure for the previous year), while turnover was ¥3,082.7 billion (115.7% of the figure for the previous year). In this environment, equity brokerage commissions were ¥19,239 million (101.5% of the figure for the previous year). Bond brokerage commissions were ¥5 million (71.4% of the figure for the previous year). Other brokerage commissions amounted to ¥1,560 million (294.9% of the figure for the previous year). Total brokerage commissions were ¥20,805 million (106.7% of the figure for the previous year).

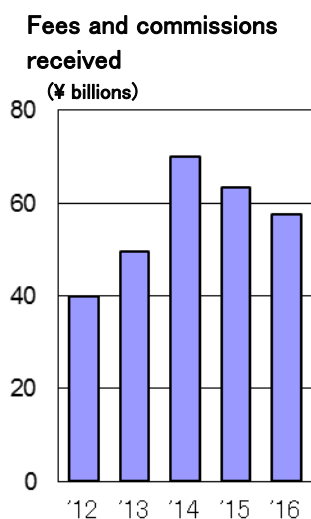
### (2) Underwriting fees, selling concessions, and commissions on solicitation for sales of financial instruments to specified investors and others

During the fiscal year under review, we served as a designated lead underwriter for the Japanese offering of stock in the three Japanese postal companies when they were listed on the stock market. We also served as lead managers for other equity listings and as underwriters for other large stock offerings. As a result, our equity underwriting income increased significantly. In bond underwriting, while appetite for bonds purchases receded (particularly among institutional investors) as interest rates plunged and volatility increased, our underwritings of government bonds for individuals proceeded smoothly. The resulting commissions on equity were ¥402 million (128.4% of the figure for the previous year). Commissions on bonds totaled ¥144 million (102.1% 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 ¥546 million (120.3% 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

During the fiscal year, the company enjoyed relatively strong sales of funds that invest in Asia, healthcare equity funds, high-yield bond funds, Indian equity funds, and so forth. We sought to expand our product lineup, launching new wrap-type funds and commencing the handling of funds that invest in specific types of equities, such as robotics or security stocks. Nevertheless, sales of funds were down from the previous fiscal year. Administrative charges on offering, selling, and solicitation for sales of financial instruments to specific investors totaled ¥15,747 million (62.0% of the figure for the previous year). Other fees and commissions received amounted to ¥20,569 million (114.2% of the figure for the previous year) due to a rise in income from trust fees on investment trusts attributable to a high balance of investment trusts.

### *Fees and commissions received*



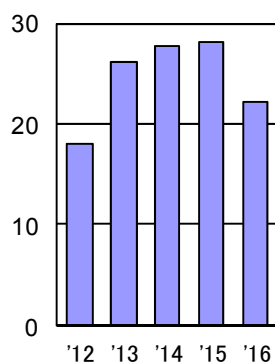
Breakdown by category	(Millions of yen except percentage)		
	2016<A> (4/1/15~3/31/16)	2015<A> (4/1/14~3/31/15)	Ratio <A>/<B>
Brokerage commissions	¥20,805	¥19,490	106.7
Equities	19,239	18,954	101.5
Bonds	5	7	71.4
Others	1,560	529	294.9
Underwriting fees and selling concessions	546	454	120.3
Equities	402	313	128.4
Bonds	144	141	102.1
Placement commissions	15,747	25,392	62.0
Other commissions	20,569	18,006	114.2
<b>Total</b>	<b>¥57,666</b>	<b>¥63,342</b>	<b>91.0</b>

Breakdown by product	(Millions of yen except percentage)		
	2016<A> (4/1/15~3/31/16)	2015<A> (4/1/14~3/31/15)	Ratio <A>/<B>
Equities	¥19,926	¥19,575	101.8
Bonds	391	344	113.7
Investment trusts	36,099	42,264	85.4
Others	1,251	1,159	107.9
Total	¥57,666	¥63,342	91.0

## 2. Trading profits

Profits on equity trading are earned mainly from domestic over-the-counter trading of foreign equities, particularly US stocks, while those on bond trading arise mainly in conjunction with income from the handling of foreign bonds for customers. The US economy was relatively strongly during the first half of the fiscal year under review, and stock prices rose and the yen depreciated as a result. In the second half, however, sudden changes in the Chinese markets triggered turmoil, while the value of emerging-country currencies declined. In addition, the impact of US interest rate hikes and falling oil prices spilled over into global equity markets, creating a more bearish outlook. Consequently, total profits on equity trading were ¥9,875 million (60.5% of the figure for the previous year). Total bond trading profits were ¥12,123 million (102.4% of the figure for the previous year). Total trading profits, including other trading profits of ¥235 million (14.7 times the figure for the previous year), were ¥22,233 million (78.9% of the figure for the previous year).

### Trading Profits (¥ billions)



Trading profits	(Millions of yen except percentage)		
	2016<A> (4/1/15~3/31/16)	2015<A> (4/1/14~3/31/15)	Ratio <A>/<B>
Equities	¥9,875	¥16,328	60.5
Bonds	12,123	11,837	102.4
Others	235	16	-
Total	¥22,233	¥28,181	78.9

## 3. Net financial income

Financial income amounted to ¥2,237 million (95.6% of the figure for the previous year). Financial expenses stood at ¥1,309 million (106.4%). Net financial income—i.e., the difference between the two—was ¥928 million (83.6%).

## 4. Other operating income

Other operating income—i.e., operating income other than that related to the financial products transaction business and incidental operations—declined stood at ¥791 million (102.7% of the figure for the previous year).

## 5. Selling, general and administrative expenses

Selling, general, and administrative expenses were ¥67,459 million (100.5% of the figure for the previous year), due to lower personnel expenses and increase of business relations expenses.

## 6. Other income (expenses)

The Company posted other income of ¥4,817 million, due to results from factors such as the posting of gain on sale of investment securities and equity in gain of affiliates.

## **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 declined ¥133,747 million to ¥515,743 million year on year, due mainly to a decline of ¥74,519 million in receivables on collateralized securities transactions, ¥45,486 million in trading products, and ¥15,932 million in receivables on margin transactions.

Liabilities at fiscal year-end fell ¥134,433 million year on year to ¥343,646 million, due mainly to a decline of ¥67,900 million in trading products, ¥44,958 million in payables on collateralized securities transactions, ¥11,962 million in deposits received, and ¥8,274 million in payables on margin transactions.

Net assets at fiscal year-end increased ¥686 million year on year to ¥172,097 million, due mainly to an increase of ¥6,196 million in retained earnings and declines of ¥3,103 million in unrealized gains on available-for-sale securities and ¥1,565 million in minority interests.

### **2. Cash flows**

Cash and deposits (“cash” hereafter) at the end of the consolidated fiscal year increased ¥2,684 million year on year to ¥53,250 million.

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

#### **< Cash flows from operating activities >**

Cash inflows from operating activities were ¥13,734 million, due mainly to the difference between cash inflows from an increase of ¥18,976 million in income before income taxes and minority interests and a change of ¥29,560 million in receivables on collateralized securities transactions and payables on collateralized securities transactions and cash outflows from a change of ¥25,733 million in trading products and a decline in deposits received of ¥11,732 million.

#### **< Cash flows from investing activities >**

Cash outflows due to investment activities were ¥10,395 million, due mainly to the difference between cash inflows of ¥3,222 million from the sale of investment securities and cash outflows of ¥4,295 million from the acquisition of intangible fixed assets, ¥4,013 million from the acquisition of investment securities, and ¥2,588 million from the acquisition of shares in affiliates.

#### **< Cash flows from financing activities >**

Cash outflows due to financing activities were ¥342 million, due mainly to the difference between cash inflow of ¥9,920 million from a net change in short-term borrowings and cash outflows from ¥4,873 million from dividend payments, ¥2,961 million from the repayment of long-term borrowings, and ¥2,675 million from the acquisition by subsidiaries of their own shares.

**Okasan Securities Group Inc. and Consolidated Subsidiaries**  
**Consolidated Balance Sheet — March 31, 2016**

	Millions of yen		Thousands of U.S. dollars (note 3)
	2016	2015	2016
<b>ASSETS</b>			
Current assets:			
Cash on hand and in banks (notes 10 and 22)	¥ 57,301	¥ 55,583	\$ 508,529
Cash segregated as deposits for customers and	58,842	63,610	522,204
Trading assets (notes 4 and 10)	170,852	216,338	1,516,258
Receivables on margin transactions (note 5)	42,341	58,273	375,763
Receivables on collateralized securities transactions (note 6)	95,461	169,980	847,187
Short-term investments (note 7)	2,004	503	17,785
Deferred income taxes (note 11)	811	1,377	7,197
Other current assets	7,576	8,030	67,235
Allowance for doubtful accounts	(0)	(14)	(0)
<b>Total current assets</b>	<b>435,188</b>	<b>573,680</b>	<b>3,862,158</b>
Property and equipment, net of accumulated depreciation of ¥13,370 million (\$118,655 thousand) in 2016 and ¥12,429 million in 2015 (note 10)	19,595	18,961	173,900
Intangible assets, net	9,869	7,585	87,584
Investments and other assets:			
Investment securities (notes 7, 8 and 10)	43,968	42,049	390,202
Long-term guarantee deposits	3,795	3,393	33,679
Asset for retirement benefits (note 12)	395	994	3,506
Deferred income taxes (note 11)	1,623	1,445	14,404
Other	2,878	3,049	25,541
Allowance for doubtful accounts	(1,568)	(1,666)	(13,915)
<b>Total investments and other assets</b>	<b>51,091</b>	<b>49,264</b>	<b>453,417</b>
<b>TOTAL</b>	<b>¥ 515,743</b>	<b>¥ 649,490</b>	<b>\$ 4,577,059</b>

See accompanying notes to consolidated financial statements.

