



ANNUAL REPORT

For Fiscal Year Ended March 31, 2018

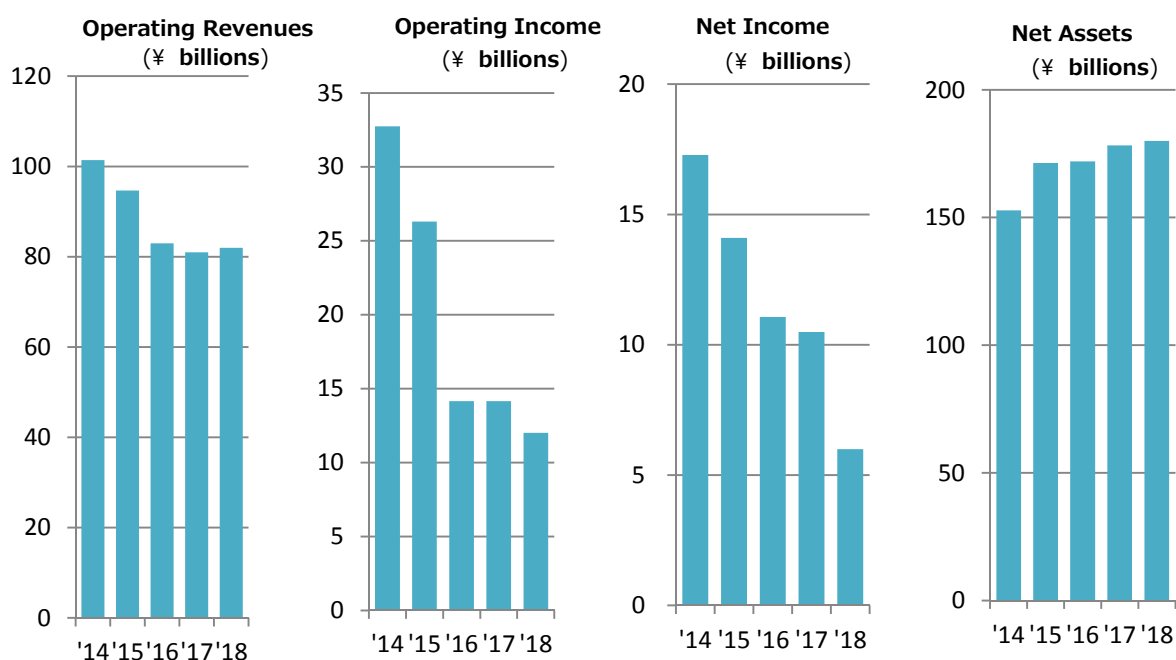
OKASAN SECURITIES GROUP INC.

Consolidated Financial Highlights

Okasan Securities Group Inc. and consolidated Subsidiaries Years ended March 31, 2018

	Millions of yen		Thousands of U.S.dollars ^(note)
	2018 (4/1/17~3/31/18)	2017 (4/1/16~3/31/17)	2018 (4/1/17~3/31/18)
Operating revenues	¥81,921	¥ 80,641	\$ 771,094
Operating income	11,720	14,156	110,316
Net income	5,853	10,487	55,092
Total assets	477,760	552,845	4,496,988
Net assets	180,049	178,257	1,694,738
Per share of common stock	Yen		U.S.dollars ^(note)
Basic net income	¥ 29.56	¥ 52.93	\$ 0.28
Cash dividends applicable to the year··	25.00	25.00	0.24

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, 2018, which was ¥106.24 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 composed of a holding company and its Japanese and overseas consolidated subsidiaries. The Group strives to strengthen its enterprise value in a sustained manner through the provision of investment services centered on the securities business and asset management.

2. Basic policy on the distribution of profits and dividends

The Group sees shareholder returns as an important gauge of management success and intend to distribute payouts in consideration of the earnings trends in tandem with the sustainability of stable dividends.

3. Important management indicator

It is important to generate stable profits irrespective of the market conditions. In keeping with this principle, the Group maintains a stable, consolidated return on equity (ROE) of 10% as a long-term business objective.

4. Medium and long-term management strategy

The Okasan Group will mark the centennial of its founding in April 2023. With this milestone in mind, the Group is establishing a Grand Design to create a business structure that will ensure continued growth and retain 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 from April 2017 through March 2020. During this time, the Group will invest strategically to give the Okasan Group the strength needed to achieve these objectives.

During the fiscal year under review—the first fiscal year of this medium-term management plan—the Group enhanced its alliances with external companies in such forms as Okasan Securities Co., Ltd., and other subsidiaries commencing business alliances and agency contracts with other firms for products such as defined-contribution pension plans and exchange-traded contracts for difference (CFDs). The Group also advanced FinTech activities in proposing solutions to clients and providing investment information. Such activities included the start of provision of services using artificial intelligence (AI) and robo-advisors. The Group will continue striving to increase its corporate value by enhancing its strengths.

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. Business conditions and challenges the Company should address

It seems that the world today is in the midst of a major structural transformation from the old order to a new one. The long era of US hegemony, globalization, and monetary easing seems to be ending, as signs have begun to appear of a new era grounded in Chinese hegemony, protectionism, and rising interest rates. Furthermore, the advent of the fourth industrial revolution is bringing about social and economic transformations.

The trend toward globalization, which had continued since the end of the Cold War, has begun to revert toward protectionism under US President Donald J. Trump. In addition, the exit strategy from policies of monetary easing in Japan, the US, and Europe is poised to reverse the downward trend in interest rates that has continued over the past three decades. As the networked society continues to evolve and use of AI advances at an accelerating pace, society is expected to be enriched even further in the future. At the same time, a wide range of issues and negative aspects of technology, such as the dark web, which has attracted new attention with incidents of loss of cryptocurrency holdings, have clearly

emerged. Conflicts between the new and old orders, and the resulting disorder, are making us think that a period of some instability will unavoidably come and last for some time. In addition, in the business world, as a new hegemon arises, the retiring of old ways of doing business is likely to accelerate.

In the industry in which the Group operates, the two major changes of regulatory reforms and the FinTech revolution are poised to dramatically transform how the securities business operates. In addition, there are signs of a shift toward increasing trends in prices and interest rates, and in societies in which people can expect to live for 100 years, Japan also appears to be following the lead of Europe and the US in moving from a focus on savings to one on investment.

Under such conditions, we consider the Group's societal role to be one of meeting our clients' various needs in the areas of asset building, investment, and asset management as a team of investment-advising professionals. We intend to further intensify our customer-centric approach based on the "customer first" management philosophy that we have maintained for more than 95 years since our founding. We will promote human resource development and qualitative improvements in our sales activities to further strengthen the foundations of our core securities business. In addition, we will further strengthen cooperation and partnerships both inside and outside the Group to expand our securities network. Our goal is to achieve sustained improvements in the corporate value of our entire 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 accountability to shareholders and forge cordial relationships with stakeholders.

(2) Structure of business execution

Regarding the structure of business execution, the Board of Directors as the supreme decision-making organ on management makes decisions on items provided in laws and regulations and the articles of incorporation and maps out plans for 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 nine directors (including four directors who are Audit & Supervisory Committee members), which enables it to make quick decisions.

We also have set up the Management Conference. To strengthen the business management of the Group by clarifying the roles of both bodies, the Board of Directors makes management decisions and supervises management while the Management Conference is in charge of business execution. The Management Conference, according to the basic management policies adopted by the Board of Directors, deliberates on the laying out of specific policies, business execution plans, 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 securing appropriate business operations such as reducing management risks and preventing wrongdoings, we have set up the Internal Audit Dept. and assigned eight staff to this department. The Internal Audit Dept. makes up an audit plan in each fiscal year, periodically implements on-the-spot audits based on these plans, and inspects documents when necessary. The results of the audits are presented regularly 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, 2018

I . Financial conditions and operating results

During the consolidated fiscal year under review, the Japanese economy continued its gentle expansionary trend. Exports increased, thanks to the global economic expansion, and capital investment also was strong. While personal consumption remained relatively low, employment conditions continued to improve and the labor shortage further intensified. Under such conditions, prices continued to rise gently, as the year-on-year rate of increase in the consumer price index (not including fresh foods) in February 2018 reached the +1% level for the first time in about three years.

