

ANNUAL REPORT

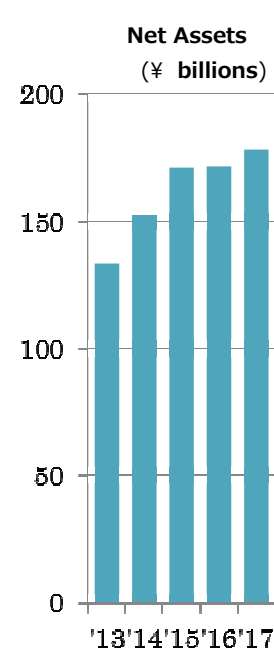
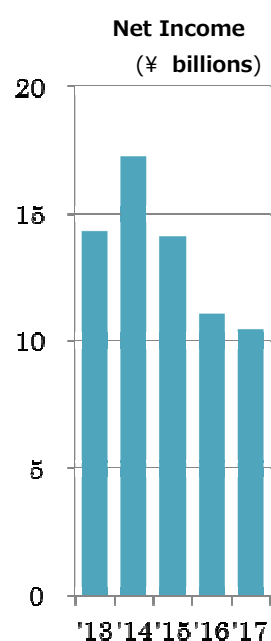
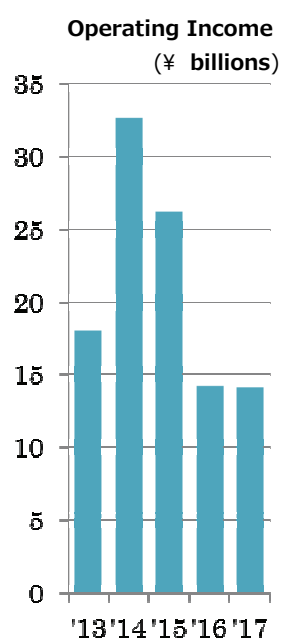
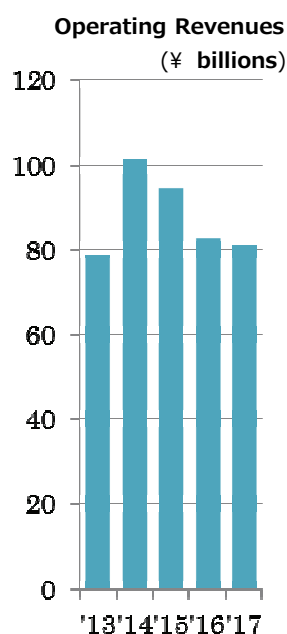
Ending March 31, 2017

Consolidated Financial Highlights

Okasan Securities Group Inc. and consolidated Subsidiaries Years ended March 31, 2017

	Millions of yen		Thousands of U.S.dollars ^(note)
	2017 (4/1/16~3/31/17)	2016 (4/1/15~3/31/16)	2017 (4/1/16~3/31/17)
Operating revenues	¥ 80,641	¥ 82,927	\$ 718,790
Operating income	14,156	14,159	126,179
Net income	10,487	11,068	93,475
Total assets	552,845	515,743	4,927,756
Net assets	178,257	172,097	1,588,885
Per share of common stock	Yen		U.S.dollars ^(note)
Basic net income	¥ 52.93	¥ 55.94	\$ 0.47
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, 2017, which was ¥112.19 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

Under the medium-term business plan formulated for the period from April 2014 to March 2017, we pursued a management philosophy based on prioritizing our customers. In keeping with this approach, we built on our corporate value as a team of investment professionals and strengthened our financial foundations to enable stable growth in any business environment. The fiscal year under review marks the final year of the medium-term business plan. Over the course of this year, we merged our management and executive committees to strengthen group management functions as a holding company. We also sought to enhance the Group's overall value. With regard to key subsidiaries, Okasan Securities Co., Ltd., sought to strengthen the functions offered by its branches and to develop professional personnel, while Okasan Asset Management Co., Ltd., worked to leverage its sales channels inside and outside the Group to expand recognition of the Okasan brand.

The Okasan Group will mark the centennial of its founding in April 2023. With this milestone in mind, the Group has announced a new management vision that focuses primarily on establishing a grand design toward a structure that will ensure continuing growth while winning and retaining the trust of its customers beyond the centennial.

The "BEYOND 2020" medium-term management plan addresses the first three-year period of this vision, the period through 2020. During this time, the Group will invest strategically to give the Okasan Group the strengthen needed to achieve these objectives.

BEYOND 2020: The new medium-term management plan

1. Period covered

The three-year period from April 2017 through March 2020

2. Management philosophy

“Customer-First”

3. Social mission:

[Statements to stakeholders]

(1) Customers

We seek to be a group of investment advising professionals focusing on advancing the best interests of our customers.

(2) Employees

We seek to be a company in which employees can take even greater pride to make the work of our employees as rewarding as possible.

(3) Shareholders

We strive to increase corporate value to meet the expectations of our shareholders.

4. Qualitative targets:

[Six measures to strengthen the Group]

(1) Customer-First management

(2) Cooperation within the Group

(3) Partnerships outside the Group

(4) Brand strategy

(5) Human resources, rewarding work

(6) FinTech

[Quantitative target]

ROE of 10%: While growing the Group, we plan to achieve a ROE of 10% as a stable, long-term target.

5. Marking the centennial of the Group's founding

Leading up to the Group's centennial, our goal, to be achieved at the earliest possible date, is to achieve the targets of one million accounts and ten trillion yen in assets managed across the entire Group.

5. Challenges the Company should address

The global business environment in which we operate creates a general impression of uncertainty and instability, as exemplified by developments such as Britain's decision to leave the EU and the rise of President Trump in the United States. The world focus has increasingly shifted to the growing disparities and other negative aspects of globalization, which has driven global growth over the past 30 years or longer. The pendulum appears to be swinging toward an antiglobalism outlook. At the same time, digital innovations are expected to generate revolutionary growth. Attention is turning to various emerging areas, including the rapid spread in the application of artificial intelligence (AI) and the Internet of things (IoT), along with the sharing economy and singularities in which AI can surpass human capabilities.

Alongside FinTech innovations, emerging signs in the financial industry point to reforms that would rival the Japan Big Bang policies of roughly 20 years ago. All around the world, the business model of the securities industry itself is being called into question, as seen in the strengthening of regulations on securities accounts linked to pension plans in the U.S. and the MiFID II directive in Europe. These

developments are now prompting structural reforms. As we move forward, how a company chooses to respond to such developments may have an even clearer bearing on its success or failure.

Under such conditions, the Group believes its societal role of providing optimal investment advice and financial instruments tailored to customer needs will grow ever more important. To win even broader and deeper support from our wide range of customers, we believe we will need to strengthen the unique brand as a securities company established in the more than 94 years since our founding. To do so, in line with the new medium-term management plan that took effect in April 2017, we plan to implement a wide range of measures.

In our role as a team of investment advising professionals, we will promote human resource development and qualitative improvements in our marketing to strengthen the foundations of our personalized service, the core of our business. In addition, cooperation and partnerships both inside and outside the Group are growing stronger, as demonstrated by the penetration of the Okasan brand in the provision of products via a wide range of sales channels in our asset-management business, an expanding and unmatched network of securities companies achieved through business and capital alliances, and efforts to approach new customer bases in the online securities business. Through these and other initiatives, we plan to achieve sustained improvements in the corporate value of our Group.

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 13 directors (including 4 Directors who are 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 four total Audit & Supervisory Committee Members, including one statutory auditor 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 regularly reported to the Board of Directors in the form of an audit report.

Operating and Financial Review

Okasan Securities Group Inc. and Consolidated Subsidiaries Years ended March 31, 2017

I . Analysis of operating results

During the fiscal year under review, the Japanese economy continued to tread water; nevertheless, signs suggested the economy had begun to bottom out. With unemployment still falling, economic indicators related to personal consumption, such as retail sales and new car sales, showed signs of bottoming out during the second half. Exports remained fairly robust. Industrial output picked up, thanks to the ongoing expansion of the US economy.

In the forex market, the yen climbed to ¥99/\$1 in June following the victory in a UK referendum of Brexit, the campaign to leave the EU. Following the US presidential elections in November, due to strong expectations for measures to stimulate the US economy, the yen slipped back to ¥118/\$1. While the FRB (Federal Reserve Board) raised interest rates on two occasions, few observers took the view that this marked the start of an acceleration in rate hikes. The yen/dollar rate ended the fiscal year at ¥111/\$1. The yen/euro rate, meanwhile, passed through a tumultuous phase due to confusion generated by political risks in Europe. Nevertheless, the euro strengthened in the second half, aided by the policies of the ECB (European Central Bank) and other factors. The fiscal year ended with the rate at ¥118/€1.

In the equity market, prices were turbulent, affected significantly by events in overseas stock markets and the forex market. Amid fears that the strong yen would negatively impact the bottom line of Japanese companies and compounded by the results of the UK referendum in June, the Nikkei 225 spent the first half in a sullen mood, at one point below ¥15,000. However, it began to recover following the US presidential election in November, buoyed by hopes for the Trump administration and the sharp depreciation in the yen against the dollar. While caution increasingly prevailed from the New Year, the Nikkei held firm, ending the fiscal year at ¥18,909.26 after rising almost as far as ¥19,700.

In bond markets, yields on 10-year government bonds slipped as low as -0.30% in June against a backdrop of strong demand for bonds resulting from the Bank of Japan's negative interest rate policy. In September, however, the Bank of Japan declared a policy to maintain the 10-year government bond yield at around 0%. In November, long-term government bond yields climbed worldwide in response to the outcome of the US presidential election. These developments saw the 10-year government bond yield return to positive territory. However, the margin of increase was lower than in the major Western economies due to the loose monetary policies of the Bank of Japan. The 10-year government bond yield ended the fiscal year at +0.065%.