**Okasan Securities Group Inc. and Consolidated Subsidiaries**  
**Consolidated Balance Sheet—(Continued) — March 31, 2016**

	Millions of yen		Thousands of U.S. dollars (note 3)
	2016	2015	2016
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities:			
Trading liabilities (note 4)	¥ 77,206	¥ 145,106	\$ 685,179
Payables arising from unsettled trades	16,146	19,466	143,291
Payables on margin transactions (notes 5 and 10)	10,468	18,742	92,900
Payables on collateralized securities transactions (note 6)	24,737	69,695	219,533
Deposits received	27,529	39,491	244,312
Guarantee deposits received	36,285	36,679	322,018
Short-term borrowings (notes 9 and 10)	109,534	104,796	972,080
Income tax payables (note 11)	1,252	2,770	11,111
Deferred income taxes (note 11)	30	33	266
Other current liabilities (notes 9 and 13)	7,770	8,717	68,957
Total current liabilities	310,957	445,495	2,759,647
Non-current liabilities:			
Long-term borrowings (notes 9 and 10)	12,300	9,210	109,159
Lease liabilities (note 9)	774	1,021	6,869
Deferred income taxes (note 11)	7,508	9,089	66,631
Liability for retirement benefits (note 12)	5,740	7,654	50,941
Other non-current liabilities (note 13)	3,724	2,992	33,049
Total non-current liabilities	30,046	29,966	266,649
Financial instruments transactions reserve (note 14)	2,643	2,618	23,456
Total liabilities	343,646	478,079	3,049,752
Net assets			
Shareholders' equity (note 15):			
Common stock			
Authorized—750,000,000 shares in 2016 and 2015	18,590	18,590	164,981
Capital surplus	12,982	12,913	115,211
Retained earnings	106,669	100,473	946,654
Treasury stock, at cost, 10,381,520 shares in 2016 and 10,211,055 shares in 2015	(3,790)	(3,730)	(33,635)
Total shareholders' equity	134,451	128,246	1,193,211
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities (note 7)	11,371	14,474	100,914
Surplus on land revaluation (note 17)	401	389	3,559
Foreign currency translation adjustments	180	429	1,597
Remeasurements of defined benefit plans	(41)	660	(364)
Total accumulated other comprehensive income	11,911	15,952	105,706
Stock acquisition rights (note 16)	87	-	772
Non-controlling interests	25,648	27,213	227,618
Total net assets	172,097	171,411	1,527,307
Commitments and contingencies (note 23)			
<b>TOTAL</b>	<b>¥ 515,743</b>	<b>¥ 649,490</b>	<b>\$ 4,577,059</b>

See accompanying notes to consolidated financial statements.

**Okasan Securities Group Inc. and Consolidated Subsidiaries**  
**Consolidated Statement of Income — Year ended March 31, 2016**

	Millions of yen		Thousands of U.S. dollars (note 3)
	2016	2015	2016
Operating revenues:			
Commissions	¥ 57,666	¥ 63,342	\$ 511,768
Net gain on trading	22,233	28,181	197,311
Interest and dividend income	2,237	2,340	19,852
Service fee and other revenues	791	770	7,020
	<u>82,927</u>	<u>94,633</u>	<u>735,951</u>
Interest expense	<u>1,309</u>	<u>1,230</u>	<u>11,617</u>
Net operating revenues	81,618	93,403	724,334
Selling, general and administrative expenses (note19)	<u>67,459</u>	<u>67,108</u>	<u>598,677</u>
Operating income	<u>14,159</u>	<u>26,295</u>	<u>125,657</u>
Other income (expenses):			
Dividend income	946	773	8,395
Reversal of allowance for doubtful accounts	14	6	124
Gain on sale of investment securities	1,796	339	15,939
Gain on sale of property and equipment	11	-	98
Equity in gain (losses) of affiliates	2,435	(10)	21,610
Interest expense	(85)	(96)	(754)
Loss on sale and disposal of property and equipment and intangible assets	(48)	(700)	(426)
Loss on sale of investment securities	(87)	(58)	(772)
Loss on devaluation of investment securities	(24)	(58)	(213)
Provision for financial instruments transactions reserve	(25)	(292)	(222)
Impairment loss	(3)	-	(27)
Compensation expense	(294)	-	(2,609)
Loss on cancellation of lease contracts	(68)	-	(604)
Provision for liabilities for retirement benefits for directors and corporate auditors	-	(1,000)	-
Other, net	249	282	2,210
	<u>4,817</u>	<u>(814)</u>	<u>42,749</u>
Income before income taxes and non-controlling interests	18,976	25,481	168,406
Income taxes (note 11):			
Current	4,513	9,040	40,052
Deferred	1,403	617	12,451
	<u>5,916</u>	<u>9,657</u>	<u>52,503</u>
Net income	<u>13,060</u>	<u>15,824</u>	<u>115,903</u>
Net income attributable to non-controlling interests	<u>1,992</u>	<u>1,724</u>	<u>17,678</u>
Net income attributable to owners of the parent	<u>¥ 11,068</u>	<u>¥ 14,100</u>	<u>\$ 98,225</u>

See accompanying notes to consolidated financial statements.

**Okasan Securities Group Inc. and Consolidated Subsidiaries**  
**Consolidated Statement of Comprehensive Income – Year ended March 31, 2016**

	Millions of yen		Thousands of U.S. dollars (note 3)
	2016	2015	2016
Net income	¥ 13,060	¥ 15,824	\$ 115,903
Other comprehensive income (loss) (note 20):			
Unrealized gain (loss) on available-for-sale securities	(3,844)	6,721	(34,114)
Surplus on land revaluation	44	88	390
Foreign currency translation adjustments	(249)	574	(2,210)
Remeasurements of defined benefit plans	(724)	314	(6,425)
Share of other comprehensive income (loss) of affiliates accounted for by equity method	(61)	-	(541)
Total other comprehensive income (loss)	<u>(4,834)</u>	<u>7,697</u>	<u>(42,900)</u>
Comprehensive income	<u>¥ 8,226</u>	<u>¥ 23,521</u>	<u>\$ 73,003</u>
Comprehensive income attributable to:			
Owners of the parent	¥ 7,028	¥ 20,313	\$ 62,371
Non-controlling interests	1,198	3,208	10,632

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, 2016**

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
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 attributable to owners of the parent			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
Changes arising during the year:					
Cash dividends			(4,873)		(4,873)
Net income attributable to owners of the parent			11,068		11,068
Purchase of treasury stock				(27)	(27)
Disposition of treasury stock		0	(0)	0	0
Changes in equity resulting from transactions with non-controlling interests		69		(33)	36
Reversal of surplus on land revaluation			1		1
Net changes other than shareholders' equity					
Total changes during the year	-	69	6,196	(60)	6,205
Balances at March 31, 2016	¥ 18,590	¥ 12,982	¥ 106,669	¥ (3,790)	¥ 134,451



Millions of yen

	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	Stock acquisition rights	Non- controlling interests	Total net assets
Balances at March 31, 2014	¥ 9,180	¥ 371	¥ (144)	¥ 339	¥ 9,746	- ¥	¥ 24,069	¥ 152,840
Cumulative effects of changes in accounting							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 attributable to owners of the parent								14,100
Purchase of treasury stock								(29)
Disposition of treasury								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
Changes arising during the year:								
Cash dividends								(4,873)
Net income attributable to owners of the parent								11,068
Purchase of treasury stock								(27)
Disposition of treasury								0
Changes in equity resulting from transactions with non-controlling interests								36
Reversal of surplus on land revaluation								1
Net changes other than shareholders' equity	(3,103)	12	(249)	(701)	(4,041)	87	(1,565)	(5,519)
Total changes during the year	(3,103)	12	(249)	(701)	(4,041)	87	(1,565)	686
Balances at March 31, 2016	¥ 11,371	¥ 401	¥ 180	¥ (41)	¥ 11,911	¥ 87	¥ 25,648	¥ 172,097

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, 2015	\$ 164,981	\$ 114,599	\$ 891,666	\$ (33,103)	\$ 1,138,143
Changes arising during the year:					
Cash dividends			(43,246)		(43,246)
Net income attributable to owners of the parent			98,225		98,225
Purchase of treasury stock				(239)	(239)
Disposition of treasury stock		0	(0)	0	0
Changes in equity resulting from transactions with non-controlling interests		612		(293)	319
Reversal of surplus on land revaluation			9		9
Net changes other than shareholders' equity					
Total changes during the year	-	612	54,988	(532)	55,068
Balances at March 31, 2016	\$ <u>164,981</u>	\$ <u>115,211</u>	\$ <u>946,654</u>	\$ <u>(33,635)</u>	\$ <u>1,193,211</u>

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	Stock acquisition rights	Non- controlling interests	Total net assets
Balances at March 31, 2015	\$ 128,452	\$ 3,453	\$ 3,807	\$ 5,857	\$ 141,569	\$ -	\$ 241,507	\$ 1,521,219
Changes arising during the year:								
Cash dividends								(43,246)
Net income attributable to owners of the parent								98,225
Purchase of treasury								(239)
Disposition of treasury								0
Changes in equity resulting from transactions with non-controlling interests								319
Reversal of surplus on land revaluation								9
Net changes other than shareholders' equity	(27,538)	106	(2,210)	(6,221)	(35,863)	772	(13,889)	(48,980)
Total changes during the year	(27,538)	106	(2,210)	(6,221)	(35,863)	772	(13,889)	6,088
Balances at March 31, 2016	\$ <u>100,914</u>	\$ <u>3,559</u>	\$ <u>1,597</u>	\$ <u>(364)</u>	\$ <u>105,706</u>	\$ <u>772</u>	\$ <u>227,618</u>	\$ <u>1,527,307</u>

See accompanying notes to consolidated financial statements.