In the foreign exchange market, while the yen had remained in the ¥107–¥115/\$1 range during 2017, it has risen against the dollar since the start of the calendar year, due to factors including political risks in Japan and the US, reaching ¥104/\$1 in March. At the end of the fiscal year, it stood at ¥106/\$1 due to remaining concerns about trade frictions centered on the US. The yen/euro rate, meanwhile, fell temporarily to ¥137/€1 in February, due to factors such as the economic recovery in the Eurozone and a movement toward reversing monetary easing by the European Central Bank (ECB). However, after that, the yen rose against the euro, and trading ended at ¥131/€1 at the end of the fiscal year.

In the equities market, the Nikkei 225 remained around ¥20,000 through the summer, due to concerns about rising risks including those related to North Korea and the appreciation of the yen against the dollar. However, in the autumn, it reacted positively to underlying political stability as the ruling party won the House of Councillors elections in Japan and remained strong after that, recording 16 consecutive increases—the longest streak ever. Strong corporate business performance and other factors also supported investor sentiment, and in November, the market rose to its highest recovery level since the collapse of the “bubble” economy of the late 1980s and early 1990s. In January, it rose temporarily above ¥24,000 for the first time in about 26 years. However, the Nikkei 225 began to fall in February 2018 as equity markets worldwide, beginning in the US, slumped, ending the year at ¥21,454.30. In debt markets, under the Bank of Japan’s policy of manipulating interest rates to maintain the 10-year government bond yield at around 0%, the BoJ purchased government bonds when interest rates were rising to roughly 0.10% in July 2017 and February 2018, restricting the increase in yields. Even when the 10-year government bond yield fell temporarily into negative territory in September, the BoJ put a temporary halt to the drop into negative territory by reducing the amount of government bonds it purchased. The 10-year government bond yield ended the fiscal year at +0.045%, after spending the year largely in the vicinity of the BoJ’s target level.

In this environment, Okasan Securities Co., Ltd., the core Group company, strived to strengthen its sales capabilities through initiatives including opening new branches while providing updated investment information corresponding to the current trends in the market. While the company’s sales activities remained firmly rooted in local communities, it also advanced new initiatives including expanding its provision of defined-benefit pension services in partnership with securities companies and other firms both inside and outside the Group and entering into a business and capital partnership with a company that develops AI for use in analyzing financial information. At the same time, Okasan Online Securities Co., Ltd., the Group’s specialist online brokerage, sought to grow its business foundation by improving customer services in various ways, including enabling customers to open new accounts immediately, beginning to handle general margin transactions, and starting to provide investment information services using AI. Okasan Asset Management Co., Ltd., sought to improve investment performance by stressing subjects such as economic analysis and corporate research, while also implementing engagement and exercise of voting rights with regard to the companies in which it invests, to help increase their corporate values. The company also strived to increase its assets under management through development of investment trusts offered to the public, such as the Nippon Founder Fund, and proposing private-placement investment trusts to

institutional investors.

II. Financial standing

Total assets at the end of the consolidated fiscal year under review stood at ¥477,760 million, down ¥75,084 million from the end of the previous consolidated fiscal year. Total liabilities were ¥297,711 million, down ¥76,877 million from the end of the previous consolidated fiscal year, while net assets were up ¥1,792 million over the same period to ¥180,049 million.

1. Total assets

Total assets at the end of the consolidated fiscal year under review stood at ¥477,760 million, down ¥75,084 million from the end of the previous consolidated fiscal year. This was due mainly to decreases of ¥53,973 million in receivables on collateralized securities transactions and ¥37,343 million in trading assets, despite an increase of ¥11,218 million in receivables on margin transactions.

2. Total liabilities

Total liabilities at the end of the consolidated fiscal year under review stood at ¥297,711 million, down ¥76,877 million from the end of the previous consolidated fiscal year. This was due mainly to decreases of ¥75,295 million in trading liabilities, ¥27,286 million in payables on collateralized securities transactions, and ¥1,276 million in income tax payables, despite increases of ¥20,576 million in short-term borrowings and ¥3,241 million in deposits received.

3. Net assets

Net assets at the end of the consolidated fiscal year under review stood at ¥180,049 million, up ¥1,792 million from the end of the previous consolidated fiscal year. This was due mainly to increases of ¥1,765 million in non-controlling interests and ¥942 million in retained earnings, while unrealized gain on available-for-sale securities decreased by ¥754 million.

III. Business results

Group operating revenues in the consolidated fiscal year under review were ¥81,921 million (101.6% of the figure for the previous year), and net operating revenues were ¥80,758 million (101.6% of the figure for the previous year). SG&A expenses were ¥69,038 million (105.7% of the figure for the previous year); operating income was ¥11,720 million (82.8% of the figure for the previous year); and net income attributable to owners of the parent was ¥5,853 million (55.8% of the figure for the previous year).

1. Fees and commissions received

Fees and commissions received stood at ¥52,777 million (112.1% of the figure for the previous year). These can be broken down as follows:

(1) Brokerage commissions

The average daily trading volumes on the First Section of the Tokyo Stock Exchange (Japanese common shares) in the consolidated fiscal year under review was 2,309 million shares (90.9% of the figure for the previous year), while turnover was ¥3,211.7 billion (117.2% of the figure for the previous year). In this environment, equity brokerage commissions were ¥19,753 million (127.6% of the figure for the previous year). Bond brokerage commissions were ¥3 million (18.7% of the figure for the previous year). Other

brokerage commissions amounted to ¥407 million (63.9% of the figure for the previous year). Total brokerage commissions were ¥20,163 million (125.0% 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