In this environment, Okasan Securities Co., Ltd., the core Group company, further strengthened its sales capabilities through various initiatives, including opening new branches and relocating and refurbishing regional flagship branches. Its sales activities remained firmly rooted in local communities, taking advantage of the company's possession of market-sensitive 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, rolling out new user-friendly and multifunctional order tools, offering new products, and effectively scrapping investment trust purchase fees. Okasan Asset Management Co., Ltd., sought to improve performance and distribute information in timely fashion. It also revised dividends from investment trusts that make monthly payments and offered early redemption of bond investment trusts to accommodate changes in the market environment. Furthermore, the company aggressively marketed private-placement investment trusts to institutional investors.

Due to these efforts, Group operating revenues in the fiscal year under review were ¥80,641 million (97.2% of the figure for the previous year), and net operating revenues were ¥79,462 million (97.4% of the figure for the previous year). SG&A expenses were ¥65,306 million (96.8% of the figure for the previous year); operating income was ¥14,156 million (100.0% of the figure for the previous year); and net income was ¥10,487 million (94.7% of the figure for the previous year).

1. Fees and commissions received

Fees and commissions received stood at ¥47,074 million (81.6% 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 2,540 million shares (86.0% of the figure for the previous year), while turnover was ¥2,739.9 billion (88.9% of the figure for the previous year). In this environment, equity brokerage commissions were ¥15,479 million (80.5% of the figure for the previous year). Bond brokerage commissions were ¥14 million (271.9% of the figure for the previous year). Other brokerage commissions amounted to ¥637 million (40.8% of the figure for the previous year). Total brokerage commissions were ¥16,130 million (77.5% 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, while we served as designated lead underwriter for certain new equity listings, our equity underwriting income was significantly lower than in the previous year, during which we handled the massive offering of stock in conjunction with postal privatization. In our bond underwriting efforts, aggressive measures to secure major deals proved successful. We served as lead underwriter for local government and corporate bond issuances and as administrative underwriter for FILP agency bond issuances.

The resulting commissions on equity were ¥240 million (59.7% of the figure for the previous year). Commissions on bonds totaled ¥161 million (111.7% 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 ¥400 million (73.4% 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

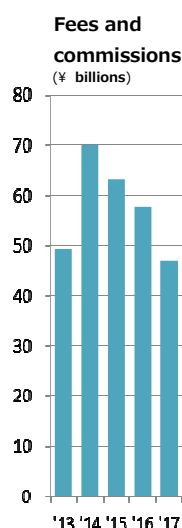
Income related to investment trusts account for the bulk of our income from administrative charges on offering, selling, and solicitation for sales of financial instruments to specified investors, and other fees and commissions received. During the fiscal year, the company enjoyed relatively strong sales of funds offering prospects of comparatively high yields. These included funds that invest in high-yield bonds or high-dividend equities. During the second half, as the US stock market and commodity prices recovered, funds invested in specific types of equities sold relatively well, such as Russian stocks or stocks issued by companies in the AI field. 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 ¥13,381 million (85.0% of the figure for the previous year). Other fees and commissions received amounted to ¥17,162 million (83.4% of the figure for the previous year) due to lower income from trust fees on investment trusts.

Fees and commissions received

Breakdown by category

(Millions of yen except percentage)

	2017<A> (4/1/16~3/31/17)	2016<A> (4/1/15~3/31/16)	Ratio <A>/
Brokerage commissions	¥16,130	¥20,805	77.5
Equities	15,479	19,239	80.5
Bonds	14	5	280.0
Others	637	1,560	40.8
Underwriting fees and selling concessions	400	546	73.3
Equities	240	402	59.7
Bonds	161	144	111.8



Placement commissions	13,381	15,747	85.0
Other commissions	17,162	20,569	83.4
Total	¥47,074	¥57,666	81.6

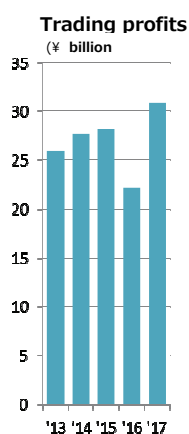
Breakdown by product

	(Millions of yen except percentage)		
	2017<A> (4/1/16~3/31/17)	2016<A> (4/1/15~3/31/16)	Ratio <A>/
Equities	¥15,985	¥19,926	80.2
Bonds	410	391	104.9
Investment trusts	29,293	36,099	81.1
Others	1,384	1,251	110.6
Total	¥47,074	¥57,666	81.6

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.

Investors appeared to focus on risk avoidance during the first half of the fiscal year under review. However, following the US presidential election, expectations for US economic policy, coupled with the release of strong economic data, exerted downward pressure on the yen and boosted stock prices. Consequently, total profits on equity trading were ¥19,686 million (199.3% of the figure for the previous year). Total bond trading profits were ¥11,872 million (97.9% of the figure for the previous year). Total trading profits, including loss from other trading of ¥286 million (compared to profits of ¥235 million the previous year), were ¥31,272 million (140.7% of the figure for the previous year).



Trading profits

	(Millions of yen except percentage)		
	2017<A> (4/1/16~3/31/17)	2016<A> (4/1/15~3/31/16)	Ratio <A>/
Equities	19,686	¥9,875	199.4
Bonds	11,872	12,123	97.9
Others	-286	235	—
Total	31,272	¥22,233	82.2

3. Net financial income

Financial income amounted to ¥1,493 million (66.7% of the figure for the previous year). Financial expenses stood at ¥1,178 million (90.0%). Net financial income—i.e., the difference between the two—was ¥314 million (33.9%).

4. Other operating income

Other operating income—i.e., operating income other than that related to the financial products transaction business and incidental operations—stood at ¥802 million (101.5% of the figure for the previous year).

5. Selling, general and administrative expenses

Selling, general, and administrative expenses were ¥65,306 million (96.8% of the figure for the previous year), due to lower personnel expenses and business relations expenses.

6. Other income (expenses)

Other income amounted to ¥3,051 million, due to factors such as a reversal on the security transaction responsibility reserve and gains on the sale of investment securities.

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 set dividends for the fiscal year at ¥25 per share.

II. Analysis of financial position

1. Assets, liabilities and net assets

Consolidated total assets at fiscal year-end increased ¥37,101 million to ¥552,845 million year on year, due mainly to increases of ¥46,060 million in receivables on collateralized securities transactions, ¥7,036 million in trade date accruals, and ¥6,554 million in cash segregated as deposits, as well as declines of ¥21,370 million in trading products and ¥2,081 million in receivables on margin transactions.

Liabilities at fiscal year-end increased ¥30,942 million year on year to ¥374,588 million, due mainly to increases of ¥61,101 million in trading products, ¥21,921 million in payables on collateralized securities transactions, and ¥6,714 million in deposits received, as well as declines of ¥40,464 million in short-term borrowings and ¥16,146 in trade date accruals.

Net assets at fiscal year-end increased ¥6,158 million year on year to ¥178,257 million, due mainly to increases of ¥5,613 million in retained earnings, ¥3,440 million in capital surplus, ¥1,011 in unrealized gains on available-for-sale securities, as well as a decline of ¥4,313 million in minority interests.

2. Cash flows

Cash and deposits (“cash” hereafter) at the end of the consolidated fiscal year fell ¥2,058 million year on year to ¥51,191 million.

Presented below is information on each type of cash flow during the fiscal year under review and the underlying factors:

<Cash flows from operating activities>

Cash inflows from operating activities were ¥52,217 million, due mainly to the difference between cash inflows from an increase of ¥17,207 million in income before income taxes and minority interests and a change of ¥59,289 million in trading products and cash outflows from a change of ¥24,139 million in receivables on collateralized securities transactions and payables on collateralized securities transactions.

<Cash flows from investing activities>

Cash outflows due to investment activities were ¥4,095 million, due mainly to the difference between cash inflows of ¥3,069 million from the sale of investment securities and ¥3,001 million from the sale of securities and cash outflows of ¥5,314 million from the acquisition of intangible fixed assets, ¥1,515 million from the acquisition of investment securities, ¥1,011 million from the acquisition of securities, and ¥900 million from the acquisition of tangible fixed assets.

<Cash flows from financing activities>

Cash outflows due to financing activities were ¥50,154 million, due mainly to cash outflows from ¥42,498 million from a net change in short-term borrowings, ¥4,872 million from dividend payments, and ¥2,393 million from the acquisition of shares in subsidiaries resulting in no change in the scope of consolidation.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Balance Sheet — March 31, 2017

	Millions of yen		Thousands of U.S. dollars (note 3)
	2017	2016	2017
ASSETS			
Current assets:			
Cash on hand and in banks (notes 10 and 22)	¥ 56,700	¥ 57,301	\$ 505,393
Cash segregated as deposits for customers and	65,396	58,842	582,904
Trading assets (notes 4 and 10)	149,482	170,852	1,332,400
Receivables arising from unsettled trades	7,036	-	62,715
Receivables on margin transactions (note 5)	40,260	42,341	358,856
Receivables on collateralized securities transactions (note 6)	141,522	95,461	1,261,449
Short-term investments (note 7)	95	2,004	847
Deferred income taxes (note 11)	1,002	811	8,931
Other current assets	8,460	7,576	75,408
Allowance for doubtful accounts	(5)	(0)	(45)
Total current assets	469,948	435,188	4,188,858
Property and equipment, net of accumulated depreciation of ¥13,881 million (\$123,728 thousand) in 2017 and ¥13,370 million in 2016 (note 10)	19,340	19,595	172,386
Intangible assets, net	12,899	9,869	114,975
Investments and other assets:			
Investment securities (notes 7, 8 and 10)	43,632	43,968	388,912
Long-term guarantee deposits	3,791	3,795	33,791
Asset for retirement benefits (note 12)	768	395	6,845
Deferred income taxes (note 11)	1,441	1,623	12,844
Other	2,467	2,878	21,989
Allowance for doubtful accounts	(1,441)	(1,568)	(12,844)
Total investments and other assets	50,658	51,091	451,537
TOTAL	¥ 552,845	¥ 515,743	\$ 4,927,756