**Okasan Securities Group Inc. and Consolidated Subsidiaries**  
**Consolidated Statement of Cash Flows — Year ended March 31, 2016**

	Millions of yen		Thousands of U.S. dollars (note 3)
	2016	2015	2016
Cash flows from operating activities:			
Income before income taxes and non-controlling interests	¥ 18,976	¥ 25,481	\$ 168,406
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating			
Depreciation and amortization	3,259	4,042	28,923
Impairment loss	3	-	27
Interest and dividend income	(3,191)	(3,119)	(28,319)
Interest expense	1,394	1,326	12,371
Loss on sale and disposal of intangible assets	0	621	0
Gain on sale of investment securities	(1,763)	(292)	(15,646)
Loss on devaluation of investment securities	24	58	213
Decrease (increase) in deposits segregated for customer	4,050	(6,100)	35,942
Decrease (increase) in trading assets and increase (decrease) in trading liabilities	(25,733)	10,997	(228,372)
Decrease (increase) in receivables on margin transactions and increase (decrease) in payables on margin transactions	7,635	7,179	67,758
Decrease (increase) in receivables on collateralized securities transactions and increase (decrease) in payables on collateralized securities transactions	29,560	25,833	262,336
Increase (decrease) in deposits received	(11,732)	9,972	(104,118)
Decrease (increase) in short-term guarantee deposits	732	734	6,496
Increase (decrease) in guarantee deposits received	(394)	874	(3,497)
Increase (decrease) in allowance for doubtful accounts	(112)	(215)	(994)
Increase (decrease) in liabilities for retirement benefits	(1,316)	59	(11,679)
Increase (decrease) in financial instruments transactions reserve	25	292	222
Other, net	(3,303)	348	(29,313)
Sub-total	18,114	78,090	160,756
Interest and dividend received	3,098	3,229	27,494
Interest paid	(1,403)	(1,318)	(12,451)
Income taxes paid	(6,075)	(15,726)	(53,914)
Net cash provided by operating activities	13,734	64,275	121,885
Cash flows from investing activities:			
Payment for short-term investments	(2,002)	(3,400)	(17,767)
Proceeds from sale of short-term investments	-	4,500	-
Payment for purchase of property and equipment	(1,621)	(1,039)	(14,386)
Payment for purchase of intangible assets	(4,295)	(2,636)	(38,117)
Payment for purchase of investment securities	(4,013)	(748)	(35,614)
Proceeds from sale of investment securities	3,222	3,137	28,594
Payment for investments in affiliates	(2,588)	(20)	(22,967)
Other, net	902	(600)	8,005
Net cash used in investing activities	(10,395)	(806)	(92,252)

Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	9,920	(55,110)	88,037
Proceeds from long-term borrowings	900	6,000	7,987
Payments on long-term borrowings	(2,961)	(4,270)	(26,278)
Proceeds from sale of treasury stock	1	0	9
Purchase of treasury stock	(28)	(29)	(248)
Purchase of treasury stock by subsidiaries	(2,675)	-	(23,740)
Dividends paid	(4,873)	(4,874)	(43,246)
Dividends paid to non-controlling interests of subsidiaries	(51)	(65)	(453)
Other, net	(575)	(550)	(5,103)
Net cash used in financing activities	<u>(342)</u>	<u>(58,898)</u>	<u>(3,035)</u>
Effect of exchange rate changes on cash and cash equivalents	(313)	559	(2,779)
Net increase (decrease) in cash and cash equivalents	<u>2,684</u>	<u>5,130</u>	<u>23,819</u>
Cash and cash equivalents, beginning of year	<u>50,566</u>	<u>45,436</u>	<u>448,758</u>
Cash and cash equivalents, end of year (note 22)	<u>¥ 53,250</u>	<u>¥ 50,566</u>	<u>\$ 472,577</u>

See accompanying notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

Okasan Securities Group Inc. and Consolidated Subsidiaries — Year ended March 31, 2016

### 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. Three affiliates are accounted for by equity method at March 31, 2016. 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. 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.
- 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 benefit formula basis. 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 of 5 years.

Certain domestic consolidated subsidiaries have unfunded defined benefit pension plans for directors and corporate auditors based on their internal rule. 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.
- 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. Business combinations**— Effective from the current consolidated fiscal year (hereinafter referred as the “year”), the Company adopted the “Revised Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (ASBJ) Statement No.21, issued September 13, 2013, hereinafter referred to as the “Accounting Standard for Business Combinations”), “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, issued September 13, 2013, hereinafter referred to as the “Accounting Standard for Consolidated Financial Statements”), “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, issued September 13, 2013, hereinafter referred to as the “Accounting Standard for Business Divestitures”) and other related standards and implementation guidance. In applying these revised accounting standards, the Company records any differences arising from changes in ownership interest in a subsidiary when it retains control as capital surplus and the acquisition-related costs are recognized as expenses when incurred. Also, for business combinations conducted after the beginning of the year, the disclosure method was revised regarding to the adjustment of purchase price allocation based on provisional accounting applicable to the consolidated financial statements of the fiscal year when the business combination occurred. In addition, the presentation method of net income was amended and the reference to “minority interests” was changed to “non-controlling interests”. The Company has applied these standards in accordance with the transitional treatment prescribed in Section 58-2 (4) of the Accounting Standard for Business Combinations, Section 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and Section 57-4 (4) of the Accounting Standard for Business Divestitures, and The Company applied these standards from the beginning of the year.

As a result of these changes, operating income increased by ¥100 million (\$887 thousand) and income before income taxes and non-controlling interests decreased by ¥68 million (\$603 thousand) for the year ended March 31, 2016. Capital surplus increased by ¥68 million (\$603 thousand) at March 31, 2016.

For the year ended March 31, 2016, cash flows from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation are recognized under “cash flows from financing activities”.

The impact on net income per share and net assets per share is immaterial.

- p. 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, 2016.
- q. New accounting pronouncements not yet adopted**—Regarding the treatment related to the recoverability of deferred tax assets, “Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No.26, issued March 28, 2016)” has been reviewed, basically following the framework of the Audit Committee Report No. 66 “Audit Treatment related to Judgment of the Recoverability of Deferred Tax Assets,” namely, a framework that classifies companies into five categories and estimates the recorded amount of deferred tax assets according to each category.

The following treatment has been reviewed.

- 1) Treatment of companies that do not satisfy any of the category requirements for Category 1 through Category 5
- 2) Category requirements for Category 2 and Category 3
- 3) Treatment related to a future deductible temporary difference for which scheduling is not possible, in a company that qualifies as Category 2
- 4) Treatment related to the reasonable estimable period for taxable income before future additions and deductions such as temporary difference, etc., in a company that qualifies as Category 3
- 5) Treatment in the case that a company that satisfies the category requirements for Category 4 qualifies as Category 2 or Category 3

The Company is scheduled to apply these accounting standards from the beginning of the year ending March 31, 2017.