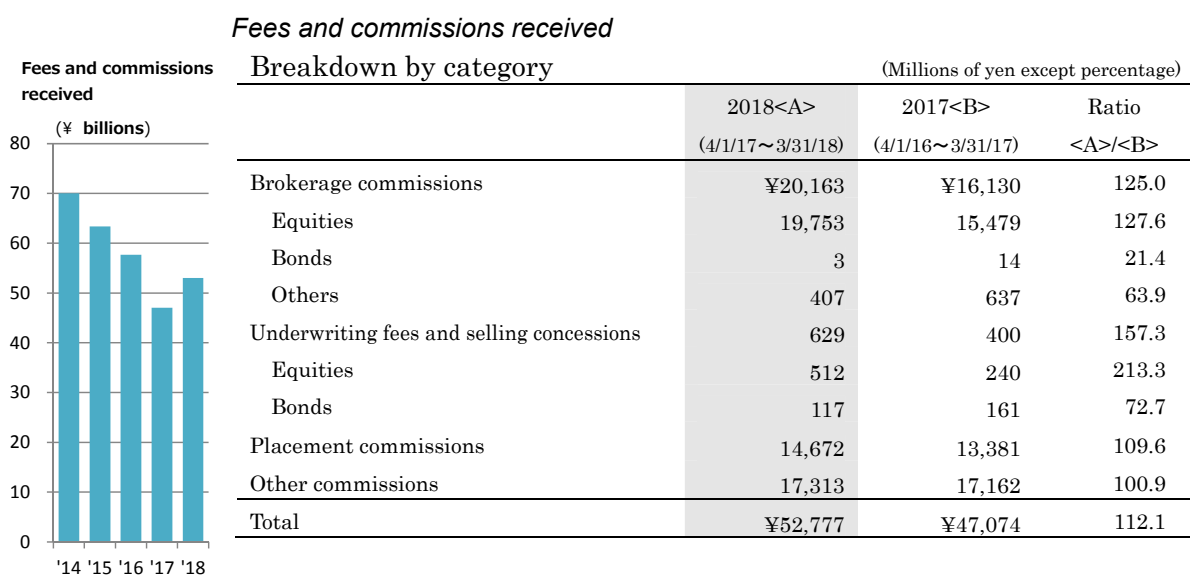
During the consolidated fiscal year under review, our equity underwriting income was significantly higher than in the previous year, due to factors including large underwriting transactions and the fact that we served as lead underwriter for some listings. In our bond-underwriting efforts, although we served as lead underwriter for several local government and corporate bond issuances, commissions decreased year on year. The resulting commissions on equity were ¥512 million (213.6% of the figure for the previous year). Commissions on bonds totaled ¥117 million (72.8% of the figure for the previous year). Total underwriting fees, selling concessions, and commissions on solicitation for sale of financial instruments to specified investors and others, related to both equity and bond transactions, amounted to ¥629 million (157.1% 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 accounted 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 consolidated fiscal year under review, the company enjoyed strong sales of funds offering prospects of comparatively high yields. These included funds that invest in high-yield bonds or high-dividend equities. Funds invested in equities in rapidly growing Asian markets also sold well, backed by favorable global economic conditions. We also enhanced our product lineup through means including the introduction of Japanese equities funds focusing on entrepreneurs who demonstrate strong leadership and funds investing in equities of emerging Chinese firms in the technology industry. Such initiatives are expected to lead to future growth.

As a result, administrative charges on offering, selling, and solicitation for sales of financial instruments to specified investors totaled ¥14,672 million (109.6% of the figure for the previous year). Other fees and commissions received, mainly related to investment trusts, amounted to ¥17,313 million (100.9% of the figure for the previous year).



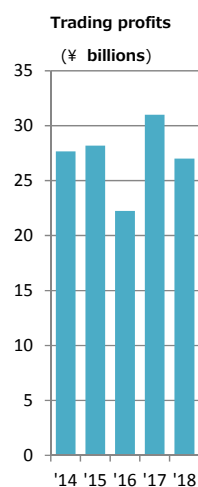
Breakdown by product	(Millions of yen except percentage)		
	2018<A> (4/1/17~3/31/18)	2017 (4/1/16~3/31/17)	Ratio <A>/
Equities	¥20,527	¥15,985	128.4
Bonds	247	410	60.2
Investment trusts	30,733	29,293	104.9
Others	1,270	1,384	91.8
Total	¥52,777	¥47,074	112.1

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.

While investors trended more strongly toward risk avoidance for a time in the middle of the consolidated fiscal year under review, conditions in US equities markets were favorable, thanks to strong US economic conditions and expectations for US tax reform. However, since February, both equities and foreign-exchange markets seemed to be adjusting to concerns about US-China trade friction.

Consequently, total profits on equity trading were ¥18,530 million (94.1% of the figure for the previous year). Total bond trading profits were ¥8,078 million (68.0% of the figure for the previous year). Total trading profits, including loss from other trading of ¥66 million (compared to a loss of ¥286 million in the previous year), were ¥26,541 million (84.9% of the figure for the previous year).



Trading profits	(Millions of yen except percentage)		
	2018<A> (4/1/17~3/31/18)	2017 (4/1/16~3/31/17)	Ratio <A>/
Equities	¥18,530	¥19,686	94.1
Bonds	8,078	11,872	68.0
Others	-66	-286	—
Total	¥26,541	¥31,272	84.9

3.Net financial income

Financial income amounted to ¥1,746 million (116.9% of the figure for the previous year). Financial expenses stood at ¥1,163 million (98.6%). Net financial income—i.e., the difference between the two—was ¥582 million (185.4%).

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 ¥857 million (106.8% of the figure for the previous year).

5.Selling, general, and administrative expenses

Selling, general, and administrative expenses were ¥69,038 million (105.7% of the figure for the previous year), due to higher expenses, including personnel expenses, real-estate-related expenses, and administrative expenses.

6. Other income (expenses)

Other expenses totaled ¥1,047 million. Extraordinary income was ¥5,065 million, due to factors such as recording of gains on the sale of investment securities, and extraordinary losses totaled ¥7,164 million, due to factors including the recording of impairment loss and loss on sales and retirement of noncurrent assets.

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.

IV. Cash flows

Cash and deposits (“cash” hereafter) at the end of the consolidated fiscal year rose ¥2,949 million from the end of the previous fiscal year to ¥54,140 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 used in operating activities was ¥12,877 million, due mainly to the difference between cash outflows resulting from a change of ¥40,604 million in trading products and a change of ¥11,327 million in receivables on margin transactions and payables on margin transactions and cash inflows due to a change of ¥26,687 million in receivables on collateralized securities transactions and payables on collateralized securities transactions.

< Cash flows from investing activities >

Cash flows from investment activities were ¥661 million, due mainly to the difference between cash inflows of ¥5,980 million from the sale of investment securities and cash outflows of ¥2,605 million on the acquisition of intangible fixed assets, ¥1,500 million on the acquisition of securities, and ¥584 million on the acquisition of tangible fixed assets.

< Cash flows from financing activities >

Cash flows from financing activities were ¥15,418 million, due mainly to the difference between cash inflows from a net change in short-term borrowings of ¥20,506 million and ¥1,000 million from long-term borrowings and cash outflows of ¥4,909 million on dividend payments and ¥692 million on repayment of long-term borrowings.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Balance Sheets — March 31, 2018

	Millions of yen		Thousands of U.S. dollars (note 3)
	2018	2017	2018
ASSETS			
Current assets:			
Cash on hand and in banks (notes 10 and 23)	¥ 59,848	¥ 56,700	\$ 563,328
Cash segregated as deposits for customers and others	68,932	65,396	648,833
Trading assets (notes 4 and 10)	112,138	149,482	1,055,516
Receivables arising from unsettled trades	9,689	7,036	91,199
Receivables on margin transactions (note 5)	51,478	40,260	484,545
Receivables on collateralized securities transactions (note 6)	87,549	141,522	824,068
Short-term investments (note 7)	1,500	95	14,119
Deferred income taxes (note 11)	1,037	1,002	9,761
Other current assets	8,984	8,460	84,563
Allowance for doubtful accounts	(6)	(5)	(57)
Total current assets	401,149	469,948	3,775,875
Property and equipment, net of accumulated depreciation of ¥14,658 million (\$137,971 thousand) in 2018 and ¥13,881 million in 2017 (note 10)	19,470	19,340	183,264
Intangible assets, net	5,905	12,899	55,582
Investments and other assets:			
Investment securities (notes 7, 8 and 10)	42,648	43,632	401,431
Long-term guarantee deposits	3,824	3,791	35,994
Asset for retirement benefits (note 12)	1,434	768	13,498
Deferred income taxes (note 11)	2,414	1,441	22,722
Other	2,343	2,467	22,054
Allowance for doubtful accounts	(1,427)	(1,441)	(13,432)
Total investments and other assets	51,236	50,658	482,267
TOTAL	¥ 477,760	¥ 552,845	\$ 4,496,988

See accompanying notes to consolidated financial statements.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Balance Sheets—(Continued) — March 31, 2018