See accompanying notes to consolidated financial statements.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Balance Sheet—(Continued) — March 31, 2017

	Millions of yen		Thousands of U.S. dollars (note 3)
	2017	2016	2017
LIABILITIES AND NET ASSETS			
Current liabilities:			
Trading liabilities (note 4)	¥ 138,307	¥ 77,206	\$ 1,232,792
Payables arising from unsettled trades	-	16,146	-
Payables on margin transactions (notes 5 and 10)	12,089	10,468	107,755
Payables on collateralized securities transactions (note 6)	46,659	24,737	415,893
Deposits received	34,243	27,529	305,223
Guarantee deposits received	35,192	36,285	313,682
Short-term borrowings (notes 9 and 10)	69,070	109,534	615,652
Income tax payables (note 11)	3,319	1,252	29,584
Deferred income taxes (note 11)	38	30	339
Other current liabilities (notes 9 and 13)	6,445	7,770	57,447
Total current liabilities	<u>345,362</u>	<u>310,957</u>	<u>3,078,367</u>
Non-current liabilities:			
Long-term borrowings (notes 9 and 10)	9,860	12,300	87,887
Lease liabilities (note 9)	449	774	4,002
Deferred income taxes (note 11)	7,790	7,508	69,435
Liability for retirement benefits (note 12)	5,884	5,740	52,447
Other non-current liabilities (note 13)	3,910	3,724	34,852
Total non-current liabilities	<u>27,893</u>	<u>30,046</u>	<u>248,623</u>
Financial instruments transactions reserve (note 14)	1,333	2,643	11,881
Total liabilities	<u>374,588</u>	<u>343,646</u>	<u>3,338,871</u>
Net assets			
Shareholders' equity (note 15):			
Common stock			
Authorized—750,000,000 shares;			
issued—208,214,969 shares in 2017 and 2016	18,590	18,590	165,701
Capital surplus	16,422	12,982	146,377
Retained earnings	112,283	106,669	1,000,829
Treasury stock, at cost, 10,297,377 shares in 2017 and 10,381,520 shares in 2016	(3,786)	(3,790)	(33,747)
Total shareholders' equity	<u>143,509</u>	<u>134,451</u>	<u>1,279,160</u>
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities (note 7)	12,382	11,371	110,366
Surplus on land revaluation (note 17)	401	401	3,574
Foreign currency translation adjustments	157	180	1,400
Remeasurements of defined benefit plans	311	(41)	2,772
Total accumulated other comprehensive income	<u>13,251</u>	<u>11,911</u>	<u>118,112</u>
Stock acquisition rights (note 16)	162	87	1,444
Non-controlling interests	21,335	25,648	190,169
Total net assets	<u>178,257</u>	<u>172,097</u>	<u>1,588,885</u>
Commitments and contingencies (note 23)			
TOTAL	<u>¥ 552,845</u>	<u>¥ 515,743</u>	<u>\$ 4,927,756</u>

See accompanying notes to consolidated financial statements.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Statement of Income – Year ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (note 3)
	2017	2016	2017
Operating revenues:			
Commissions	¥ 47,074	¥ 57,666	\$ 419,592
Net gain on trading	31,272	22,233	278,741
Interest and dividend income	1,493	2,237	13,308
Service fee and other revenues	802	791	7,149
	<u>80,641</u>	<u>82,927</u>	<u>718,790</u>
Interest expense	<u>1,179</u>	<u>1,309</u>	<u>10,509</u>
Net operating revenues	<u>79,462</u>	<u>81,618</u>	<u>708,281</u>
Selling, general and administrative expenses (note19)	<u>65,306</u>	<u>67,459</u>	<u>582,102</u>
Operating income	<u>14,156</u>	<u>14,159</u>	<u>126,179</u>
Other income (expenses):			
Dividend income	957	946	8,530
Exchange gain	195	69	1,738
Gain on sale of investment securities	615	1,796	5,482
Gain on sale of property and equipment	93	11	829
Equity in gain (losses) of affiliates	41	2,435	365
Interest expense	(69)	(85)	(615)
Loss on sale and disposal of property and equipment and intangible assets	(160)	(48)	(1,426)
Loss on sale of investment securities	(182)	(87)	(1,622)
Loss on devaluation of investment securities	0	(24)	0
Reversal of (provision for) financial instruments transactions reserve	1,309	(25)	11,668
Impairment loss	(233)	(3)	(2,077)
Compensation income	390	-	3,476
Moving costs	(94)		(838)
Compensation expense	-	(294)	-
Loss on cancellation of lease contracts	-	(68)	-
Other, net	189	194	1,685
	<u>3,051</u>	<u>4,817</u>	<u>27,195</u>
Income before income taxes and non-controlling interests	<u>17,207</u>	<u>18,976</u>	<u>153,374</u>
Income taxes (note 11):			
Current	5,497	4,513	48,997
Deferred	(202)	1,403	(1,800)
	<u>5,295</u>	<u>5,916</u>	<u>47,197</u>
Net income	<u>11,912</u>	<u>13,060</u>	<u>106,177</u>
Net income attributable to non-controlling interests	<u>1,425</u>	<u>1,992</u>	<u>12,702</u>
Net income attributable to owners of the parent	<u>¥ 10,487</u>	<u>¥ 11,068</u>	<u>\$ 93,475</u>

See accompanying notes to consolidated financial statements.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Statement of Comprehensive Income – Year ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (note 3)
	2017	2016	2017
Net income	¥ 11,912	¥ 13,060	\$ 106,177
Other comprehensive income (loss) (note 20):			
Unrealized gain (loss) on available-for-sale securities	959	(3,844)	8,548
Surplus on land revaluation	-	44	-
Foreign currency translation adjustments	(23)	(249)	(205)
Remeasurements of defined benefit plans	369	(724)	3,289
Share of other comprehensive loss of affiliates accounted for by equity method	(122)	(61)	(1,087)
Total other comprehensive income (loss)	<u>1,183</u>	<u>(4,834)</u>	<u>10,545</u>
Comprehensive income	<u>¥ 13,095</u>	<u>¥ 8,226</u>	<u>\$ 116,722</u>
Comprehensive income attributable to:			
Owners of the parent	¥ 11,826	¥ 7,028	\$ 105,411
Non-controlling interests	1,269	1,198	11,311

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, 2017

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
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
Changes arising during the year:					
Cash dividends			(4,873)		(4,873)
Net income attributable to owners of the parent			10,487		10,487
Purchase of treasury stock				(14)	(14)
Disposition of treasury stock		122	(0)	159	281
Changes in equity resulting from transactions with non-controlling interests		3,318		(141)	3,177
Reversal of surplus on land revaluation					-
Net changes other than shareholders' equity					
Total changes during the year	-	3,440	5,614	4	9,058
Balances at March 31, 2017	¥ 18,590	¥ 16,422	¥ 112,283	¥ (3,786)	¥ 143,509

	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, 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
Changes arising during the year:								
Cash dividends								(4,873)
Net income attributable to owners of the parent								10,487
Purchase of treasury stock								(14)
Disposition of treasury								281
Changes in equity resulting from transactions with non-controlling interests								3,177
Reversal of surplus on land revaluation								-
Net changes other than shareholders' equity	1,011	0	(23)	352	1,340	75	(4,313)	(2,898)
Total changes during the year	1,011	0	(23)	352	1,340	75	(4,313)	6,160
Balances at March 31, 2017	¥ 12,382	¥ 401	¥ 157	¥ 311	¥ 13,251	¥ 162	¥ 21,335	¥ 178,257

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, 2016	\$ 165,701	\$ 115,714	\$ 950,789	\$ (33,782)	\$ 1,198,422
Changes arising during the year:					
Cash dividends			(43,435)		(43,435)
Net income attributable to owners of the parent			93,475		93,475
Purchase of treasury stock				(125)	(125)
Disposition of treasury stock		1,088		1,417	2,505
Changes in equity resulting from transactions with non-controlling interests		29,575		(1,257)	28,318
Reversal of surplus on land revaluation					-
Net changes other than shareholders' equity					
Total changes during the year	<u>-</u>	<u>30,663</u>	<u>50,040</u>	<u>35</u>	<u>80,738</u>
Balances at March 31, 2017	<u>\$ 165,701</u>	<u>\$ 146,377</u>	<u>\$ 1,000,829</u>	<u>\$ (33,747)</u>	<u>\$ 1,279,160</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, 2016	\$ 101,355	\$ 3,574	\$ 1,605	\$ (366)	\$ 106,168	\$ 776	\$ 228,612	\$ 1,533,978
Changes arising during the year:								
Cash dividends								(43,435)
Net income attributable to owners of the parent								93,475
Purchase of treasury stock								(125)
Disposition of treasury stock								2,505
Changes in equity resulting from transactions with non-controlling interests								28,318
Reversal of surplus on land revaluation								-
Net changes other than shareholders' equity	<u>9,011</u>	<u>0</u>	<u>(205)</u>	<u>3,138</u>	<u>11,944</u>	<u>668</u>	<u>(38,443)</u>	<u>(25,831)</u>
Total changes during the year	<u>9,011</u>	<u>0</u>	<u>(205)</u>	<u>3,138</u>	<u>11,944</u>	<u>668</u>	<u>(38,443)</u>	<u>54,907</u>
Balances at March 31, 2017	<u>\$ 110,366</u>	<u>\$ 3,574</u>	<u>\$ 1,400</u>	<u>\$ 2,772</u>	<u>\$ 118,112</u>	<u>\$ 1,444</u>	<u>\$ 190,169</u>	<u>\$ 1,588,885</u>