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, 2016, which was ¥112.68 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, 2016 and 2015 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
<b>Trading assets:</b>			
Securities and other	¥ 170,824	¥ 216,262	\$ 1,516,010
Derivatives	28	76	248
	<u>¥ 170,852</u>	<u>¥ 216,338</u>	<u>\$ 1,516,258</u>
<b>Trading liabilities:</b>			
Securities and other	¥ 77,194	¥ 145,103	\$ 685,073
Derivatives	12	3	106
	<u>¥ 77,206</u>	<u>¥ 145,106</u>	<u>\$ 685,179</u>

#### 5. MARGIN TRANSACTIONS

Margin transactions at March 31, 2016 and 2015 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
<b>Assets:</b>			
Loans receivable from customers	¥ 38,795	¥ 54,678	\$ 344,293
Cash deposits as collateral for securities borrowed from securities finance companies	3,546	3,595	31,470
	<u>¥ 42,341</u>	<u>¥ 58,273</u>	<u>\$ 375,763</u>
<b>Liabilities:</b>			
Borrowings from securities finance companies	¥ 3,617	¥ 10,531	\$ 32,100
Proceeds from securities sold for customers' accounts	6,851	8,211	60,800
	<u>¥ 10,468</u>	<u>¥ 18,742</u>	<u>\$ 92,900</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, 2016 and 2015 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
<b>Assets:</b>			
Cash collateral for securities borrowed	¥ 95,461	¥ 169,980	\$ 847,187
<b>Liabilities:</b>			
Cash collateral for securities loaned	¥ 24,737	¥ 69,695	\$ 219,533

## 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, 2016 and 2015 are summarized as follows:

	Millions of yen			
	Balance sheet	Gross unrealized gain	Gross unrealized loss	Fair value
At March 31, 2016				
Government, corporate and other bonds	¥ 46	¥ -	¥ 5	¥ 41
At March 31, 2015				
Government, corporate and other bonds	¥ 54	¥ -	¥ 6	¥ 48

	Thousands of U.S. dollars			
	Balance sheet	Gross unrealized gain	Gross unrealized loss	Fair value
At March 31, 2016				
Government, corporate and other bonds	\$ 408	\$ -	\$ 44	\$ 364

Acquisition cost, balance sheet amount, gross unrealized gain and gross unrealized loss of available-for-sale securities with fair value at March 31, 2016 and 2015 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet
At March 31, 2016				
Current:				
Government, corporate and other bonds	¥ 2,001	¥ 1	¥ -	¥ 2,002
Other	2	-	(0)	2
	¥ 2,003	¥ 1	¥ (0)	¥ 2,004
Non-current:				
Equity securities	¥ 12,446	¥ 22,620	¥ (1,359)	¥ 33,707
Other	3,897	47	(191)	3,753
	¥ 16,343	¥ 22,667	¥ (1,550)	¥ 37,460
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
Other	745	98	(34)	809
	¥ 13,349	¥ 27,165	¥ (50)	¥ 40,464

Thousands of U.S. dollars				
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet
At March 31, 2016				
Current:				
Government, corporate and other bonds	\$ 17,758	\$ 9	\$ -	\$ 17,767
Other	18	-	(0)	18
	<u>\$ 17,776</u>	<u>\$ 9</u>	<u>\$ (0)</u>	<u>\$ 17,785</u>
Non-current:				
Equity securities	\$ 110,454	\$ 200,746	\$ (12,061)	\$ 299,139
Other	34,585	417	(1,695)	33,307
	<u>\$ 145,039</u>	<u>\$ 201,163</u>	<u>\$ (13,756)</u>	<u>\$ 332,446</u>

Securities classified as available-for-sale securities for which fair value is not available are unlisted equity securities amounting to ¥6,460 million (\$57,330 thousand) and ¥1,523 million, and investments in limited partnership and similar partnership amounting to ¥2 million (\$18 thousand) and ¥18 million at March 31, 2016 and 2015, respectively.

For the years ended March 31, 2016 and 2015, 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, 2016				
Equity securities	¥ 2,096	¥ 1,693	¥ (2)	
Government, corporate and other bonds	300	-	-	
Other	825	157	(86)	
	<u>¥ 3,221</u>	<u>¥ 1,850</u>	<u>¥ (88)</u>	
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>	

Thousands of U.S. dollars				
	Proceeds from sales of available-for-sale securities	Gross realized gains	Gross realized losses	
March 31, 2016				
Equity securities	\$ 18,601	\$ 15,025	\$ (18)	
Government, corporate and other bonds	2,662	-	-	
Other	7,322	1,393	(763)	
	<u>\$ 28,585</u>	<u>\$ 16,418</u>	<u>\$ (781)</u>	

## 8. INVESTMENTS IN AFFILIATES

The aggregate carrying amount of investments in affiliates at March 31, 2016 and 2015 are ¥5,019 million (\$44,542 thousand) and ¥57 million, respectively.

## 9. BORROWINGS

The weighted-average interest rates applicable to the short-term borrowings are 0.55% and 0.68% at March 31, 2016 and 2015, respectively.

Long-term borrowings at March 31, 2016 and 2015 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Borrowings, maturing in installments through 2021; bearing weighted average interest of 2.13% at March 31, 2016	¥ 13,404	¥ -	\$ 118,957
Borrowings, maturing in installments through 2020; bearing weighted average interest of 2.53% at March 31, 2015	-	15,465	-
Less current installments	1,104	6,255	9,798
	<u>¥ 12,300</u>	<u>¥ 9,210</u>	<u>\$ 109,159</u>

Lease liabilities at March 31, 2016 and 2015 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Lease liabilities maturing in installments through 2022; bearing weighted average interest of 2.99% at March 31, 2016	¥ 1,305	¥ -	\$ 11,581
Lease liabilities maturing in installments through 2021; bearing weighted average interest of 3.16% at March 31, 2015	-	1,552	-
Less current installments	531	531	4,712
	<u>¥ 774</u>	<u>¥ 1,021</u>	<u>\$ 6,869</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 U.S. dollars
	2016	2015	2016
Long-term borrowings	¥ 6,000	¥ 6,000	\$ 53,248
Current installments of long-term borrowings	-	2,775	-

Annual maturities of borrowings after March 31, 2017, are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
	2018	¥ 3,140
2019	2,320	20,589
2020	4,000	35,499
2021	2,840	25,204

Annual maturities of lease liabilities after March 31, 2017, are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
	2018	¥ 412
2019	231	2,050
2020	88	781
2021	40	355

To meet its liquidity needs stably and expeditiously and to strengthen financial operations, the Company established a commitment line of ¥21,000 million (\$186,368 thousand) with 7 financial institutions at both March 31, 2016 and 2015, 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, 2016 and 2015, the carrying value of assets pledged is as follows:

	Millions of Yen		Thousands of U.S. dollars
	2016	2015	2016
Cash in banks	¥ 2,084	¥ 2,214	\$ 18,495
Trading assets	32,980	7,049	292,687
Property and equipment	7,256	7,911	64,395
Investment securities	19,472	23,939	172,808
	<u>¥ 61,792</u>	<u>¥ 41,113</u>	<u>\$ 548,385</u>

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Short-term borrowings	¥ 37,073	¥ 19,431	\$ 329,011
Borrowings from securities finance companies	935	4,772	8,298
Long-term borrowings	6,300	3,210	55,911
	<u>¥ 44,308</u>	<u>¥ 27,413</u>	<u>\$ 393,220</u>

In addition to above, at March 31, 2016, trading assets, etc. amounting to ¥59,542 million (\$528,417 thousand) and investments securities amounting to ¥133 million (\$1,180 thousand) are deposited as guarantee for settlement of trading accounts and securities borrowed, respectively. At March 31, 2015, trading assets, etc. amounting to ¥70,834 million and investments securities amounting to ¥204 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, 2016 and 2015, except for those disclosed in the above table, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Securities loaned on margin transactions	¥ 6,950	¥ 8,627	\$ 61,679
Securities pledged for borrowings on margin	3,177	10,634	28,195
Securities loaned	24,709	69,509	219,285
Other	33,614	31,828	298,313
	<u>¥ 68,450</u>	<u>¥ 120,598</u>	<u>\$ 607,472</u>

The fair value of the securities received as collateral at March 31, 2016 and 2015 are as follows:

	Millions of Yen		Thousands of U.S. dollars
	2016	2015	2016
Securities received on margin transactions	¥ 35,591	¥ 52,533	\$ 315,859
Securities borrowed	107,717	174,377	955,955
Securities pledged as collateral	36,952	59,878	327,937
Other	4,079	4,276	36,200
	<u>¥ 184,339</u>	<u>¥ 291,064</u>	<u>\$ 1,635,951</u>

## 11. INCOME TAXES

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

Because "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 15 of 2016) and "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 13 of 2016) were enacted by the Diet on March 29, 2016, the effective statutory tax rate is to be lowered from the year beginning on or after April 1, 2016.