	Millions of yen		Thousands of U.S. dollars (note 3)
	2018	2017	2018
LIABILITIES AND NET ASSETS			
Current liabilities:			
Trading liabilities (note 4)	¥ 63,011	¥ 138,307	\$ 593,101
Payables on margin transactions (notes 5 and 10)	12,006	12,089	113,008
Payables on collateralized securities transactions (note 6)	19,373	46,659	182,351
Deposits received	37,484	34,243	352,824
Guarantee deposits received	36,507	35,192	343,628
Short-term borrowings (notes 9 and 10)	89,647	69,070	843,816
Income tax payables (note 11)	2,043	3,319	19,230
Deferred income taxes (note 11)	25	38	235
Other current liabilities (notes 9 and 13)	7,366	6,445	69,333
Total current liabilities	<u>267,462</u>	<u>345,362</u>	<u>2,517,526</u>
Non-current liabilities:			
Long-term borrowings (notes 9 and 10)	10,048	9,860	94,578
Lease liabilities (note 9)	877	449	8,255
Deferred income taxes (note 11)	7,592	7,790	71,461
Liability for retirement benefits (note 12)	6,489	5,884	61,079
Other non-current liabilities (note 13)	3,957	3,910	37,246
Total non-current liabilities	<u>28,963</u>	<u>27,893</u>	<u>272,619</u>
Financial instruments transactions reserve (note 14)	<u>1,286</u>	<u>1,333</u>	<u>12,105</u>
Total liabilities	<u>297,711</u>	<u>374,588</u>	<u>2,802,250</u>
Net assets			
Shareholders' equity (note 15):			
Common stock			
Authorized—750,000,000 shares:			
issued—208,214,969 shares in 2018 and 2017	18,590	18,590	174,981
Capital surplus	16,420	16,422	154,556
Retained earnings	113,225	112,283	1,065,747
Treasury stock, at cost, 10,210,310 shares in 2018 and 10,297,377 shares in 2017	(3,755)	(3,786)	(35,344)
Total shareholders' equity	<u>144,480</u>	<u>143,509</u>	<u>1,359,940</u>
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities (note 7)	11,627	12,382	109,441
Surplus on land revaluation (note 17)	401	401	3,774
Foreign currency translation adjustments	(70)	157	(659)
Remeasurements of defined benefit plans	275	311	2,589
Total accumulated other comprehensive income	<u>12,233</u>	<u>13,251</u>	<u>115,145</u>
Stock acquisition rights (note 16)	236	162	2,221
Non-controlling interests	23,100	21,335	217,432
Total net assets	<u>180,049</u>	<u>178,257</u>	<u>1,694,738</u>
Commitments and contingencies (note 24)			
TOTAL	<u>¥ 477,760</u>	<u>¥ 552,845</u>	<u>\$ 4,496,988</u>

See accompanying notes to consolidated financial statements.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Statement of Income – Year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (note 3)
	2018	2017	2018
Operating revenues:			
Commissions	¥ 52,777	¥ 47,074	\$ 496,772
Net gain on trading	26,541	31,272	249,821
Interest and dividend income	1,746	1,493	16,434
Service fee and other revenues	857	802	8,067
	<u>81,921</u>	<u>80,641</u>	<u>771,094</u>
Interest expense	<u>1,163</u>	<u>1,179</u>	<u>10,947</u>
Net operating revenues	80,758	79,462	760,147
Selling, general and administrative expenses (note19)	<u>69,038</u>	<u>65,306</u>	<u>649,831</u>
Operating income	<u>11,720</u>	<u>14,156</u>	<u>110,316</u>
Other income (expenses):			
Dividend income	927	957	8,726
Exchange gain	233	195	2,193
Gain on sale of investment securities	5,019	615	47,242
Gain on sale of property and equipment	3	93	28
Equity in gain (losses) of affiliates	93	41	875
Interest expense	(56)	(69)	(527)
Loss on sale and disposal of property and equipment and intangible assets	(2,499)	(160)	(23,522)
Loss on sale of investment securities	(63)	(182)	(593)
Loss on devaluation of investment securities	(9)	0	(85)
Reversal of (provision for) financial instruments transactions reserve	47	1,309	442
Impairment loss (note 20)	(4,823)	(233)	(45,397)
Compensation income	-	390	-
Moving costs	-	(94)	-
Other, net	81	189	763
	<u>(1,047)</u>	<u>3,051</u>	<u>(9,855)</u>
Income before income taxes and non-controlling interests	10,673	17,207	100,461
Income taxes (note 11):			
Current	4,658	5,497	43,844
Deferred	(1,029)	(202)	(9,686)
	<u>3,629</u>	<u>5,295</u>	<u>34,158</u>
Net income	<u>7,044</u>	<u>11,912</u>	<u>66,303</u>
Net income attributable to non-controlling interests	<u>1,191</u>	<u>1,425</u>	<u>11,211</u>
Net income attributable to owners of the parent	<u>¥ 5,853</u>	<u>¥ 10,487</u>	<u>\$ 55,092</u>

See accompanying notes to consolidated financial statements.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Statement of Comprehensive Income – Year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (note 3)
	2018	2017	2018
Net income	¥ 7,044	¥ 11,912	\$ 66,303
Other comprehensive income (loss) (note 21):			
Unrealized gain (loss) on available-for-sale securities	(506)	959	(4,763)
Foreign currency translation adjustments	(227)	(23)	(2,137)
Remeasurements of defined benefit plans	(25)	369	(235)
Share of other comprehensive loss of affiliates accounted for by equity method	332	(122)	3,125
Total other comprehensive income (loss)	(426)	1,183	(4,010)
Comprehensive income	¥ 6,618	¥ 13,095	\$ 62,293
Comprehensive income attributable to:			
Owners of the parent	¥ 4,834	¥ 11,826	\$ 45,501
Non-controlling interests	1,784	1,269	16,792

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, 2018

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
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
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
Changes arising during the year:					
Cash dividends			(4,910)		(4,910)
Net income attributable to owners of the parent			5,853		5,853
Purchase of treasury stock				(22)	(22)
Disposition of treasury stock		2	(1)	53	54
Changes in equity resulting from transactions with non-controlling interests		(4)			(4)
Net changes other than shareholders' equity					
Total changes during the year	-	(2)	942	31	971
Balances at March 31, 2018	¥ 18,590	¥ 16,420	¥ 113,225	¥ (3,755)	¥ 144,480

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, 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 stock									281
Changes in equity resulting from transactions with non-controlling interests									3,177
Net changes other than shareholders' equity	<u>1,011</u>	<u>0</u>	<u>(23)</u>	<u>352</u>	<u>1,340</u>	<u>75</u>	<u>(4,313)</u>	<u>(2,898)</u>	
Total changes during the year	<u>1,011</u>	<u>0</u>	<u>(23)</u>	<u>352</u>	<u>1,340</u>	<u>75</u>	<u>(4,313)</u>	<u>6,160</u>	
Balances at March 31, 2017	12,382	401	157	311	13,251	162	21,335	178,257	
Changes arising during the year:									
Cash dividends									(4,910)
Net income attributable to owners of the parent									5,853
Purchase of treasury stock									(22)
Disposition of treasury stock									54
Changes in equity resulting from transactions with non-controlling interests									(4)
Net changes other than shareholders' equity	<u>(755)</u>	<u>-</u>	<u>(227)</u>	<u>(36)</u>	<u>(1,018)</u>	<u>74</u>	<u>1,765</u>	<u>821</u>	
Total changes during the year	<u>(755)</u>	<u>-</u>	<u>(227)</u>	<u>(36)</u>	<u>(1,018)</u>	<u>74</u>	<u>1,765</u>	<u>1,792</u>	
Balances at March 31, 2018	<u>¥ 11,627</u>	<u>¥ 401</u>	<u>¥ (70)</u>	<u>¥ 275</u>	<u>¥ 12,233</u>	<u>¥ 236</u>	<u>¥ 23,100</u>	<u>¥ 180,049</u>	