See accompanying notes to consolidated financial statements.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Statement of Cash Flows — Year ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (note 3)
	2017	2016	2017
Cash flows from operating activities:			
Income before income taxes and non-controlling interests	¥ 17,207	¥ 18,976	\$ 153,374
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating			
Depreciation and amortization	3,504	3,259	31,233
Impairment loss	233	3	2,077
Interest and dividend income	(2,456)	(3,191)	(21,891)
Interest expense	1,247	1,394	11,115
Gain on sale of investment securities	(192)	(1,763)	(1,711)
Gain on sale of investments in affiliates	(245)	-	(2,184)
Loss on devaluation of investment securities	0	24	0
Decrease (increase) in deposits segregated for customer	(6,650)	4,050	(59,274)
Decrease (increase) in trading assets and increase (decrease) in trading liabilities	59,289	(25,733)	528,467
Decrease (increase) in receivables on margin transactions and increase (decrease) in payables on margin transactions	3,700	7,635	32,980
Decrease (increase) in receivables on collateralized securities transactions and increase (decrease) in payables on collateralized securities transactions	(24,139)	29,560	(215,162)
Increase (decrease) in deposits received	6,734	(11,732)	60,023
Decrease (increase) in short-term guarantee deposits	(988)	732	(8,806)
Increase (decrease) in guarantee deposits received	(1,093)	(394)	(9,742)
Increase (decrease) in allowance for doubtful accounts	(123)	(112)	(1,096)
Decrease (increase) in assets for retirement benefits and increase (decrease) in liabilities for retirement benefits	(229)	(1,316)	(2,041)
Increase (decrease) in financial instruments transactions reserve	(1,309)	25	(11,668)
Other, net	180	(3,303)	1,604
Sub-total	54,670	18,114	487,298
Interest and dividend received	2,589	3,098	23,077
Interest paid	(1,235)	(1,403)	(11,008)
Income taxes paid	(3,807)	(6,075)	(33,933)
Net cash provided by operating activities	52,217	13,734	465,434
Cash flows from investing activities:			
Payment for short-term investments	(1,011)	(2,002)	(9,011)
Proceeds from sale of short-term investments	3,001	-	26,749
Payment for purchase of property and equipment	(900)	(1,621)	(8,022)
Payment for purchase of intangible assets	(5,314)	(4,295)	(47,366)
Payment for purchase of investment securities	(1,515)	(4,013)	(13,504)
Proceeds from sale of investment securities	3,069	3,222	27,355
Payment for investments in affiliates	-	(2,588)	-
Other, net	(1,425)	902	(12,702)
Net cash used in investing activities	(4,095)	(10,395)	(36,501)

Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	(42,498)	9,920	(378,804)
Proceeds from long-term borrowings	200	900	1,783
Payments on long-term borrowings	(604)	(2,961)	(5,384)
Proceeds from sale of treasury stock	1	1	9
Purchase of treasury stock	(14)	(28)	(125)
Proceeds from sale of parent's stock held by subsidiaries	808	-	7,202
Purchase of treasury stock by subsidiaries	(215)	(2,675)	(1,916)
Dividends paid	(4,872)	(4,873)	(43,426)
Dividends paid to non-controlling interests of subsidiaries	(35)	(51)	(312)
Purchase of subsidiaries' stock that do not result in change in scope of consolidation	(2,393)	-	(21,330)
Other, net	(532)	(575)	(4,742)
Net cash used in financing activities	<u>(50,154)</u>	<u>(342)</u>	<u>(447,045)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(27)</u>	<u>(313)</u>	<u>(241)</u>
Net increase (decrease) in cash and cash equivalents	(2,059)	2,684	(18,353)
Cash and cash equivalents, beginning of year	<u>53,250</u>	<u>50,566</u>	<u>474,641</u>
Cash and cash equivalents, end of year (note 22)	<u>¥ 51,191</u>	<u>¥ 53,250</u>	<u>\$ 456,288</u>

See accompanying notes to consolidated financial statements.

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, 2017. 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 on or after April 1, 1998 and to leasehold improvements and structures purchased in Japan on or after April 1, 2016. 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.
- According to the amendment of Corporation Tax Law, the Company applied Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016 (ASBJ Practical Issues Task Force (PITF) No. 32, June 17, 2016) from the year ended March 31, 2017, and the depreciation method for leasehold improvements and structures purchased on or after April 1, 2016 has been changed from the declining-balance method to the straight-line method. The effect on net income of this change is immaterial.
- 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 applied the Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No.26, issued March 28, 2016) from the year ended March 31, 2017. The Company has filed consolidated tax returns in Japan.
- m. **Foreign currency transactions**— Under the “Accounting Standards for Foreign Currency Transactions,” receivables and payables denominated in foreign currencies are translated into yen at the rate of exchange at the balance sheet dates and gains or losses resulting from the translation of foreign currencies are credited or charged to income. Assets and liabilities, and revenues and expenses of an overseas subsidiary are translated into yen at the rate of exchange at the balance sheet dates, a comprehensive adjustment resulting from translation is presented as “Foreign currency translation adjustments” in a component of net assets.
- n. **Asset retirement obligations**— The Company recognizes an asset retirement obligation which is a statutory or similar obligation with regard to the removal of assets as a liability. An asset retirement obligation is recognized as a liability at the time that the asset is incurred by its acquisition, construction, development or ordinary use. When an asset retirement obligation is recognized as a liability, the asset retirement cost corresponding to it is included in the cost of the relevant asset by the same amount.
- o. **Reclassifications**— Certain reclassifications have been made to the prior years’ consolidated financial statements to conform to the presentation used in consolidated statements as of and for the year ended March 31, 2017.

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, 2017, which was ¥112.19 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, 2017 and 2016 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Trading assets:			
Securities and other	¥ 149,438	¥ 170,824	\$ 1,332,008
Derivatives	44	28	392
	<u>¥ 149,482</u>	<u>¥ 170,852</u>	<u>\$ 1,332,400</u>
Trading liabilities:			
Securities and other	¥ 138,256	¥ 77,194	\$ 1,232,338
Derivatives	51	12	454
	<u>¥ 138,307</u>	<u>¥ 77,206</u>	<u>\$ 1,232,792</u>

5. MARGIN TRANSACTIONS

Margin transactions at March 31, 2017 and 2016 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Assets:			
Loans receivable from customers	¥ 35,432	¥ 38,795	\$ 315,822
Cash deposits as collateral for securities borrowed from securities finance companies	4,828	3,546	43,034
	<u>¥ 40,260</u>	<u>¥ 42,341</u>	<u>\$ 358,856</u>
Liabilities:			
Borrowings from securities finance companies	¥ 4,071	¥ 3,617	\$ 36,287
Proceeds from securities sold for customers' accounts	8,018	6,851	71,468
	<u>¥ 12,089</u>	<u>¥ 10,468</u>	<u>\$ 107,755</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, 2017 and 2016 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Assets:			
Cash collateral for securities borrowed	¥ 141,522	¥ 95,461	\$ 1,261,449
Liabilities:			
Cash collateral for securities loaned	¥ 46,659	¥ 24,737	\$ 415,893

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, 2017 and 2016 are summarized as follows:

	Millions of yen			
	Balance sheet	Gross unrealized gain	Gross unrealized loss	Fair value
At March 31, 2017				
Government, corporate and other bonds	¥ 53	¥ 1	¥ -	¥ 54
At March 31, 2016				
Government, corporate and other bonds	¥ 46	¥ -	¥ 5	¥ 41
	Thousands of U.S. dollars			
	Balance sheet	Gross unrealized gain	Gross unrealized loss	Fair value
At March 31, 2017				
Government, corporate and other bonds	\$ 472	\$ 9	\$ -	\$ 481

Acquisition cost, balance sheet amount, gross unrealized gain and gross unrealized loss of available-for-sale securities with fair value at March 31, 2017 and 2016 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet
At March 31, 2017				
Current:				
Government, corporate and other bonds	¥ -	¥ -	¥ -	¥ -
Other	77	27	(9)	95
	¥ 77	¥ 27	¥ (9)	¥ 95
Non-current:				
Equity securities	¥ 12,822	¥ 22,721	¥ (298)	¥ 35,245
Other	1,936	55	(97)	1,894
	¥ 14,758	¥ 22,776	¥ (395)	¥ 37,139
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

Thousands of U.S. dollars				
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet
At March 31, 2017				
Current:				
Government, corporate and other bonds	\$ -	\$ -	\$ -	\$ -
Other	686	241	(80)	847
	<u>\$ 686</u>	<u>\$ 241</u>	<u>\$ (80)</u>	<u>\$ 847</u>
Non-current:				
Equity securities	\$ 114,288	\$ 202,523	\$ (2,656)	\$ 314,155
Other	17,257	490	(865)	16,882
	<u>\$ 131,545</u>	<u>\$ 203,013</u>	<u>\$ (3,521)</u>	<u>\$ 331,037</u>

Securities classified as available-for-sale securities for which fair value is not available are unlisted equity securities amounting to ¥6,340 million (\$56,511 thousand) and ¥6,460 million, and investments in limited partnership and similar partnership amounting to ¥100 million (\$891 thousand) and ¥2 million at March 31, 2017 and 2016, respectively.

For the years ended March 31, 2017 and 2016, 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-sa le securities	Gross realized gains	Gross realized losses	
March 31, 2017				
Equity securities	¥ 1,150	¥ 372	¥ (64)	
Government, corporate and other bonds	3,001	0	(0)	
Other	1,919	3	(119)	
	<u>¥ 6,070</u>	<u>¥ 375</u>	<u>¥ (183)</u>	
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>	

Thousands of U.S. dollars				
	Proceeds from sales of available-for-sa le securities	Gross realized gains	Gross realized losses	
March 31, 2017				
Equity securities	\$ 10,251	\$ 3,316	\$ (570)	
Government, corporate and other bonds	26,749	0	(0)	
Other	17,105	27	(1,061)	
	<u>\$ 54,105</u>	<u>\$ 3,343</u>	<u>\$ (1,631)</u>	

8. INVESTMENTS IN AFFILIATES

The aggregate carrying amount of investments in affiliates at March 31, 2017 and 2016 are ¥4,899 million (\$43,667 thousand) and ¥5,019 million, respectively.