As a result of the change in tax rates, the amount of deferred tax liabilities (the amount after offsetting deferred tax assets) decreased by ¥138 million (\$1,225 thousand), remeasurements of defined benefit plans decreased by ¥2 million (\$18 thousand), income taxes-deferred for the current year increased by ¥203 million (\$1,802 thousand) and unrealized gain on available-for-sale securities increased by ¥343 million (\$3,044 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, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Tax loss carryforwards	¥ 3,144	¥ 3,304	\$ 27,902
Liability for retirement benefits (employees)	1,686	1,415	14,963
Financial instruments transactions reserve	807	845	7,162
Accrued bonuses	559	785	4,961
Liability for retirement benefits (directors and corporate auditors)	35	765	311
Allowance for doubtful accounts	477	506	4,233
Impairment loss	349	362	3,097
Accrued business tax	82	299	728
Asset retirement obligations	315	279	2,795
Loss on devaluation of investment securities	229	241	2,032
Retirement benefits payable for directors and corporate auditors	181	-	1,606
Depreciation and amortization	165	186	1,464
Loss on devaluation of golf memberships	107	114	950
Other	424	545	3,763
	8,560	9,646	75,967
Valuation allowance	(5,296)	(5,487)	(47,000)
Total	3,264	4,159	28,967
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(6,514)	(8,694)	(57,810)
Land revaluation excess	(1,457)	(1,503)	(12,930)
Other	(397)	(262)	(3,523)
Total	(8,368)	(10,459)	(74,263)
Net deferred tax liabilities	¥ (5,104)	¥ (6,300)	\$ (45,296)

Net deferred tax assets at March 31, 2016 and 2015 are reflected in the accompanying consolidated balance sheet under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Current assets – Deferred income taxes	¥ 811	¥ 1,377	\$ 7,197
Investments and other assets – Deferred income	1,623	1,445	14,404
Current liabilities – Deferred income taxes	(30)	(33)	(266)
Non-current liabilities – Deferred income taxes	(7,508)	(9,089)	(66,631)
	<u>¥ (5,104)</u>	<u>¥ (6,300)</u>	<u>\$ (45,296)</u>

A reconciliation of the statutory tax rate and the effective tax rate as a percentage of income before income taxes and non-controlling interests for the years ended March 31, 2016 and 2015 is as follows:

	2016	2015
Statutory tax rate	33.0%	35.5%
Expenses not deductible for tax purposes	0.9	0.6
Income not credited for tax purposes	(0.0)	(0.3)
Per capita tax	0.4	0.3
Equity in gains of affiliates	(4.2)	0.0
Valuation allowance	1.3	(1.0)
Adjustments of deferred tax assets due to change in tax rate	1.1	1.6
Expiration of tax loss carryforwards	-	2.4
Tax credits for salary increase	(1.5)	(2.0)
Other	0.2	0.8
Effective tax rate	<u>31.2%</u>	<u>37.9%</u>

## 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, 2016 and 2015 and for the years then ended.

#### (1) Reconciliation of changes in retirement benefit obligation

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Retirement benefit obligation at beginning of year	¥ 13,730	¥ 13,594	\$ 121,850
Cumulative effects of changes in accounting policies	-	(28)	-
Restated balance at beginning of year	13,730	13,566	121,850
Service cost	704	633	6,248
Interest cost	53	83	470
Actuarial gain and loss	537	333	4,766
Benefits paid	(849)	(885)	(7,535)
Other	0	-	0
Retirement benefit obligation at end of year	<u>¥ 14,175</u>	<u>¥ 13,730</u>	<u>\$ 125,799</u>



- 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 U.S. dollars
	2016	2015	2016
Plan assets at beginning of year	¥ 9,403	¥ 8,404	\$ 83,449
Expected return on plan assets	45	40	399
Actuarial gain and loss	(412)	897	(3,657)
Employer contributions	343	564	3,044
Benefits paid	(436)	(502)	(3,869)
Other	0	-	0
Plan assets at end of year	<u>¥ 8,943</u>	<u>¥ 9,403</u>	<u>\$ 79,366</u>

(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 U.S. dollars
	2016	2015	2016
Funded retirement benefit obligation	¥ 8,548	¥ 8,409	\$ 75,860
Plan assets	(8,943)	(9,403)	(79,366)
	(395)	(994)	(3,506)
Unfunded retirement benefit obligation	5,627	5,321	49,938
Net of liability and assets for retirement benefits	<u>¥ 5,232</u>	<u>¥ 4,327</u>	<u>\$ 46,432</u>
Liability for retirement benefits	¥ 5,627	¥ 5,321	\$ 49,938
Asset for retirement benefits	395	994	3,506
Net of liability and asset for retirement benefits	<u>¥ 5,232</u>	<u>¥ 4,327</u>	<u>\$ 46,432</u>

(4) The components of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service cost	¥ 704	¥ 633	\$ 6,248
Interest cost	53	82	470
Expected return on plan assets	(45)	(40)	(399)
Amortization of actuarial loss (gain)	(118)	(124)	(1,047)
Retirement benefit expenses	<u>¥ 594</u>	<u>¥ 551</u>	<u>\$ 5,272</u>

	(5) Remeasurements of retirement benefit plans before related tax effects		Thousands of
	Millions of yen		U.S. dollars
	2016	2015	2016
Actuarial loss	¥ (1,067)	¥ 440	\$ (9,469)

	(6) Accumulated remeasurements of retirement benefit plans before related tax effects		Thousands of
	Millions of yen		U.S. dollars
	2016	2015	2016
Unrecognized actuarial loss	¥ (106)	¥ 961	\$ (941)

(7) Plan assets

(a) Percentage by major category of plan assets

	2016	2015
Equity securities	33%	42 %
General account	35	34
Debt securities	19	21
Other	13	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, 2016 and 2015 are as follows:

	2016	2015
(a) Discount rate	0.00%	0.41%
(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 ¥197 million (\$1,748 thousand) and ¥192 million for the years ended March 31, 2016 and 2015, respectively.

Retirement benefits for directors and corporate auditors

Directors and corporate auditors are not covered by the plans described above. For such persons, at March 31, 2015, 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 of ¥2,334 million to which directors and corporate auditors are entitled if they were to retire or sever immediately at the balance sheet date.

At March 31, 2016, certain domestic consolidated subsidiaries provide for the amount of ¥113 million (\$1,003 thousand).

### 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 9 to 58 years and discounted rate of 0.00% to 2.33%.

The following table provides the Company's total asset retirement obligation for the years ended March 31, 2016 and 2015:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance, beginning of year	¥ 700	¥ 633	\$ 6,212
Liabilities incurred by asset acquisition	152	112	1,349
Accretion expenses	13	12	115
Liabilities settled	(23)	(66)	(204)
Other increase (decrease)	-	9	-
Balance, end of year	¥ 842	¥ 700	\$ 7,472

### 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, 2016 and 2015 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, 2015 which was approved by the General Meeting of Shareholders held on June 27, 2014 are as follows:

(a) Total dividends	¥4,874 million
(b) Cash dividends per common share	¥25
(c) Record date	March 31, 2014
(d) Effective date	June 30, 2014

Cash dividends for treasury stock held by subsidiaries of ¥122 million were excluded from the above table.

Dividends paid during the year ended March 31, 2016 which was approved by the General Meeting of Shareholders held on June 26, 2015 are as follows:

(a) Total dividends	¥4,873million (\$43,246 thousand)
(b) Cash dividends per common share	¥25 (\$0.22)
(c) Record date	March 31, 2015
(d) Effective date	June 29, 2015

Cash dividends for treasury stock held by subsidiaries of ¥122 million (\$1,083 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, 2016 which was approved by the Board of Directors held on May 17, 2016 are as follows:

(a) Total dividends	¥4,995 million (\$44,329 thousand)
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥25 (\$0.22)
(d) Record date	March 31, 2016
(e) Effective date	June 8, 2016

## 16. STOCK OPTIONS

The cost recognized for the stock options is ¥73 million (\$648 thousand) which is included in selling, general and administrative expenses and the income recognized for the forfeited stock options is ¥5 million (\$44 thousand) for the year ended March 31, 2016.

The General Meeting of Shareholders held on June 26, 2015 approved grant stock options for issue of 129,400 shares of common stock to the directors of the Company and its subsidiary and the stock options were granted to 6 directors of the Company and 23 directors of its subsidiary on July 13, 2015. They are exercisable in the period from July 14, 2015 to July 13, 2045. No condition for execution of right is required. There are no stipulations on requisite service period.

A summary of the scale and movement of the stock option plan for the year ended March 31, 2016 is as follows:

Approval date	June 26, 2015
Non-vested:	
Outstanding at March 31, 2015	-
Granted	129,400
Forfeited	-
Vested	129,400
Outstanding at March 31, 2016	-
Vested:	
Outstanding at March 31, 2015	-
Vested	129,400
Exercised	-
Forfeited	7,600
Outstanding at March 31, 2016	121,800

A summary of information for the stock option plan is as follows:

Exercise price	¥1 (\$0.01)
Average stock price at exercise	-
Fair value at the grant date	¥715 (\$6.35)

The fair value of the stock options was estimated using the Black-Scholes option-valuation model with the following assumptions:

Expected volatility *1	36.963%
Expected remaining outstanding period *2	6.1 years
Expected dividend *3	¥25 per share
Risk-free interest rate *4	0.128%

\*1 Expected volatility is based on the actual stock prices traded from June 7, 2009 to July 13, 2015.

\*2 Expected remaining outstanding period is based on the actual directors' service period and their retired age.

\*3 Expected dividend is based on the dividends paid in the year ended March 31, 2015.

\*4 Risk-free interest rate is the government bond yield for a term consistent with the expected remaining outstanding period.

The number of rights to vest in the future periods is determined based on the actual forfeited number of the stock options because it is difficult to estimate forfeiture in the future.

## 17. 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 non-controlling 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 fair value of the land increased by ¥302 million (\$2,680 thousand) at March 31, 2016 and decreased by ¥883 million at March 31, 2015 in comparison with the book value of the land after the revaluation.

## 18. 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 120%. Capital adequacy ratios of Okasan Securities Co., Ltd. are 449.5% and 467.3% at March 31, 2016 and 2015, respectively.