	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, 2017	\$ 174,981	\$ 154,574	\$ 1,056,881	\$ (35,636)	\$ 1,350,800
Changes arising during the year:					
Cash dividends			(46,216)		(46,216)
Net income attributable to owners of the parent			55,092		55,092
Purchase of treasury stock				(207)	(207)
Disposition of treasury stock		19	(10)	499	508
Changes in equity resulting from transactions with non-controlling interests		(37)			(37)
Net changes other than shareholders' equity					
Total changes during the year	<u>-</u>	<u>(18)</u>	<u>8,866</u>	<u>292</u>	<u>9,140</u>
Balances at March 31, 2018	\$ <u>174,981</u>	\$ <u>154,556</u>	\$ <u>1,065,747</u>	\$ <u>(35,344)</u>	\$ <u>1,359,940</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, 2017	\$ 116,548	\$ 3,774	\$ 1,478	\$ 2,927	\$ 124,727	\$ 1,525	\$ 200,819	\$ 1,677,871
Changes arising during the year:								
Cash dividends								(46,216)
Net income attributable to owners of the parent								55,092
Purchase of treasury stock								(207)
Disposition of treasury stock								508
Changes in equity resulting from transactions with non-controlling interests								(37)
Net changes other than shareholders' equity	<u>(7,107)</u>	<u>-</u>	<u>(2,137)</u>	<u>(338)</u>	<u>(9,582)</u>	<u>696</u>	<u>16,613</u>	<u>7,727</u>
Total changes during the year	<u>(7,107)</u>	<u>-</u>	<u>(2,137)</u>	<u>(338)</u>	<u>(9,582)</u>	<u>696</u>	<u>16,613</u>	<u>16,867</u>
Balances at March 31, 2018	\$ <u>109,441</u>	\$ <u>3,774</u>	\$ <u>(659)</u>	\$ <u>2,589</u>	\$ <u>115,145</u>	\$ <u>2,221</u>	\$ <u>217,432</u>	\$ <u>1,694,738</u>

See accompanying notes to consolidated financial statements.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Statement of Cash Flows — Year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (note 3)
	2018	2017	2018
Cash flows from operating activities:			
Income before income taxes and non-controlling interests	¥ 10,673	¥ 17,207	\$ 100,461
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating			
Depreciation and amortization	3,609	3,504	33,970
Impairment loss	4,824	233	45,407
Interest and dividend income	(2,679)	(2,456)	(25,216)
Interest expense	1,219	1,247	11,474
Loss on disposal of intangible assets	2,457	16	23,127
Gain on sale of investment securities	(4,956)	(192)	(46,649)
Gain on sale of investments in affiliates	-	(245)	-
Loss on devaluation of investment securities	9	0	85
Decrease (increase) in deposits segregated for customer	(3,500)	(6,650)	(32,944)
Decrease (increase) in trading assets and increase (decrease) in trading liabilities	(40,605)	59,289	(382,201)
Decrease (increase) in receivables on margin transactions and increase (decrease) in payables on margin transactions	(11,328)	3,700	(106,627)
Decrease (increase) in receivables on collateralized securities transactions and increase (decrease) in payables on collateralized securities transactions	26,687	(24,139)	251,195
Increase (decrease) in deposits received	3,411	6,734	32,107
Decrease (increase) in short-term guarantee deposits	(625)	(988)	(5,883)
Increase (decrease) in guarantee deposits received	1,315	(1,093)	12,378
Increase (decrease) in allowance for doubtful accounts	(12)	(123)	(113)
Decrease (increase) in assets for retirement benefits and increase (decrease) in liabilities for retirement benefits	(62)	(229)	(584)
Increase (decrease) in financial instruments transactions reserve	(47)	(1,309)	(442)
Other, net	994	164	9,356
Sub-total	(8,616)	54,670	(81,099)
Interest and dividend received	2,725	2,589	25,649
Interest paid	(1,144)	(1,235)	(10,768)
Income taxes paid	(5,842)	(3,807)	(54,989)
Net cash provided by (used in) operating activities	(12,877)	52,217	(121,207)
Cash flows from investing activities:			
Payment for short-term investments	(1,500)	(1,011)	(14,119)
Proceeds from sale of short-term investments	-	3,001	-
Payment for purchase of property and equipment	(584)	(900)	(5,497)
Payment for purchase of intangible assets	(2,606)	(5,314)	(24,529)
Payment for purchase of investment securities	(280)	(1,515)	(2,636)
Proceeds from sale of investment securities	5,980	3,069	56,288
Other, net	(349)	(1,425)	(3,285)
Net cash provided by (used in) investing activities	661	(4,095)	6,222

Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	20,507	(42,498)	193,025
Proceeds from long-term borrowings	1,000	200	9,413
Payments on long-term borrowings	(692)	(604)	(6,514)
Proceeds from sale of treasury stock	-	1	-
Purchase of treasury stock	(22)	(14)	(207)
Proceeds from sale of parent's stock held by subsidiaries	56	808	527
Purchase of treasury stock by subsidiaries	-	(215)	-
Dividends paid	(4,910)	(4,872)	(46,216)
Dividends paid to non-controlling interests of subsidiaries	(31)	(35)	(292)
Purchase of subsidiaries' stock that do not result in change in scope of consolidation	-	(2,393)	-
Other, net	(490)	(532)	(4,612)
Net cash provided by (used in) financing activities	<u>15,418</u>	<u>(50,154)</u>	<u>145,124</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(253)</u>	<u>(27)</u>	<u>(2,381)</u>
Net increase (decrease) in cash and cash equivalents	2,949	(2,059)	27,758
Cash and cash equivalents, beginning of year	<u>51,191</u>	<u>53,250</u>	<u>481,843</u>
Cash and cash equivalents, end of year (note 23)	<u>¥ 54,140</u>	<u>¥ 51,191</u>	<u>\$ 509,601</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. Two affiliates are accounted for by equity method at March 31, 2018. 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.
- i. Intangible assets**— Intangible assets are carried at cost less amortization. Software for internal use is amortized under straight-line method based on internally estimated useful life (5 years). Amortization of other intangible assets is calculated by the straight-line method at rates based on the estimated useful lives of respective assets.
- j. Retirement and severance benefits**— Liabilities for retirement benefits are provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet dates, as adjusted for the unrecognized actuarial gain or loss and unrecognized prior service benefit or cost. The retirement benefit obligation is attributed to each period by the benefit formula basis. Actuarial gain or loss

is amortized in the subsequent year that it occurs by the straight-line method within the average remaining years of service of the employees of 5 years.

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

- k. Leases**—Leased assets related to finance lease transactions without title transfer are depreciated on a straight-line basis, with the lease periods as their useful lives and no residual value.
- l. Income taxes**—Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporate tax, inhabitant tax and business tax. The “Accounting Standards for Income Taxes” require that deferred income taxes be accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included on the financial statements or tax return. Under this method, deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary difference are expected to be recovered or settled, and the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.
The Company has filed consolidated tax returns in Japan.
- m. Foreign currency transactions**— Under the “Accounting Standards for Foreign Currency Transactions,” receivables and payables denominated in foreign currencies are translated into yen at the rate of exchange at the balance sheet dates and gains or losses resulting from the translation of foreign currencies are credited or charged to income. Assets and liabilities, and revenues and expenses of an overseas subsidiary are translated into yen at the rate of exchange at the balance sheet dates, a comprehensive adjustment resulting from translation is presented as “Foreign currency translation adjustments” in a component of net assets.
- n. Asset retirement obligations**— The Company recognizes an asset retirement obligation which is a statutory or similar obligation with regard to the removal of assets as a liability. An asset retirement obligation is recognized as a liability at the time that the asset is incurred by its acquisition, construction, development or ordinary use. When an asset retirement obligation is recognized as a liability, the asset retirement cost corresponding to it is included in the cost of the relevant asset by the same amount.
- o. Accounting standards issued but not yet applied**
1. Implementation Guidance on Tax Effect Accounting etc.
 - Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28 revised by the Accounting Standards Board of Japan on February 16, 2018)
 - Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26 finally revised by the Accounting Standards Board of Japan on February 16, 2018)
 - (1) Overview
ASBJ made the following revisions that were deemed necessary on Implementation Guidance on Tax Effect Accounting, etc. basically following their relevant contents, when Practical Guidelines on Tax Effect Accounting were transferred to the Accounting Standards Board of Japan from under the control of the Japanese Institute of Certified Public Accountants.
(Major revised accounting treatments)
 - Accounting treatment on taxable temporary difference from subsidiary’s stocks, etc. in non-consolidated financial statements
 - Accounting treatment on recoverability of deferred tax assets in companies that qualifies as Category 1
 - (2) Planned applicable date
The accounting standards are to be applied from the beginning of the year ending March 31, 2019.
 - (3) Impact of application of these accounting standards, etc.