9. BORROWINGS

The weighted-average interest rates applicable to the short-term borrowings are 0.77 % and 0.55% at March 31, 2017 and 2016, respectively.

Long-term borrowings at March 31, 2017 and 2016 consist of the following:

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
			2017
Borrowings, maturing in installments through 2021; bearing weighted average interest of 2.16% at March 31, 2017	¥ 13,000	¥ -	\$ 115,875
Borrowings, maturing in installments through 2021; bearing weighted average interest of 2.13% at March 31, 2016	-	13,404	-
Less current installments	3,140	1,104	27,988
	<u>¥ 9,860</u>	<u>¥ 12,300</u>	<u>\$ 87,887</u>

Lease liabilities at March 31, 2017 and 2016 consist of the following:

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
			2017
Lease liabilities maturing in installments through 2023; bearing weighted average interest of 2.98% at March 31, 2017	¥ 884	¥ -	\$ 7,879
Lease liabilities maturing in installments through 2022; bearing weighted average interest of 2.99% at March 31, 2016	-	1,305	-
Less current installments	435	531	3,877
	<u>¥ 449</u>	<u>¥ 774</u>	<u>\$ 4,002</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
	2017	2016	U.S. dollars
			2017
Long-term borrowings	¥ 6,000	¥ 6,000	\$ 53,481

Annual maturities of borrowings after March 31, 2018, are as follows:

Year ending March 31	Millions of	Thousands of
	yen	U.S. dollars
2019	¥ 3,020	\$ 26,919
2020	4,000	35,654
2021	2,840	25,314
2022	-	-

Annual maturities of lease liabilities after March 31, 2018, are as follows:

Year ending March 31	Millions of		Thousands of
	yen		U.S. dollars
2019	¥	254	\$ 2,264
2020		107	954
2021		60	535
2022		18	160

To meet its liquidity needs stably and expeditiously and to strengthen financial operations, the Company established a commitment line of ¥21,000 million (\$187,182 thousand) with 7 financial institutions at both March 31, 2017 and 2016, 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, 2017 and 2016, the carrying value of assets pledged is as follows:

	Millions of Yen		Thousands of
	2017	2016	U.S. dollars
Cash in banks	¥ 2,044	¥ 2,084	\$ 18,219
Trading assets	2,554	32,980	22,765
Property and equipment	7,205	7,256	64,221
Investment securities	12,184	19,472	108,602
	¥ 23,987	¥ 61,792	\$ 213,807

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

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
Short-term borrowings	¥ 5,754	¥ 37,073	\$ 51,288
Borrowings from securities finance companies	736	935	6,560
Long-term borrowings	3,360	6,300	29,949
	¥ 9,850	¥ 44,308	\$ 87,797

In addition to above, at March 31, 2017, trading assets, etc. amounting to ¥66,601 million (\$593,645 thousand) and investments securities amounting to ¥300 million (\$2,674 thousand) are deposited as guarantee for settlement of trading accounts and securities borrowed, respectively. At March 31, 2016, trading assets, etc. amounting to ¥59,542 million and investments securities amounting to ¥133 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, 2017 and 2016, except for those disclosed in the above table, are as follows:

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
Securities loaned on margin transactions	¥ 8,196	¥ 6,950	\$ 73,055
Securities pledged for borrowings on margin transactions	4,047	3,177	36,073
Securities loaned	46,604	24,709	415,402
Other	27,994	33,614	249,523
	¥ 86,841	¥ 68,450	\$ 774,053

The fair value of the securities received as collateral at March 31, 2017 and 2016 are as follows:

	Millions of Yen		Thousands of
	2017	2016	U.S. dollars
Securities received on margin transactions	¥ 33,597	¥ 35,591	\$ 299,465
Securities borrowed	146,305	107,717	1,304,083
Securities pledged as collateral	37,321	36,952	332,659
Other	6,572	4,079	58,579
	<u>¥ 223,795</u>	<u>¥ 184,339</u>	<u>\$ 1,994,786</u>

11. INCOME TAXES

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

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and deferred tax liabilities at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
Deferred tax assets:			
Tax loss carryforwards	¥ 2,938	¥ 3,144	\$ 26,188
Liability for retirement benefits (employees)	1,633	1,686	14,556
Accrued bonuses	652	559	5,812
Allowance for doubtful accounts	407	477	3,628
Financial instruments transactions reserve	378	807	3,369
Asset retirement obligations	376	315	3,351
Accrued business tax	275	82	2,451
Impairment loss	225	349	2,006
Depreciation and amortization	182	165	1,622
Retirement benefits payable for directors and corporate auditors	176	181	1,569
Loss on devaluation of investment securities	170	229	1,515
Loss on devaluation of golf memberships	52	107	463
Liability for retirement benefits (directors and corporate auditors)	43	35	383
Other	278	424	2,478
	<u>7,785</u>	<u>8,560</u>	<u>69,391</u>
Valuation allowance	(4,431)	(5,296)	(39,495)
Total	<u>3,354</u>	<u>3,264</u>	<u>29,896</u>
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(6,809)	(6,514)	(60,692)
Land revaluation excess	(1,457)	(1,457)	(12,987)
Other	(473)	(397)	(4,216)
Total	<u>(8,739)</u>	<u>(8,368)</u>	<u>(77,895)</u>
Net deferred tax liabilities	<u>¥ (5,385)</u>	<u>¥ (5,104)</u>	<u>\$ (47,999)</u>

Net deferred tax assets at March 31, 2017 and 2016 are reflected in the accompanying consolidated balance sheet under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Current assets – Deferred income taxes	¥ 1,002	¥ 811	\$ 8,931
Investments and other assets – Deferred income taxes	1,441	1,623	12,844
Current liabilities – Deferred income taxes	(38)	(30)	(339)
Non-current liabilities – Deferred income taxes	(7,790)	(7,508)	(69,435)
	<u>¥ (5,385)</u>	<u>¥ (5,104)</u>	<u>\$ (47,999)</u>

The reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2017 is not subject to disclosure because the difference between the rates does not exceed 5% of the statutory tax rate.

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 year ended March 31, 2016 was as follows:

Statutory tax rate	33.0%
Expenses not deductible for tax purposes	0.9
Income not credited for tax purposes	(0.0)
Per capita tax	0.4
Equity in gain of affiliates	(4.2)
Valuation allowance	1.3
Adjustments of deferred tax assets due to change in tax rate	1.1
Tax credits for salary increase	(1.5)
Other	0.2
Effective tax rate	<u>31.2%</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, 2017 and 2016 and for the years then ended.

(1) Reconciliation of changes in retirement benefit obligation

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Retirement benefit obligation at beginning of year	¥ 14,175	¥ 13,730	\$ 126,348
Service cost	762	704	6,792
Interest cost	-	53	-
Actuarial gain or loss	(139)	537	(1,239)
Benefits paid	(643)	(849)	(5,731)
Other	3	0	27
Retirement benefit obligation at end of year	<u>¥ 14,158</u>	<u>¥ 14,175</u>	<u>\$ 126,197</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
	2017	2016	2017
Plan assets at beginning of year	¥ 8,943	¥ 9,403	\$ 79,713
Expected return on plan assets	43	45	383
Actuarial gain or loss	306	(412)	2,727
Employer contributions	267	343	2,380
Benefits paid	(389)	(436)	(3,467)
Other	3	0	27
Plan assets at end of year	¥ 9,173	¥ 8,943	\$ 81,763

(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
	2017	2016	2017
Funded retirement benefit obligation	¥ 8,405	¥ 8,548	\$ 74,918
Plan assets	(9,173)	(8,943)	(81,763)
	(768)	(395)	(6,845)
Unfunded retirement benefit obligation	5,753	5,627	51,279
Net of liability and assets for retirement benefits	¥ 4,985	¥ 5,232	\$ 44,434
Liability for retirement benefits	¥ 5,753	¥ 5,627	\$ 51,279
Asset for retirement benefits	768	395	6,845
Net of liability and asset for retirement benefits	¥ 4,985	¥ 5,232	\$ 44,434

(4) The components of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥ 762	¥ 704	\$ 6,792
Interest cost	-	53	-
Expected return on plan assets	(43)	(45)	(383)
Amortization of actuarial gain or loss	86	(118)	766
Retirement benefit expenses	¥ 805	¥ 594	\$ 7,175

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Actuarial gain or loss	¥ 532	¥ (1,067)	\$ 4,742

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrecognized actuarial gain or loss	¥ 425	¥ (106)	\$ 3,788

(7) Plan assets

(a) Percentage by major category of plan assets

	2017	2016
Equity securities	35 %	33%
General account	34	35
Debt securities	18	19
Other	13	13
Total	<u>100%</u>	<u>100%</u>

(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, 2017 and 2016 are as follows:

	2017	2016
(a) Discount rate	0.08%	0.00%
(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 ¥199 million (\$1,774 thousand) and ¥197 million for the years ended March 31, 2017 and 2016, respectively.

Retirement benefits for directors and corporate auditors

Directors and corporate auditors are not covered by the plans described above. For such persons, 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.

At March 31, 2017 and 2016, the subsidiaries provide for the amount of ¥132 million (\$1,177 thousand) and ¥113 million, respectively.