## 19. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major elements of selling, general and administrative expenses for the years ended March 31, 2016 and 2015 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Commissions and brokerage	¥ 14,765	¥ 13,518	\$ 131,035
Employees' compensation and benefits	33,331	34,440	295,802
Occupancy and rental	6,273	6,159	55,671
Data processing and office supplies	5,688	5,083	50,479
Depreciation and amortization	3,259	4,042	28,923
Taxes other than income taxes	846	754	7,508
Provision for doubtful accounts	(4)	(7)	(36)
Other	3,301	3,119	29,295
	<u>¥ 67,459</u>	<u>¥ 67,108</u>	<u>\$ 598,677</u>

## 20. OTHER COMPREHENSIVE INCOME (LOSS)

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Net unrealized holding gain (loss) on available-for-sale securities:			
Arising during the year	¥ (4,324)	¥ 9,297	\$ (38,374)
Reclassification adjustment	(1,733)	(276)	(15,380)
Before tax amount	(6,057)	9,021	(53,754)
Tax benefit (expense)	2,213	(2,300)	19,640
Net-of-tax amount	(3,844)	6,721	(34,114)
Surplus on land revaluation:			
Tax benefit (expense)	44	88	390
Foreign currency translation adjustments:			
Arising during the year	(249)	574	(2,210)
Remeasurements of defined benefit plans:			
Arising during the year	(949)	564	(8,422)
Reclassification adjustment	(118)	(124)	(1,047)
Before tax amount	(1,067)	440	(9,469)
Tax benefit (expense)	343	(126)	3,044
Net-of-tax amount	(724)	314	(6,425)
Share of other comprehensive income (loss) of affiliates accounted for by equity method:			
Arising during the year	(61)	-	(541)
Total other comprehensive income (loss)	¥ (4,834)	¥ 7,697	\$ (42,900)

## 21. 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, 2016 and 2015 are as follows:

	Yen		U.S. dollars
	2016	2015	2016
Basic net income per share	¥ 55.94	¥ 71.20	\$ 0.50
			Thousands of U.S. dollars
			2016
Net income attributable to owners of the parent	¥ 11,068	¥ 14,100	\$ 98,225
Net income not applicable to common shareholders	-	-	-
Net income attributable to owners of the parent available to common shares	¥ 11,068	¥ 14,100	\$ 98,225

	Number of shares (Thousand)	
	2016	2015
Weighted average number of shares outstanding on which basic net income per share is calculated	197,849	198,021

**(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, 2016 and 2015 are as follows:

	Yen		U.S. dollars
	2016	2015	2016
Net assets per share	¥ 739.82	¥ 728.26	\$ 6.57
	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Total net assets	¥ 172,097	¥ 171,411	\$ 1,527,307
Amount deducted from total net assets:			
Stock acquisition rights	87	-	772
Non-controlling interests	25,648	27,213	227,618
Total	25,735	27,213	228,390
Net assets applicable to common stockholders	¥ 146,362	¥ 144,198	\$ 1,298,917

	Number of shares (Thousand)	
	2016	2015
Number of shares outstanding at the end of year on which net assets per share is calculated	197,833	198,004

**22. 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, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash on hand and in banks	¥ 57,301	¥ 55,583	\$ 508,529
Time deposits that have maturities of over three months when acquired	(4,051)	(5,017)	(35,952)
Cash and cash equivalents	¥ 53,250	¥ 50,566	\$ 472,577

**23. COMMITMENTS AND CONTINGENCIES**

At March 31, 2016 and 2015, the Company and certain subsidiaries have guaranteed approximately ¥14 million (\$124 thousand) and ¥18 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.

## 24. 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, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Within one year	¥ 757	¥ 1,225	\$ 6,718
Over one year	119	677	1,056
	<u>¥ 876</u>	<u>¥ 1,902</u>	<u>\$ 7,774</u>

## 25. 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 and to reduce losses from deals etc.

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 ¥277 million (\$2,458 thousand) calculated using historical method (holding period: one day, confidence interval: 99%, observation period: 1,250 days) at March 31, 2016. 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, 2016 and 2015 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					
	2016			2015		
	Carrying value	Fair value	Differences	Carrying value	Fair value	Differences
<b>Assets:</b>						
Cash on hand and in banks	¥ 57,301	¥ 57,301	¥ -	¥ 55,583	¥ 55,583	¥ -
Cash segregated as deposits for customers and others	58,842	58,842	-	63,610	63,610	-
Trading assets, short-term investments and investment securities						
Trading securities	170,824	170,824	-	216,262	216,262	-
Held-to-maturity debt securities	46	42	(4)	54	49	(5)
Available-for-sale securities	39,464	39,464	-	40,967	40,967	-
Receivables on margin transactions	42,341	42,341	-	58,273	58,273	-
Receivables on collateralized securities transactions	95,461	95,461	-	169,980	169,980	-
Short-term guarantee deposits	2,070	2,070	-	2,802	2,802	-
<b>Total</b>	<b>¥ 466,349</b>	<b>¥ 466,345</b>	<b>¥ (4)</b>	<b>¥ 607,531</b>	<b>¥ 607,526</b>	<b>¥ (5)</b>
<b>Liabilities:</b>						
<b>Trading liabilities</b>						
Trading securities	¥ 77,194	¥ 77,194	¥ -	¥ 145,103	¥ 145,103	¥ -
Payables arising from unsettled trades	16,146	16,146	-	19,466	19,466	-
Payables on margin transactions	10,468	10,468	-	18,742	18,742	-
Payables on collateralized securities transactions	24,737	24,737	-	69,695	69,695	-
Deposits received	27,529	27,529	-	39,491	39,491	-
Guarantee deposits received	36,285	36,285	-	36,679	36,679	-
Short-term borrowings	109,534	109,535	1	104,796	104,825	29
Long-term borrowings	12,300	12,475	175	9,210	9,401	191
<b>Total</b>	<b>¥ 314,193</b>	<b>¥ 314,369</b>	<b>¥ 176</b>	<b>¥ 443,182</b>	<b>¥ 443,402</b>	<b>¥ 220</b>
Derivative transactions	¥ 16	¥ 16	¥ -	¥ 73	¥ 73	¥ -

	Thousands of U.S. dollars		
	2016		
	Carrying value	Fair value	Differences
<b>Assets:</b>			
Cash on hand and in banks	\$ 508,529	\$ 508,529	\$ -
Cash segregated as deposits for customers and others	522,204	522,204	-
Trading assets, short-term investments and investment securities			
Trading securities	1,516,010	1,516,010	-
Held-to-maturity debt securities	408	373	(35)
Available-for-sale securities	350,231	350,231	-
Receivables on margin transactions	375,763	375,763	-
Receivables on collateralized securities transactions	847,187	847,187	-
Short-term guarantee deposits	18,370	18,370	-
<b>Total</b>	<b>\$ 4,138,702</b>	<b>\$ 4,138,667</b>	<b>\$ (35)</b>
<b>Liabilities:</b>			
<b>Trading liabilities</b>			
Trading securities	\$ 685,073	\$ 685,073	\$ -
Payables arising from unsettled trades	143,291	143,291	-
Payables on margin transactions	92,900	92,900	-
Payables on collateralized securities transactions	219,533	219,533	-
Deposits received	244,312	244,312	-
Guarantee deposits received	322,018	322,018	-
Short-term borrowings	972,080	972,089	9
Long-term borrowings	109,159	110,712	1,553
<b>Total</b>	<b>\$ 2,788,366</b>	<b>\$ 2,789,928</b>	<b>\$ 1,562</b>
Derivative transactions	\$ 142	\$ 142	\$ -

\* 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 26. DERIVATIVES.

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unlisted equity securities	¥ 6,460	¥ 1,523	\$ 57,330
Investments in limited partnership and similar	2	18	18
Total	¥ 6,462	¥ 1,541	\$ 57,348

(3) Projected future redemption of monetary claim and securities with maturities  
March 31, 2016

	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	¥ 57,301	¥ -	¥ -	¥ -
Cash segregated as deposits for customers and others	58,842	-	-	-
Trading assets, short-term investments and investment securities:				
Held-to-maturity debt securities:				
Government bonds	-	47	-	-
Available-for-sale securities with maturities:				
Debt securities:				
Government bonds	2,000	-	-	-
Other	2	3,506	220	-
Receivables on margin transactions	42,341	-	-	-
Receivables on collateralized securities transactions	95,461	-	-	-
Short-term guarantee deposits	2,070	-	-	-
	¥ 258,017	¥ 3,553	¥ 220	¥ -

	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	\$ 508,529	\$ -	\$ -	\$ -
Cash segregated as deposits for customers and others	522,204	-	-	-
Trading assets, short-term investments and investment securities:				
Held-to-maturity debt securities:				
Government bonds	-	417	-	-
Available-for-sale securities with maturities:				
Debt securities:				
Government bonds	17,749	-	-	-
Other	18	31,115	1,952	-
Receivables on margin transactions	375,763	-	-	-
Receivables on collateralized securities transactions	847,187	-	-	-
Short-term guarantee deposits	18,370	-	-	-
	\$ 2,289,820	\$ 31,532	\$ 1,952	¥ -

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	-	-	-
	<u>¥ 350,748</u>	<u>¥ 475</u>	<u>¥ 333</u>	<u>¥ -</u>

(4) The annual maturities of the long-term debt and other interest-bearing debt  
March 31, 2016