The Company is currently evaluating the impact of application of these accounting standards to the consolidated financial statements.

2. Accounting Standards for Revenue Recognition etc.

- Accounting Standards for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)

(1) Overview

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) co-developed a new comprehensive revenue recognition standard and published “Revenue from Contracts with Customers” in May 2014 (IFRS No. 15 in IASB, Topic 606 in FASB). Given that IFRS No. 15 will be applied from the fiscal year starting on or after January 1, 2018 and Topic 606 from the fiscal year starting after December 15, 2017, the Accounting Standards Board of Japan has developed comprehensive accounting standards for revenue recognition and published them together with implementation guidance

The ASBJ basic policy in developing accounting standards for revenue recognition is thought to be setting accounting standards, with the incorporation of the basic principles of IFRS No. 15 as a starting point, from a standpoint of comparability between financial statements, which is one of the benefits of ensuring consistency with IFRS No. 15, and to be adding alternative accounting treatments without losing comparability if there is an item that we should take into account in practices, etc. that have been conducted in Japan.

(2) Planned applicable date

The accounting standards are to be applied from the beginning of the year ending March 31, 2022.

(3) Impact of application on these accounting standards

The Company is currently evaluating the impact of application of these accounting standards to the consolidated financial statements.

- p. **Reclassifications**— Certain reclassifications have been made to the prior years’ consolidated financial statements to conform to the presentation used in consolidated statements as of and for the year ended March 31, 2018.

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 30, 2018, which was ¥106.24 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, 2018 and 2017 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Trading assets:			
Securities and other	¥ 112,118	¥ 149,438	\$ 1,055,328
Derivatives	20	44	188
	<u>¥ 112,138</u>	<u>¥ 149,482</u>	<u>\$ 1,055,516</u>
Trading liabilities:			
Securities and other	¥ 62,961	¥ 138,256	\$ 592,630
Derivatives	50	51	471
	<u>¥ 63,011</u>	<u>¥ 138,307</u>	<u>\$ 593,101</u>

5. MARGIN TRANSACTIONS

Margin transactions at March 31, 2018 and 2017 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Assets:			
Loans receivable from customers	¥ 48,517	¥ 35,432	\$ 456,674
Cash deposits as collateral for securities borrowed from securities finance companies	2,961	4,828	27,871
	<u>¥ 51,478</u>	<u>¥ 40,260</u>	<u>\$ 484,545</u>
Liabilities:			
Borrowings from securities finance companies	¥ 6,503	¥ 4,071	\$ 61,210
Proceeds from securities sold for customers' accounts	5,503	8,018	51,798
	<u>¥ 12,006</u>	<u>¥ 12,089</u>	<u>\$ 113,008</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, 2018 and 2017 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Assets:			
Cash collateral for securities borrowed	¥ 87,549	¥ 141,522	\$ 824,068
Liabilities:			
Cash collateral for securities loaned	¥ 19,373	¥ 46,659	\$ 182,351

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, 2018 and 2017 are summarized as follows:

	Millions of yen			
	Balance sheet	Gross unrealized gain	Gross unrealized loss	Fair value
At March 31, 2018				
Government, corporate and other bonds	¥ 47	¥ 3	¥ -	¥ 50
At March 31, 2017				
Government, corporate and other bonds	¥ 53	¥ 1	¥ -	¥ 54
	Thousands of U.S. dollars			
	Balance sheet	Gross unrealized gain	Gross unrealized loss	Fair value
At March 31, 2018				
Government, corporate and other bonds	\$ 443	\$ 28	\$ -	\$ 471

Acquisition cost, balance sheet amount, gross unrealized gain and gross unrealized loss of available-for-sale securities with fair value at March 31, 2018 and 2017 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet
At March 31, 2018				
Current:				
Government, corporate and other bonds	¥ -	¥ -	¥ -	¥ -
Other	1,500	-	-	1,500
	<u>¥ 1,500</u>	<u>¥ -</u>	<u>¥ -</u>	<u>¥ 1,500</u>
Non-current:				
Equity securities	¥ 12,848	¥ 21,784	¥ (125)	¥ 34,507
Other	1,086	120	(66)	1,140
	<u>¥ 13,934</u>	<u>¥ 21,904</u>	<u>¥ (191)</u>	<u>¥ 35,647</u>
At March 31, 2017				
Current:				
Government, corporate and other bonds	¥ -	¥ -	¥ -	¥ -
Other	77	27	(9)	95
	<u>¥ 77</u>	<u>¥ 27</u>	<u>¥ (9)</u>	<u>¥ 95</u>
Non-current:				
Equity securities	¥ 12,822	¥ 22,721	¥ (298)	¥ 35,245
Other	1,936	55	(97)	1,894
	<u>¥ 14,758</u>	<u>¥ 22,776</u>	<u>¥ (395)</u>	<u>¥ 37,139</u>
Thousands of U.S. dollars				
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet
At March 31, 2018				
Current:				
Government, corporate and other bonds	\$ -	\$ -	\$ -	\$ -
Other	14,119	-	-	14,119
	<u>\$ 14,119</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,119</u>
Non-current:				
Equity securities	\$ 120,934	\$ 205,045	\$ (1,177)	\$ 324,802
Other	10,222	1,130	(621)	10,731
	<u>\$ 131,156</u>	<u>\$ 206,175</u>	<u>\$ (1,798)</u>	<u>\$ 335,533</u>

Securities classified as available-for-sale securities for which fair value is not available are unlisted equity securities amounting to ¥6,748 million (\$63,517 thousand) and ¥6,340 million, and investments in limited partnership and similar partnership amounting to ¥205 million (\$1,930 thousand) and ¥100 million at March 31, 2018 and 2017, respectively.

For the years ended March 31, 2018 and 2017, proceeds from sales of available-for-sale securities, gross realized gains and gross realized losses are as follows:

	Millions of yen		
	Proceeds from sales of available-for-sale securities	Gross realized gains	Gross realized losses
March 31, 2018			
Equity securities	¥ 5,036	¥ 4,965	¥ 0
Government, corporate and other bonds	-	-	-
Other	944	45	63
	<u>¥ 5,980</u>	<u>¥ 5,010</u>	<u>¥ 63</u>
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>

	Thousands of U.S. dollars		
	Proceeds from sales of available-for-sale securities	Gross realized gains	Gross realized losses
March 31, 2018			
Equity securities	\$ 47,402	\$ 46,734	\$ 0
Government, corporate and other bonds	-	-	-
Other	8,886	423	593
	<u>\$ 56,288</u>	<u>\$ 47,157</u>	<u>\$ 593</u>

8. INVESTMENTS IN AFFILIATES

The aggregate carrying amount of investments in affiliates at March 31, 2018 and 2017 are ¥5,287 million (\$49,765 thousand) and ¥4,899 million, respectively.