13. ASSET RETIREMENT OBLIGATIONS

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

The obligation is calculated based on the estimated period of use of 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, 2017 and 2016:

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
Balance, beginning of year	¥ 842	¥ 700	\$ 7,505
Liabilities incurred by asset acquisition	253	152	2,255
Accretion expenses	12	13	107
Liabilities settled	(66)	(23)	(588)
Other increase (decrease)	-	-	-
Balance, end of year	<u>¥ 1,041</u>	<u>¥ 842</u>	<u>\$ 9,279</u>

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, 2017 and 2016 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, 2016 which was approved by the General Meeting of Shareholders held on June 26, 2015 are as follows:

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

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, 2017 which was approved by the Board of Directors held on May 17, 2016 are as follows:

(a) Total dividends	¥4,873 million (\$43,435 thousand)
(b) Cash dividends per common share	¥25 (\$0.22)
(c) Record date	March 31, 2016
(d) Effective date	June 8, 2016

Cash dividends for treasury stock held by subsidiaries of ¥122 million (\$1,087 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, 2017 which was approved by the Board of Directors held on May 17, 2017 are as follows:

(a) Total dividends	¥4,995 million (\$44,523 thousand)
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥25 (\$0.22)
(d) Record date	March 31, 2017
(e) Effective date	June 8, 2017

Cash dividends for treasury stock held by subsidiaries were not excluded from the above table.

16. STOCK OPTIONS

The cost recognized for the stock options is ¥82 million (\$731 thousand) and ¥73 million which is included in selling, general and administrative expenses and the income recognized for the forfeited stock options is nil and ¥5 million for the years ended March 31, 2017 and 2016, respectively.

Description of each stock option plans at March 31, 2017 is as follows:

Stock option plans	1st	2nd
	Plan approved on June 26, 2015	Plan approved on June 29, 2016
Individuals granted the stock option	6 directors of the Company (except for audit and supervisory committee members) and 23 directors of its subsidiary (Okasan Securities Co., Ltd.)	5 directors of the Company (except for audit and supervisory committee members) and 22 directors of its subsidiary (Okasan Securities Co., Ltd.)
Type and number of shares to be issued upon the exercise of the stock option	129,400 shares of common stock	216,000 shares of common stock
Grant date	July 13, 2015	July 14, 2016
Condition for execution of right	No condition for execution of right is required.	No condition for execution of right is required.
Stipulations on requisite service period	There are no stipulations on requisite service period.	There are no stipulations on requisite service period.
Exercisable period	From July 14, 2015 to July 13, 2045	From July 15, 2016 to July 14, 2046

A summary of the scale and movement of the stock option plan for the year ended March 31, 2017 is as follows:

	1st	2nd
Non-vested:		
Outstanding at March 31, 2016	-	-
Granted	-	216,000
Forfeited	-	-
Vested	-	216,000
Outstanding at March 31, 2017	-	-
Vested:		
Outstanding at March 31, 2016	121,800	-
Vested	-	216,000
Exercised	11,500	-
Forfeited	-	-
Outstanding at March 31, 2017	110,300	216,000

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

	1st	2nd
Exercise price	¥1 (\$0.01)	¥1 (\$0.01)
Average stock price at exercise	¥507 (\$4.52)	-
Fair value at the grant date	¥715 (\$6.37)	¥383 (\$3.41)

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

Expected volatility *1	39.207%
Expected remaining outstanding period *2	5.5 years
Expected dividend *3	¥25 per share
Risk-free interest rate *4	-0.376%

*1 Expected volatility is based on the actual stock prices traded from January 14, 2011 to July 14, 2016.

*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, 2016.

*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 ¥307 million (\$2,736 thousand) at March 31, 2017 and increased by ¥302 million at March 31, 2016 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 505.2% and 449.5% at March 31, 2017 and 2016, respectively.

19. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major elements of selling, general and administrative expenses for the years ended March 31, 2017 and 2016 are summarized as follows:

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
Commissions and brokerage	¥ 12,809	¥ 14,765	\$ 114,172
Employees' compensation and benefits	32,409	33,331	288,876
Occupancy and rental	6,794	6,273	60,558
Data processing and office supplies	5,773	5,688	51,457
Depreciation and amortization	3,504	3,259	31,233
Taxes other than income taxes	1,196	846	10,661
Provision for doubtful accounts	17	(4)	152
Other	2,804	3,301	24,993
	<u>¥ 65,306</u>	<u>¥ 67,459</u>	<u>\$ 582,102</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, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net unrealized holding gain (loss) on available-for-sale securities:			
Arising during the year	¥ 1,107	¥ (4,324)	\$ 9,867
Reclassification adjustment	172	(1,733)	1,533
Before tax amount	1,279	(6,057)	11,400
Tax benefit (expense)	(320)	2,213	(2,852)
Net-of-tax amount	959	(3,844)	8,548
Surplus on land revaluation:			
Tax benefit (expense)	-	44	-
Foreign currency translation adjustments:			
Arising during the year	(23)	(249)	(205)
Remeasurements of defined benefit plans:			
Arising during the year	445	(949)	3,967
Reclassification adjustment	87	(118)	775
Before tax amount	532	(1,067)	4,742
Tax benefit (expense)	(163)	343	(1,453)
Net-of-tax amount	369	(724)	3,289
Share of other comprehensive loss of affiliates accounted for by equity method:			
Arising during the year	(122)	(61)	(1,087)
Total other comprehensive income (loss)	¥ 1,183	¥ (4,834)	\$ 10,545

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, 2017 and 2016 are as follows:

	Yen		U.S. dollars
	2017	2016	2017
Basic net income per share	¥ 52.93	¥ 55.94	\$ 0.47

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net income attributable to owners of the parent	¥ 10,487	¥ 11,068	\$ 93,475
Net income not applicable to common shareholders	-	-	-
Net income attributable to owners of the parent available to common shares	¥ 10,487	¥ 11,068	\$ 93,475

	Number of shares (Thousand)	
	2017	2016
Weighted average number of shares outstanding on which basic net income per share is calculated	198,115	197,849

(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, 2017 and 2016 are as follows:

	Yen		U.S. dollars
	2017	2016	2017
Net assets per share	¥ 792.05	¥ 739.82	\$ 7.06
	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Total net assets	¥ 178,257	¥ 172,097	\$ 1,588,885
Amount deducted from total net assets:			
Stock acquisition rights	162	87	1,444
Non-controlling interests	21,335	25,648	190,169
Total	21,497	25,735	191,613
Net assets applicable to common stockholders	¥ 156,760	¥ 146,362	\$ 1,397,272
	Number of shares (Thousand)		
	2017	2016	
Number of shares outstanding at the end of year on which net assets per share is calculated	197,917	197,833	

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, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash on hand and in banks	¥ 56,700	¥ 57,301	\$ 505,393
Time deposits that have maturities of over three months when acquired	(5,509)	(4,051)	(49,105)
Cash and cash equivalents	¥ 51,191	¥ 53,250	\$ 456,288

23. COMMITMENTS AND CONTINGENCIES

At March 31, 2017 and 2016, the Company and certain subsidiaries have guaranteed approximately ¥7 million (\$62 thousand) and ¥14 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, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Within one year	¥ 1,599	¥ 757	\$ 14,253
Over one year	3,488	119	31,090
	<u>¥ 5,087</u>	<u>¥ 876</u>	<u>\$ 45,343</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 ¥281 million (\$2,505 thousand) calculated using historical method (holding period: one day, confidence interval: 99%, observation period: 1,250 days) at March 31, 2017. 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, 2017 and 2016 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					
	2017			2016		
	Carrying value	Fair value	Differences	Carrying value	Fair value	Differences
Assets:						
Cash on hand and in banks	¥ 56,700	¥ 56,700	¥ -	¥ 57,301	¥ 57,301	¥ -
Cash segregated as deposits for customers and others	65,396	65,396	-	58,842	58,842	-
Trading assets, short-term investments and investment securities						
Trading securities	149,438	149,438	-	170,824	170,824	-
Held-to-maturity debt securities	53	54	1	46	42	(4)
Available-for-sale securities	37,234	37,234	-	39,464	39,464	-
Receivables arising from unsettled trades	7,036	7,036	-	-	-	-
Receivables on margin transactions	40,260	40,260	-	42,341	42,341	-
Receivables on collateralized securities transactions	141,522	141,522	-	95,461	95,461	-
Short-term guarantee deposits	3,058	3,058	-	2,070	2,070	-
Total	¥ 500,697	¥ 500,698	¥ 1	¥ 466,349	¥ 466,345	¥ (4)
Liabilities:						
Trading liabilities						
Trading securities	¥ 138,256	¥ 138,256	¥ -	¥ 77,194	¥ 77,194	¥ -
Payables arising from unsettled trades	-	-	-	16,146	16,146	-
Payables on margin transactions	12,089	12,089	-	10,468	10,468	-
Payables on collateralized securities transactions	46,659	46,659	-	24,737	24,737	-
Deposits received	34,243	34,243	-	27,529	27,529	-
Guarantee deposits received	35,192	35,192	-	36,285	36,285	-
Short-term borrowings	69,070	69,070	0	109,534	109,535	1
Long-term borrowings	9,860	9,995	135	12,300	12,475	175
Total	¥ 345,369	¥ 345,504	¥ 135	¥ 314,193	¥ 314,369	¥ 176
Derivative transactions	¥ (8)	¥ (8)	¥ -	¥ 16	¥ 16	¥ -