	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	¥ 108,430	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term borrowings	1,104	3,140	2,320	4,000	2,840	-
Borrowings from securities finance companies	3,617	-	-	-	-	-
Total	<u>¥ 113,151</u>	<u>¥ 3,140</u>	<u>¥ 2,320</u>	<u>¥ 4,000</u>	<u>¥ 2,840</u>	<u>¥ -</u>

	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	\$ 962,282	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term borrowings	9,798	27,867	20,589	35,499	25,204	-
Borrowings from securities finance companies	32,100	-	-	-	-	-
Total	<u>\$ 1,004,180</u>	<u>\$ 27,867</u>	<u>\$ 20,589</u>	<u>\$ 35,499</u>	<u>\$ 25,204</u>	<u>\$ -</u>

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	¥ <u>115,327</u>	¥ <u>1,000</u>	¥ <u>2,210</u>	¥ <u>2,000</u>	¥ <u>4,000</u>	¥ <u>-</u>

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

## 26. 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, 2016 and 2015 are summarized as follows:

#### (1) Stocks

March 31, 2016

	<u>Millions of yen</u>			
	Contract or notional amounts	Fair value	Valuation gain (loss)	
Stock index futures:				
Written	¥ 1,873	¥ 2	¥ 2	
Purchased	1,276	1	1	
Stock index options:				
Written	4	4	0	
Purchased	10	10	0	
			<u>¥ 3</u>	

	<u>Thousands of U.S. dollars</u>			
	Contract or notional amounts	Fair value	Valuation gain (loss)	
Stock index futures:				
Written	\$ 16,622	\$ 18	\$ 18	
Purchased	11,324	9	9	
Stock index options:				
Written	35	35	0	
Purchased	89	89	0	
			<u>\$ 27</u>	

March 31, 2015

	<u>Millions of yen</u>			
	Contract or notional amounts	Fair value	Valuation gain (loss)	
Stock index futures:				
Written	¥ 1,289	¥ 4	¥ 4	
Purchased	1,621	(1)	(1)	
Stock index options:				
Written	2	3	(1)	
Purchased	2	2	0	
			<u>¥ 2</u>	

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



(2) Bond  
March 31, 2016

	<u>Millions of yen</u>			
	<u>Contract</u>		<u>Valuation</u>	
	<u>or</u>		<u>Fair value gain (loss)</u>	
	<u>notional</u>	<u>amounts</u>	<u>Fair value</u>	<u>gain (loss)</u>
Bond futures:				
Written	¥ 4,095	¥ 10	¥ 10	
Purchased	-	-	-	
Bond options:				
Written	-	-	-	
Purchased	4	5	1	
			<u>¥ 11</u>	

	<u>Thousands of U.S. dollars</u>			
	<u>Contract</u>		<u>Valuation</u>	
	<u>or</u>		<u>Fair value gain (loss)</u>	
	<u>notional</u>	<u>amounts</u>	<u>Fair value</u>	<u>gain (loss)</u>
Bond futures:				
Written	\$ 36,342	\$ 89	\$ 89	
Purchased	-	-	-	
Bond options:				
Written	-	-	-	
Purchased	35	44	9	
			<u>\$ 98</u>	

March 31, 2015

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

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

(3) Foreign exchange  
March 31, 2016

		Millions of yen	
		Contract or notional amounts	Valuation Fair value gain (loss)
Forward foreign exchange:			
Written:			
Australian dollar	¥ 809	¥ (1)	¥ (1)
Mexican Peso	551	(3)	(3)
Turkish lira	434	(2)	(2)
U.S. dollar	393	(2)	(2)
Brazilian real	328	2	2
Russian ruble	306	2	2
Other	892	(4)	(4)
		¥	(8)

		Thousands of U.S. dollars	
		Contract or notional amounts	Valuation Fair value gain (loss)
Forward foreign exchange:			
Written:			
Australian dollar	\$ 7,180	\$ (9)	\$ (9)
Mexican Peso	4,890	(27)	(27)
Turkish lira	3,852	(18)	(18)
U.S. dollar	3,488	(18)	(18)
Brazilian real	2,911	18	18
Russian ruble	2,716	18	18
Other	7,916	(35)	(35)
		\$	(71)

March 31, 2015

		Millions of yen	
		Contract or notional amounts	Valuation Fair value gain (loss)
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

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, 2016 and 2015 are summarized as follows:

Nature of transaction	Hedged items	Contract or notional amounts		
		Millions of yen		Thousands of U.S. dollars
		2016	2015	2016
Interest rate swaps:				
Variable rate received for fixed rate	Long-term borrowings	¥ 5,340	¥ 7,915	\$ 47,391

\*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.

## 27. INVESTMENT AND RENTAL PROPERTY

The Company and certain consolidated subsidiaries own their rental office buildings, land etc (hereafter “rental property”) in Tokyo and other areas. Income from the rental property is ¥65 million (\$577 thousand), compensation expense is ¥294 million (\$2,609 thousand) and impairment loss is ¥3 million (\$27 thousand) for the year ended March 31, 2016 and income from the rental property was ¥133 million for the year ended March 31, 2015.

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Consolidated balance sheet amount:			
Balance at beginning of the year	¥ 5,311	¥ 5,333	\$ 47,133
Increase/(decrease)	179	(22)	1,589
Balance at end of the year	<u>¥ 5,490</u>	<u>¥ 5,311</u>	<u>\$ 48,722</u>
Fair value	<u>¥ 6,521</u>	<u>¥ 5,359</u>	<u>\$ 57,872</u>

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

## 28. BALANCES AND TRANSACTIONS WITH RELATED PARTY

For the year ended March 31, 2016, the Company provided condolence money of ¥60 million (\$532 thousand) to Ms. Miyoko Kato who owns 0.15% shares of the Company, the bereaved of Mr. Seiichi Kato, former chairman of the Board of Directors. The amount is determined on the basis of his service period and contribution to the Company.

The subsidiary of the Company purchased land at a price of ¥21 million 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.

## 29. SEGMENT INFORMATION

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, 2016 and 2015 are summarized as follows:

	Millions of yen					
	2016					
	Reported segments			Total	Adjustments	Consolidated
Securities	Asset management	Support				
Operating revenues:						
Revenues from third parties	¥ 65,590	¥ 16,418	¥ 906	¥ 82,914	¥ 13	¥ 82,927
Intersegment revenues	5,459	-	10,978	16,437	(16,437)	-
Total	¥ <u>71,049</u>	¥ <u>16,418</u>	¥ <u>11,884</u>	¥ <u>99,351</u>	¥ <u>(16,424)</u>	¥ <u>82,927</u>
Segment income	¥ <u>11,141</u>	¥ <u>2,671</u>	¥ <u>1,184</u>	¥ <u>14,996</u>	¥ <u>(837)</u>	¥ <u>14,159</u>
Segment assets	¥ <u>465,027</u>	¥ <u>17,319</u>	¥ <u>29,702</u>	¥ <u>512,048</u>	¥ <u>3,695</u>	¥ <u>515,743</u>
Segment liabilities	¥ <u>345,363</u>	¥ <u>1,860</u>	¥ <u>18,667</u>	¥ <u>365,890</u>	¥ <u>(22,244)</u>	¥ <u>343,646</u>
Others:						
Depreciation	¥ 712	¥ 34	¥ 2,320	¥ 3,066	¥ 193	¥ 3,259
Interest and dividend income	2,605	-	12	2,617	(380)	2,237
Interest expense	1,580	-	-	1,580	(271)	1,309
Equity in gain (losses) of affiliates	2,444	-	(9)	2,435	-	2,435
Impairment loss	-	-	3	3	-	3
Investments in affiliates	4,972	-	-	4,972	-	4,972
Increase in property and equipment and intangible assets	875	26	5,501	6,402	1	6,403

## 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 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

## Thousands of U.S. dollars

2016

	Reported segments						Adjustments	Consolidated
	Securities	Asset management	Support	Total				
Operating revenues:								
Revenues from third parties	\$ 582,091	\$ 145,704	\$ 8,041	\$ 735,836	\$	115	\$	735,951
Intersegment revenues	48,447	-	97,426	145,873		(145,873)		-
Total	\$ 630,538	\$ 145,704	\$ 105,467	\$ 881,709	\$	(145,758)	\$	735,951
Segment income	\$ 98,873	\$ 23,704	\$ 10,508	\$ 133,085	\$	(7,428)	\$	125,657
Segment assets	\$ 4,126,970	\$ 153,701	\$ 263,596	\$ 4,544,267	\$	32,792	\$	4,577,059
Segment liabilities	\$ 3,064,989	\$ 16,507	\$ 165,664	\$ 3,247,160	\$	(197,408)	\$	3,049,752
Others:								
Depreciation	\$ 6,319	\$ 302	\$ 20,589	\$ 27,210	\$	1,713	\$	28,923
Interest and dividend income	23,119	-	106	23,225		(3,373)		19,852
Interest expense	14,022	-	-	14,022		(2,405)		11,617
Equity in gain (losses) of affiliates	21,690	-	(80)	21,610		-		21,610
Impairment loss	-	-	27	27		-		27
Investments in affiliates	44,125	-	-	44,125		-		44,125
Increase in property and equipment and intangible assets	7,765	231	48,820	56,816		9		56,825

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Elimination of intersegment	¥ 2,652	¥ 2,771	\$ 23,536
Unallocated company-wide expenses	(3,489)	(3,135)	(30,964)
	<u>¥ (837)</u>	<u>¥ (364)</u>	<u>\$ (7,428)</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
	2016	2015	2016
Elimination of intersegment balances	¥ (41,747)	¥ (60,588)	\$ (370,492)
Unallocated company-wide assets	45,442	54,974	403,284
	<u>¥ 3,695</u>	<u>¥ (5,614)</u>	<u>\$ 32,792</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
	2016	2015	2016
Elimination of intersegment balances	¥ (40,186)	¥ (54,063)	\$ (356,638)
Unallocated company-wide liabilities	17,942	19,802	159,230
	<u>¥ (22,244)</u>	<u>¥ (34,261)</u>	<u>\$ (197,408)</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 the required information is given in the above segment information.