9. BORROWINGS

The weighted-average interest rates applicable to the short-term borrowings are 0.56 % and 0.77% at March 31, 2018 and 2017, respectively.

Long-term borrowings at March 31, 2018 and 2017 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Borrowings, maturing in installments through 2022; bearing weighted average interest of 2.01% at March 31, 2018	¥ 13,308	¥ -	\$ 125,263
Borrowings, maturing in installments through 2021; bearing weighted average interest of 2.16% at March 31, 2017	-	13,000	-
Less current installments	3,260	3,140	30,685
	<u>¥ 10,048</u>	<u>¥ 9,860</u>	<u>\$ 94,578</u>

Lease liabilities at March 31, 2018 and 2017 consist of the following:

	Millions of yen		Thousands of
	2018	2017	U.S. dollars
Lease liabilities maturing in installments through 2023; bearing weighted average interest of 3.09% at March 31, 2018	¥ 1,268	¥ -	\$ 11,935
Lease liabilities maturing in installments through 2023; bearing weighted average interest of 2.98% at March 31, 2017	-	884	-
Less current installments	391	435	3,680
	<u>¥ 877</u>	<u>¥ 449</u>	<u>\$ 8,255</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
	2018	2017	U.S. dollars
Long-term borrowings	¥ 4,000	¥ 6,000	\$ 37,651
Current installments of long-term borrowings	2,000	-	18,825

Annual maturities of borrowings after March 31, 2019, are as follows:

Year ending March 31	Millions of	Thousands of
	yen	U.S. dollars
2020	¥ 4,438	\$ 41,773
2021	3,050	28,709
2022	2,360	22,214
2023	200	1,883

Annual maturities of lease liabilities after March 31, 2019, are as follows:

Year ending March 31	Millions of	Thousands of
	yen	U.S. dollars
2020	¥ 257	\$ 2,419
2021	211	1,986
2022	175	1,647
2023	137	1,290

To meet its liquidity needs stably and expeditiously and to strengthen financial operations, the Company established a commitment line of ¥21,000 million (\$197,666 thousand) with 7 financial institutions at both March 31, 2018 and 2017, 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, 2018 and 2017, the carrying value of assets pledged is as follows:

	Millions of Yen		Thousands of U.S. dollars
	2018	2017	2018
Cash in banks	¥ 1,827	¥ 2,044	\$ 17,197
Trading assets	13,436	2,554	126,468
Property and equipment	4,525	7,205	42,592
Investment securities	14,094	12,184	132,662
	<u>¥ 33,882</u>	<u>¥ 23,987</u>	<u>\$ 318,919</u>

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Short-term borrowings	¥ 13,441	¥ 5,754	\$ 126,515
Borrowings from securities finance companies	606	736	5,704
Long-term borrowings	5,946	3,360	55,968
	<u>¥ 19,993</u>	<u>¥ 9,850</u>	<u>\$ 188,187</u>

In addition to above, at March 31, 2018, trading assets, etc. amounting to ¥53,143 million (\$500,216 thousand) and investments securities amounting to ¥1,313 million (\$12,359 thousand) are deposited as guarantee for settlement of trading accounts and securities borrowed, respectively. At March 31, 2017, trading assets, etc. amounting to ¥66,601 million and investments securities amounting to ¥300 million were deposited as guarantee for settlement of trading accounts and securities borrowed, respectively.

The fair value of the securities pledged at March 31, 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. dollars
	2018	2017	2018
Loaned securities on margin transactions	¥ 5,514	¥ 8,196	\$ 51,901
Securities pledged as collateral for borrowing from securities finance companies	6,842	4,047	64,401
Loaned securities	19,360	46,604	182,229
Other	43,804	27,994	412,312
	<u>¥ 75,520</u>	<u>¥ 86,841</u>	<u>\$ 710,843</u>

The fair value of the securities received as collateral at March 31, 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. dollars
	2018	2017	2018
Securities received on margin transactions	¥ 44,122	¥ 33,597	\$ 415,305
Securities borrowed	87,418	146,305	822,835
Securities pledged as collateral	59,514	37,321	560,184
Other	4,790	6,572	45,087
	<u>¥ 195,844</u>	<u>¥ 223,795</u>	<u>\$ 1,843,411</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, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Tax loss carryforwards	¥ 2,898	¥ 2,938	\$ 27,278
Liability for retirement benefits (employees)	1,721	1,633	16,199
Depreciation and amortization	1,460	182	13,742
Accrued bonuses	719	652	6,768
Allowance for doubtful accounts	435	407	4,095
Asset retirement obligations	396	376	3,727
Financial instruments transactions reserve	392	378	3,690
Accrued business tax	284	275	2,673
Impairment loss on land etc.	226	225	2,127
Retirement benefits payable for directors and corporate auditors	162	176	1,525
Loss on devaluation of investment securities	136	170	1,280
Cost recognized for the stock options	72	49	678
Loss on devaluation of golf memberships	50	52	471
Liability for retirement benefits (directors and corporate auditors)	45	43	424
Other	248	229	2,334
	<u>9,244</u>	<u>7,785</u>	<u>87,011</u>
Valuation allowance	(4,750)	(4,431)	(44,710)
Total	<u>4,494</u>	<u>3,354</u>	<u>42,301</u>
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(6,616)	(6,809)	(62,274)
Land revaluation excess	(1,457)	(1,457)	(13,714)
Other	(587)	(473)	(5,526)
Total	<u>(8,660)</u>	<u>(8,739)</u>	<u>(81,514)</u>
Net deferred tax liabilities	<u>¥ (4,166)</u>	<u>¥ (5,385)</u>	<u>\$ (39,213)</u>

Net deferred tax assets at March 31, 2018 and 2017 are reflected in the accompanying consolidated balance sheet under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Current assets – Deferred income taxes	¥ 1,037	¥ 1,002	\$ 9,761
Investments and other assets – Deferred income taxes	2,414	1,441	22,722
Current liabilities – Deferred income taxes	(25)	(38)	(235)
Non-current liabilities – Deferred income taxes	(7,592)	(7,790)	(71,461)
	<u>¥ (4,166)</u>	<u>¥ (5,385)</u>	<u>\$ (39,213)</u>

A reconciliation of the statutory tax rate and the effective tax rate as a percentage of income before income taxes and non-controlling interests for the year ended March 31, 2018 is as follows:

Statutory tax rate	30.7%
Expenses not deductible for tax purposes	1.3
Income not credited for tax purposes	(0.3)
Per capita tax	0.9
Equity in gain of affiliates	(0.2)
Valuation allowance	(2.7)
Expired tax loss carryforward	6.6
Tax credits for salary increase	(2.4)
Other	0.1
Effective tax rate	<u>34.0%</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.

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, 2018 and 2017 and for the years then ended.