	Thousands of U.S. dollars		
	2017		
	Carrying value	Fair value	Differences
Assets:			
Cash on hand and in banks	\$ 505,393	\$ 505,393	\$ -
Cash segregated as deposits for customers and others	582,904	582,904	-
Trading assets, short-term investments and investment securities			
Trading securities	1,332,008	1,332,008	-
Held-to-maturity debt securities	472	481	9
Available-for-sale securities	331,884	331,884	-
Receivables arising from unsettled trades	62,715	62,715	-
Receivables on margin transactions	358,856	358,856	-
Receivables on collateralized securities transactions	1,261,449	1,261,449	-
Short-term guarantee deposits	27,257	27,257	-
Total	\$ 4,462,938	\$ 4,462,947	\$ 9
Liabilities:			
Trading liabilities			
Trading securities	\$ 1,232,338	\$ 1,232,338	\$ -
Payables on margin transactions	107,755	107,755	-
Payables on collateralized securities transactions	415,893	415,893	-
Deposits received	305,223	305,223	-
Guarantee deposits received	313,682	313,682	-
Short-term borrowings	615,652	615,652	0
Long-term borrowings	87,887	89,090	1,203
Total	\$ 3,078,430	\$ 3,079,633	\$ 1,203
Derivative transactions	\$ (71)	\$ (71)	\$ -

* 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 arising from unsettled trades, 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 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
	2017	2016	U.S. dollars
Unlisted equity securities	¥ 6,340	¥ 6,460	\$ 56,511
Investments in limited partnership and similar partnership	100	2	892
Total	¥ 6,440	¥ 6,462	\$ 57,403

(3) Projected future redemption of monetary claim and securities with maturities
March 31, 2017

	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	¥ 56,700	¥ -	¥ -	¥ -
Cash segregated as deposits for customers and others	65,396	-	-	-
Trading assets, short-term investments and investment securities:				
Held-to-maturity debt securities:				
Government bonds	-	54	-	-
Available-for-sale securities with maturities:				
Other	95	1,647	230	-
Receivables on margin transactions	40,260	-	-	-
Receivables on collateralized securities transactions	141,522	-	-	-
Short-term guarantee deposits	3,058	-	-	-
	<u>¥ 307,031</u>	<u>¥ 1,701</u>	<u>¥ 230</u>	<u>¥ -</u>

	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	\$ 505,393	\$ -	\$ -	\$ -
Cash segregated as deposits for customers and others	582,904	-	-	-
Trading assets, short-term investments and investment securities:				
Held-to-maturity debt securities:				
Government bonds	-	481	-	-
Available-for-sale securities with maturities:				
Other	847	14,681	2,050	-
Receivables on margin transactions	358,856	-	-	-
Receivables on collateralized securities transactions	1,261,449	-	-	-
Short-term guarantee deposits	27,257	-	-	-
	<u>\$ 2,736,706</u>	<u>\$ 15,162</u>	<u>\$ 2,050</u>	<u>¥ -</u>

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	-	-	-
	<u>¥ 258,017</u>	<u>¥ 3,553</u>	<u>¥ 220</u>	<u>¥ -</u>

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

March 31, 2017

	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	¥ 65,930	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term borrowings	3,140	3,020	4,000	2,840	-	-
Borrowings from securities finance	4,071	-	-	-	-	-
Total	<u>¥ 73,141</u>	<u>¥ 3,020</u>	<u>¥ 4,000</u>	<u>¥ 2,840</u>	<u>¥ -</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	\$ 587,664	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term borrowings	27,988	26,919	35,654	25,314	-	-
Borrowings from securities finance	36,287	-	-	-	-	-
Total	<u>\$ 651,939</u>	<u>\$ 26,919</u>	<u>\$ 35,654</u>	<u>\$ 25,314</u>	<u>\$ -</u>	<u>\$ -</u>

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	3,617	-	-	-	-	-
Total	¥ 113,151	¥ 3,140	¥ 2,320	¥ 4,000	¥ 2,840	¥ -

* 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, 2017 and 2016 are summarized as follows:

(1) Stocks

March 31, 2017

	Millions of yen			
	Contract or notional amounts	Fair value	Valuation gain	(loss)
Stock index futures:				
Written	¥ 1,393	¥ 7	¥ 7	
Purchased	1,582	(2)	(2)	
Stock index options:				
Written		9	9	0
Purchased		21	35	14
			¥	19

	Thousands of U.S. dollars			
	Contract or notional amounts	Fair value	Valuation gain	(loss)
Stock index futures:				
Written	\$ 12,416	\$ 62	\$ 62	
Purchased	14,101	(18)	(18)	
Stock index options:				
Written		80	80	0
Purchased		187	312	125
			\$	169

March 31, 2016

	Millions of yen		
	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>

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, 2017

	Millions of yen		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Bond futures:			
Written	¥ 4,510	¥ 2	¥ <u>2</u>
			¥ <u>2</u>

	Thousands of U.S. dollars		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Bond futures:			
Written	\$ 40,200	\$ 18	\$ <u>18</u>
			\$ <u>18</u>

March 31, 2016

	Millions of yen		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Bond futures:			
Written	¥ 4,095	¥ 10	¥ 10
Bond options:			
Purchased	4	5	1
			¥ <u>11</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, 2017

	<u>Millions of yen</u>		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Forward foreign exchange:			
Written:			
Indian rupee	¥ 604	¥ (10)	¥ (10)
Australian dollar	569	(6)	(6)
Russian ruble	544	(15)	(15)
Brazilian real	388	(3)	(3)
Mexican Peso	316	(8)	(8)
South African rand	280	5	5
Other	547	(4)	(4)
			<u>¥ (41)</u>

	<u>Thousands of U.S. dollars</u>		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Forward foreign exchange:			
Written:			
Indian rupee	\$ 5,384	\$ (89)	\$ (89)
Australian dollar	5,072	(53)	(53)
Russian ruble	4,849	(134)	(134)
Brazilian real	3,458	(27)	(27)
Mexican Peso	2,817	(71)	(71)
South African rand	2,496	45	45
Other	4,876	(36)	(36)
			<u>\$ (365)</u>

March 31, 2016

	<u>Millions of yen</u>		
	Contract or notional amounts	Fair value	Valuation 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)
			<u>¥ (8)</u>

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, 2017 and 2016 are summarized as follows:

Nature of transaction	Hedged items	Contract or notional amounts		
		Millions of yen		Thousands of U.S. dollars
		2017	2016	2017
Interest rate swaps:				
Variable rate received for fixed rate	Long-term borrowings	¥ 5,340	¥ 5,340	\$ 47,598

*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 ¥25 million (\$223 thousand) and ¥65 million, respectively. Compensation expense was ¥294 million and impairment loss was ¥3 million for the year ended March 31, 2016.

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
	2017	2016	2017
Consolidated balance sheet amount:			
Balance at beginning of the year	¥ 5,490	¥ 5,311	\$ 48,935
Increase/(decrease)	(69)	179	(615)
Balance at end of the year	¥ 5,421	¥ 5,490	\$ 48,320
Fair value	¥ 6,322	¥ 6,521	\$ 56,351

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, 2017, the Company purchased associated company’ stocks from Mr. Tetsuo Kato who owns 0.28% shares of the Company and is Vice Chairman of the Board of Directors in the amount of ¥700 million (\$6,239 thousand), from Ms. Yasuko Kato who owns 0.02% shares of the Company and is close relatives of the Company’s directors in the amount of ¥337 million (\$3,004 thousand) and from Santo Co., Ltd. who owns 0.25% shares of the Company and whose major shares are owned by the Company’s directors and their close relatives in the amount of ¥1,357 million (\$12,096 thousand). The amount is determined based on the price appraised by the third party.

For the year ended March 31, 2016, the Company provided condolence money of ¥60 million 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.

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, 2017 and 2016 are summarized as follows:

	Millions of yen						
	2017						
	Reported segments				Total	Adjustments	Consolidated
Securities	Asset management	Support					
Operating revenues:							
Revenues from third parties	¥ 67,053	¥ 12,672	¥ 908	¥ 80,633	¥ 8	¥ 80,641	
Intersegment revenues	4,269	-	11,038	15,307	(15,307)	-	
Total	¥ 71,322	¥ 12,672	¥ 11,946	¥ 95,940	¥ (15,299)	¥ 80,641	
Segment income	¥ 12,505	¥ 1,371	¥ 427	¥ 14,303	¥ (147)	¥ 14,156	
Segment assets	¥ 508,595	¥ 18,400	¥ 32,953	¥ 559,948	¥ (7,103)	¥ 552,845	
Segment liabilities	¥ 386,939	¥ 1,658	¥ 21,036	¥ 409,633	¥ (35,045)	¥ 374,588	
Others:							
Depreciation	¥ 701	¥ 29	¥ 2,632	¥ 3,362	¥ 142	¥ 3,504	
Interest and dividend income	1,788	-	6	1,794	(301)	1,493	
Interest expense	1,380	-	-	1,380	(201)	1,179	
Equity in gain of affiliates	41	-	-	41	-	41	
Impairment loss	233	-	-	233	-	233	
Investments in affiliates	4,852	-	-	4,852	-	4,852	
Increase in property and equipment and intangible assets	937	291	6,035	7,263	3	7,266	

Millions of yen							
2016							
Reported segments							
	Securities	Asset management	Support	Total	Adjustments	Consolidated	
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	¥ 71,049	¥ 16,418	¥ 11,884	¥ 99,351	¥ (16,424)	¥ 82,927	
Segment income	¥ 11,141	¥ 2,671	¥ 1,184	¥ 14,996	¥ (837)	¥ 14,159	
Segment assets	¥ 465,027	¥ 17,319	¥ 29,702	¥ 512,048	¥ 3,695	¥ 515,743	
Segment liabilities	¥ 345,363	¥ 1,860	¥ 18,667	¥ 365,890	¥ (22,244)	¥ 343,646	
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	