## 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, 2016 and 2015.

**Goodwill by reported segments**

The information is not applicable for the years ended March 31, 2016 and 2015.

**Negative goodwill incurred by reported segments**

The information is not applicable for the years ended March 31, 2016 and 2015.



## 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, 2016, 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, 2016, 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 30, 2016

*BDO Toyo & Co.*

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**REFERENCE DATA**

**Okasan Securities Co., Ltd.**  
**Balance Sheet — March 31, 2016**

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
<b>ASSETS</b>			
Current assets:			
Cash on hand and in banks	¥ 12,738	¥ 15,457	\$ 113,046
Cash segregated as deposits for customers and others	19,679	22,444	174,645
Trading assets	170,741	215,909	1,515,273
Receivables on margin transactions	38,608	48,318	342,634
Receivables on collateralized securities transactions	95,461	169,980	847,187
Short-term guarantee deposits	1,058	1,913	9,389
Deferred income taxes	586	1,080	5,201
Other current assets	2,981	2,786	26,455
Allowance for doubtful accounts	(0)	(14)	(0)
<b>Total current assets</b>	<b>341,852</b>	<b>477,873</b>	<b>3,033,830</b>
Property and equipment, net of accumulated depreciation	2,824	2,633	25,062
Intangible assets, net	300	304	2,662
Investments and other assets:			
Investment securities	413	439	3,665
Securities in associated companies	211	211	1,873
Long-term guarantee deposits	3,755	3,338	33,325
Deferred income taxes	1,333	1,490	11,830
Prepaid pension cost	198	-	1,757
Other	1,040	1,124	9,230
Allowance for doubtful accounts	(729)	(809)	(6,470)
<b>Total investments and other assets</b>	<b>6,221</b>	<b>5,793</b>	<b>55,210</b>
<b>TOTAL</b>	<b>¥ 351,197</b>	<b>¥ 486,603</b>	<b>\$ 3,116,764</b>

**Okasan Securities Co., Ltd.**  
**Balance Sheet – (Continued) – March 31, 2016**

	Millions of yen		Thousands of U.S. dollar
	2016	2015	2016
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities:			
Trading liabilities	¥ 77,198	¥ 145,103	\$ 685,108
Payables arising from unsettled trades	16,358	20,360	145,172
Payables on margin transactions	9,434	13,794	83,724
Payables on collateralized securities transactions	24,737	69,696	219,533
Deposits received	16,791	25,397	149,015
Guarantee deposits received	7,656	7,942	67,945
Short-term borrowings	94,365	95,040	837,460
Income tax payables	10	1,116	89
Other current liabilities	5,934	10,520	52,662
Total current liabilities	<u>252,483</u>	<u>388,968</u>	<u>2,240,708</u>
Non-current liabilities:			
Long-term borrowings	6,000	7,000	53,248
Liability for retirement benefits	4,480	4,700	39,758
Other non-current liabilities	1,407	1,149	12,487
Total non-current liabilities	<u>11,887</u>	<u>12,849</u>	<u>105,493</u>
Financial instruments transactions reserve	1,487	1,461	13,197
Total liabilities	<u>265,857</u>	<u>403,278</u>	<u>2,359,398</u>
Net assets			
Shareholder's equity:			
Common stock			
Authorized—240,000 shares			
Issued—100,000 shares in 2016 and 2015	5,000	5,000	44,373
Capital surplus	29,200	29,200	259,141
Retained earnings	51,141	49,114	453,861
Total shareholder's equity	<u>85,341</u>	<u>83,314</u>	<u>757,375</u>
Accumulated other comprehensive income (loss):			
Unrealized gain (loss) on available-for-sale securities	(1)	11	(9)
Total net assets	<u>85,340</u>	<u>83,325</u>	<u>757,366</u>
<b>TOTAL</b>	<u>¥ 351,197</u>	<u>¥ 486,603</u>	<u>\$ 3,116,764</u>

**Okasan Securities Co., Ltd.**  
**Statement of Income – Year ended March 31, 2016**

	Millions of yen		Thousands of U.S. dollar
	2016	2015	2016
Operating revenues:			
Commissions	¥ 38,079	¥ 45,589	\$ 337,939
Net gain on trading	21,271	27,040	188,774
Interest and dividend income	1,657	1,716	14,705
	<u>61,007</u>	<u>74,345</u>	<u>541,418</u>
Interest expense	1,210	1,148	10,738
Net operating revenues	<u>59,797</u>	<u>73,197</u>	<u>530,680</u>
Selling, general and administrative expenses	<u>49,298</u>	<u>50,633</u>	<u>437,505</u>
Operating income	<u>10,499</u>	<u>22,564</u>	<u>93,175</u>
Other income (expenses):			
Provision for financial instruments transactions reserve	(27)	(181)	(239)
Other, net	230	300	2,041
	<u>203</u>	<u>119</u>	<u>1,802</u>
Income before income taxes	10,702	22,683	94,977
Income taxes:			
Current	3,019	7,621	26,793
Deferred	656	516	5,822
	<u>3,675</u>	<u>8,137</u>	<u>32,615</u>
Net income	<u>¥ 7,027</u>	<u>¥ 14,546</u>	<u>\$ 62,362</u>

## CORPORATE DATA

(At August, 2016)

### 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 August, 2016)

### Vice Chairman

Tetsuo Kato

### President

Hiroyuki Shinshiba

### Senior Managing Director

Kazuhiko Nonaka

### Director

Hiroyuki Shindo

### Director

Hiroyuki Murai

### Director

Masahiro Hayakawa

### Director

Masanori Kanai

### Director

Toshiyuki Yoshino

### Director

Akira Terayama

### Director

Kenjiro Takemiya

### Audit & Supervisory Committee Members

#### Director

Tetsumi Iwaki

#### Director

Nobuyuki Natsume

#### Outside Director

Tetsuo Narukawa

#### Outside Director

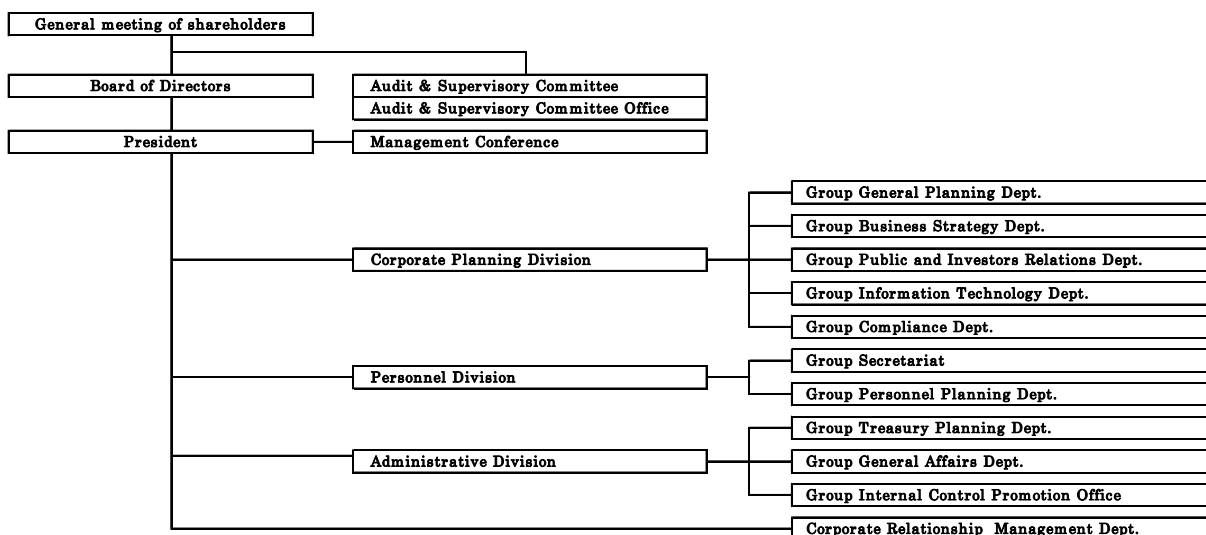
Seishi Higo

#### Outside Director

Hirokazu Kono

## ORGANIZATION CHART

(At August, 2016)





OKASAN SECURITIES GROUP INC.

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