Thousands of U.S. dollars							
2017							
Reported segments							
	Securities	Asset management	Support	Total	Adjustments	Consolidated	
Operating revenues:							
Revenues from third parties	\$ 597,674	\$ 112,951	\$ 8,093	\$ 718,718	\$ 72	\$ 718,790	
Intersegment revenues	38,051	-	98,387	136,438	(136,438)	-	
Total	\$ 635,725	\$ 112,951	\$ 106,480	\$ 855,156	\$ (136,366)	\$ 718,790	
Segment income	\$ 111,463	\$ 12,220	\$ 3,806	\$ 127,489	\$ (1,310)	\$ 126,179	
Segment assets	\$ 4,533,336	\$ 164,007	\$ 293,725	\$ 4,991,068	\$ (63,312)	\$ 4,927,756	
Segment liabilities	\$ 3,448,962	\$ 14,778	\$ 187,503	\$ 3,651,243	\$ (312,372)	\$ 3,338,871	
Others:							
Depreciation	\$ 6,248	\$ 259	\$ 23,460	\$ 29,967	\$ 1,266	\$ 31,233	
Interest and dividend income	15,937	-	54	15,991	(2,683)	13,308	
Interest expense	12,301	-	-	12,301	(1,792)	10,509	
Equity in gain of affiliates	365	-	-	365	-	365	
Impairment loss	2,077	-	-	2,077	-	2,077	
Investments in affiliates	43,248	-	-	43,248	-	43,248	
Increase in property and equipment and intangible assets	8,352	2,594	53,792	64,738	27	64,765	

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Elimination of intersegment transactions	¥ 2,770	¥ 2,652	\$ 24,690
Unallocated company-wide expenses	(2,917)	(3,489)	(26,000)
	<u>¥ (147)</u>	<u>¥ (837)</u>	<u>\$ (1,310)</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
	2017	2016	2017
Elimination of intersegment balances	¥ (57,400)	¥ (41,747)	\$ (511,632)
Unallocated company-wide assets	50,297	45,442	448,320
	<u>¥ (7,103)</u>	<u>¥ 3,695</u>	<u>\$ (63,312)</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
	2017	2016	2017
Elimination of intersegment balances	¥ (54,616)	¥ (40,186)	\$ (486,817)
Unallocated company-wide liabilities	19,571	17,942	174,445
	<u>¥ (35,045)</u>	<u>¥ (22,244)</u>	<u>\$ (312,372)</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 years ended March 31, 2017 and 2016.

Goodwill by reported segments

The information is not applicable for the years ended March 31, 2017 and 2016.

Negative goodwill incurred by reported segments

The information is not applicable for the years ended March 31, 2017 and 2016.

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, 2017, 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, 2017, 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.

BDO Toyo & Co.
Tokyo, Japan
June 30, 2017

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REFERENCE DATA

Okasan Securities Co., Ltd.
Balance Sheet — March 31, 2017

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
ASSETS			
Current assets:			
Cash on hand and in banks	¥ 15,117	¥ 12,738	\$ 134,745
Cash segregated as deposits for customers and others	24,479	19,679	218,192
Trading assets	149,171	170,741	1,329,628
Receivables arising from unsettled trades	6,439	-	57,394
Receivables on margin transactions	36,542	38,608	325,715
Receivables on collateralized securities transactions	141,522	95,461	1,261,449
Short-term guarantee deposits	2,309	1,058	20,581
Deferred income taxes	911	586	8,120
Other current assets	2,985	2,981	26,607
Allowance for doubtful accounts	(5)	(0)	(44)
Total current assets	<u>379,470</u>	<u>341,852</u>	<u>3,382,387</u>
Property and equipment, net of accumulated depreciation	3,128	2,824	27,881
Intangible assets, net	290	300	2,585
Investments and other assets:			
Investment securities	540	413	4,813
Securities in associated companies	211	211	1,881
Long-term guarantee deposits	3,630	3,755	32,356
Deferred income taxes	1,349	1,333	12,024
Prepaid pension cost	293	198	2,612
Other	1,021	1,040	9,101
Allowance for doubtful accounts	(682)	(729)	(6,079)
Total investments and other assets	<u>6,362</u>	<u>6,221</u>	<u>56,708</u>
TOTAL	<u>¥ 389,250</u>	<u>¥ 351,197</u>	<u>\$ 3,469,561</u>

Okasan Securities Co., Ltd.
Balance Sheet—(Continued) — March 31, 2017

	Millions of yen		Thousands of U.S. dollar
	2017	2016	2017
LIABILITIES AND NET ASSETS			
Current liabilities:			
Trading liabilities	¥ 138,274	¥ 77,198	\$ 1,232,498
Payables arising from unsettled trades	-	16,358	-
Payables on margin transactions	11,073	9,434	98,699
Payables on collateralized securities transactions	46,659	24,737	415,893
Deposits received	22,535	16,791	200,865
Guarantee deposits received	7,485	7,656	66,717
Short-term borrowings	52,315	94,365	466,307
Income tax payables	1,133	10	10,099
Other current liabilities	8,016	5,934	71,450
Total current liabilities	287,490	252,483	2,562,528
Non-current liabilities:			
Long-term borrowings	6,700	6,000	59,720
Liability for retirement benefits	4,775	4,480	42,562
Other non-current liabilities	1,488	1,407	13,263
Total non-current liabilities	12,963	11,887	115,545
Financial instruments transactions reserve	800	1,487	7,131
Total liabilities	301,253	265,857	2,685,204
Net assets			
Shareholder's equity:			
Common stock			
Authorized—240,000 shares			
Issued—100,000 shares in 2017 and 2016	5,000	5,000	44,567
Capital surplus	29,200	29,200	260,273
Retained earnings	53,778	51,141	479,348
Total shareholder's equity	87,978	85,341	784,188
Accumulated other comprehensive income (loss):			
Unrealized gain (loss) on available-for-sale securities	19	(1)	169
Total net assets	87,997	85,340	784,357
TOTAL	¥ 389,250	¥ 351,197	\$ 3,469,561

Okasan Securities Co., Ltd.
Statement of Income — Year ended March 31, 2017

	Millions of yen		Thousands of U.S. dollar
	2017	2016	2017
Operating revenues:			
Commissions	¥ 31,380	¥ 38,079	\$ 279,704
Net gain on trading	30,318	21,271	270,238
Interest and dividend income	1,044	1,657	9,306
	<u>62,742</u>	<u>61,007</u>	<u>559,248</u>
Interest expense	1,070	1,210	9,538
Net operating revenues	<u>61,672</u>	<u>59,797</u>	<u>549,710</u>
Selling, general and administrative expenses	<u>48,799</u>	<u>49,298</u>	<u>434,967</u>
Operating income	<u>12,873</u>	<u>10,499</u>	<u>114,743</u>
Other income (expenses):			
Reversal of (provision for) financial instruments transactions reserve	687	(27)	6,124
Other, net	392	230	3,494
	<u>1,079</u>	<u>203</u>	<u>9,618</u>
Income before income taxes	13,952	10,702	124,361
Income taxes:			
Current	4,666	3,019	41,590
Deferred	(351)	656	(3,129)
	<u>4,315</u>	<u>3,675</u>	<u>38,461</u>
Net income	<u>¥ 9,637</u>	<u>¥ 7,027</u>	<u>\$ 85,900</u>

CORPORATE DATA

(At August, 2017)

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, 2017)

Vice Chairman

Tetsuo Kato

President

Hiroyuki Shinshiba

Director

Hiroyuki Shindo

Director

Hiroyuki Murai

Director

Masahiro Hayakawa

Director

Masanori Kanai

Director

Akira Terayama

Director

Yoshio Sakaki

Director

Makoto Egoshi

Audit & Supervisory Committee Members

Director

Nobuyuki Natsume

Outside Director

Seishi Higo

Outside Director

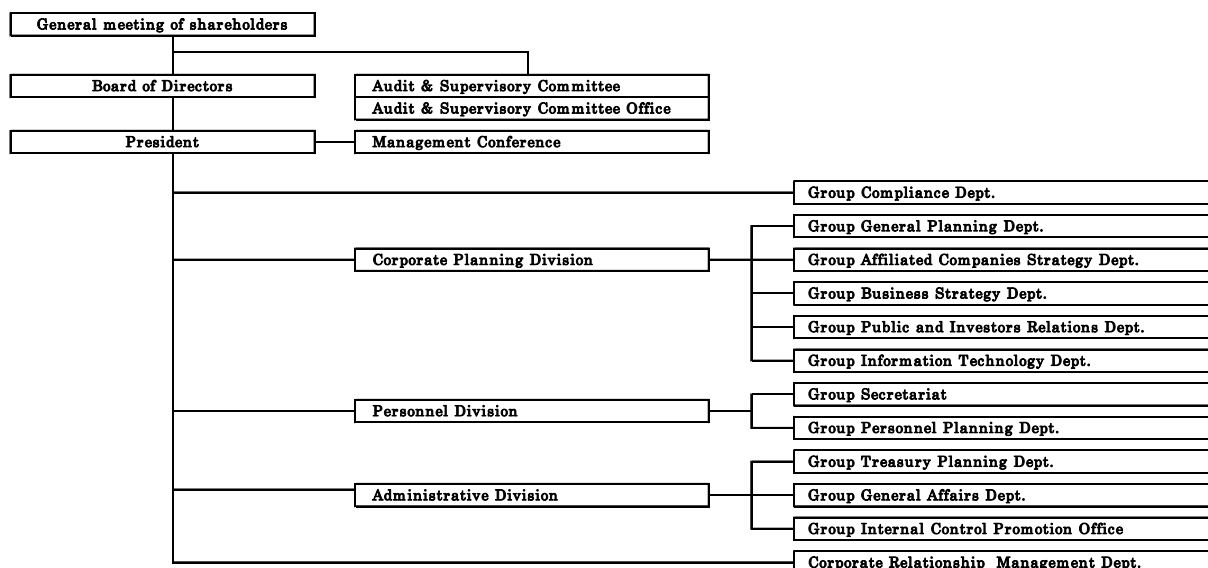
Hirokazu Kono

Outside Director

Tsuneo Muneoka

ORGANIZATION CHART

(At August, 2017)



OKASAN SECURITIES GROUP INC.

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