(1) Reconciliation of changes in retirement benefit obligation

	Millions of yen		Thousands of
	2018	2017	U.S. dollars
Retirement benefit obligation at beginning of year	¥ 14,158	¥ 14,175	\$ 133,264
Service cost	774	762	7,285
Interest cost	11	-	104
Actuarial gain or loss	150	(139)	1,412
Benefits paid	(670)	(643)	(6,306)
Other	-	3	-
Retirement benefit obligation at end of year	<u>¥ 14,423</u>	<u>¥ 14,158</u>	<u>\$ 135,759</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
	2018	2017	2018
Plan assets at beginning of year	¥ 9,173	¥ 8,943	\$ 86,342
Expected return on plan assets	44	43	414
Actuarial gain or loss	425	306	4,001
Employer contributions	273	267	2,570
Benefits paid	(399)	(389)	(3,756)
Other	-	3	-
Plan assets at end of year	¥ 9,516	¥ 9,173	\$ 89,571

(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
	2018	2017	2018
Funded retirement benefit obligation	¥ 8,463	¥ 8,405	\$ 79,659
Plan assets	(9,516)	(9,173)	(89,571)
	(1,053)	(768)	(9,912)
Unfunded retirement benefit obligation	5,960	5,753	56,100
Net of liability and assets for retirement benefits	¥ 4,907	¥ 4,985	\$ 46,188
Liability for retirement benefits	¥ 6,341	¥ 5,753	\$ 59,686
Asset for retirement benefits	1,434	768	13,498
Net of liability and asset for retirement benefits	¥ 4,907	¥ 4,985	\$ 46,188

(4) The components of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost	¥ 774	¥ 762	\$ 7,285
Interest cost	11	-	104
Expected return on plan assets	(44)	(43)	(414)
Amortization of actuarial gain or loss	(311)	86	(2,928)
Retirement benefit expenses	¥ 430	¥ 805	\$ 4,047

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Actuarial gain or loss	¥ (36)	¥ 532	\$ (339)

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrecognized actuarial gain or loss	¥ 389	¥ 425	\$ 3,662

(7) Plan assets

(a) Percentage by major category of plan assets

	2018	2017
Equity securities	36%	35 %
General account	32	34
Debt securities	19	18
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, 2018 and 2017 are as follows:

	2018	2017
(a) Discount rate	0.07%	0.08%
(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 ¥202 million (\$1,901 thousand) and ¥199 million for the years ended March 31, 2018 and 2017, 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, 2018 and 2017, the subsidiaries provide for the amount of ¥147 million (\$1,384 thousand) and ¥132 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, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance, beginning of year	¥ 1,041	¥ 842	\$ 9,799
Liabilities incurred by asset acquisition	61	253	574
Accretion expenses	12	12	113
Liabilities settled	(15)	(66)	(141)
Other increase (decrease)	-	-	-
Balance, end of year	<u>¥ 1,099</u>	<u>¥ 1,041</u>	<u>\$ 10,345</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, 2018 and 2017 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, 2017 which was approved by the Board of Directors held on May 17, 2016 are as follows:

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

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, 2018 which was approved by the Board of Directors held on May 17, 2017 are as follows:

(a) Total dividends	¥4,910 million (\$46,216 thousand)
(b) Cash dividends per common share	¥25 (\$0.24)
(c) Record date	March 31, 2017
(d) Effective date	June 8, 2017

Cash dividends for treasury stock held by subsidiaries of ¥85 million (\$800 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, 2018 which was approved by the Board of Directors held on May 22, 2018 are as follows:

(a) Total dividends	¥4,997 million (\$47,035 thousand)
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥25 (\$0.24)
(d) Record date	March 31, 2018
(e) Effective date	June 8, 2018

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

16. STOCK OPTIONS

The cost recognized for the stock options is ¥87 million (\$819 thousand) and ¥82 million which is included in selling, general and administrative expenses for the years ended March 31, 2018 and 2017, respectively.

Description of each stock option plans at March 31, 2018 is as follows:

Stock option plans	1st Plan approved on June 26, 2015	2nd Plan approved on June 29, 2016	3rd Plan approved on June 29, 2017
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.)	5 directors of the Company (except for audit and supervisory committee members), 4 directors of its subsidiary (Okasan Securities Co., Ltd.) and 17 executive officers 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	144,700 shares of common stock
Grant date	July 13, 2015	July 14, 2016	July 14, 2017
Condition for execution of right	No condition for execution of right is required.	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.	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	From July 15, 2017 to July 14, 2047

A summary of the scale and movement of the stock option plan for the year ended March 31, 2018 is as follows:

	1st	2nd	3rd
Non-vested:			
Outstanding at March 31, 2017	-	-	-
Granted	-	-	144,700
Forfeited	-	-	-
Vested	-	-	144,700
Outstanding at March 31, 2018	-	-	-
Vested:			
Outstanding at March 31, 2017	110,300	216,000	-
Vested	-	-	144,700
Exercised	10,200	20,000	-
Forfeited	-	-	-
Outstanding at March 31, 2018	100,100	196,000	144,700

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

	1st	2nd	3rd
Exercise price	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)
Average stock price at exercise	¥706 (\$6.65)	¥706 (\$6.65)	-
Fair value at the grant date	¥715 (\$6.73)	¥383 (\$3.61)	¥614 (\$5.78)

The fair value of the 3rd stock options was estimated using the Black-Scholes option-valuation model with the following assumptions:

Expected volatility *1	39.724%
Expected remaining outstanding period *2	5.3 years
Expected dividend *3	¥25 (\$0.24) per share
Risk-free interest rate *4	-0.041%

*1 Expected volatility is based on the actual stock prices traded from March 27, 2012 to July 24, 2017.

*2 Expected remaining outstanding period is based on the actual service period of the Company's directors, directors, executive officers and corporate auditors of its subsidiary and their retired age.

*3 Expected dividend is based on the dividends paid in the year ended March 31, 2017.

*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.

Because the fair value of the land at both March 31, 2018 and 2017 is over the book value of the land after the revaluation, the difference between the fair value and the book value of the land is not disclosed.

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 468.9% and 505.2% at March 31, 2018 and 2017, respectively.

19. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major elements of selling, general and administrative expenses for the years ended March 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of
	2018	2017	U.S. dollars
Commissions and brokerage	¥ 13,164	¥ 12,809	\$ 123,908
Employees' compensation and benefits	33,818	32,409	318,317
Occupancy and rental	7,463	6,794	70,247
Data processing and office supplies	6,432	5,773	60,542
Depreciation and amortization	3,609	3,504	33,970
Taxes other than income taxes	1,287	1,196	12,114
Provision for doubtful accounts	(3)	17	(28)
Other	3,268	2,804	30,761
	<u>¥ 69,038</u>	<u>¥ 65,306</u>	<u>\$ 649,831</u>

20. IMPAIRMENT LOSS

Because the Company revised the utilization plan for the internet trading system of the consolidated subsidiary, Okasan Information Systems Co., Ltd., an impairment loss on the system was recognized for the year ended March 31, 2018 as follows:

Location	Usage	Classification
Taito City, Tokyo	Business assets	Software and Other
	Millions of yen	Thousands of U.S. dollars
<u>Classification</u>		
Software	¥ 4,693	\$ 44,173
Lease assets	125	1,177
Furniture and fixtures	<u>5</u>	<u>47</u>
	<u>4,823</u>	<u>45,397</u>

The assets that are used for business are grouped according to the classification for management reporting on the basis of each company.

The recoverable value for the assets is measured by its value in use and the assets whose cash flow is not expected in the future are determined to have no value.

21. 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, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net unrealized holding gain (loss) on available-for-sale securities:			
Arising during the year	¥ 4,253	¥ 1,452	\$ 40,032
Reclassification adjustment	(4,938)	(172)	(46,480)
Before tax amount	(685)	1,280	(6,448)
Tax benefit (expense)	179	(321)	1,685
Net-of-tax amount	(506)	959	(4,763)
Surplus on land revaluation:			
Tax benefit (expense)	-	-	-
Foreign currency translation adjustments:			
Arising during the year	(227)	(23)	(2,137)
Remeasurements of defined benefit plans:			
Arising during the year	275	445	2,588
Reclassification adjustment	(311)	87	(2,927)
Before tax amount	(36)	532	(339)
Tax benefit (expense)	11	(163)	104
Net-of-tax amount	(25)	369	(235)
Share of other comprehensive loss of affiliates accounted for by equity method:			
Arising during the year	332	(122)	3,125
Total other comprehensive income (loss)	¥ (426)	¥ 1,183	\$ (4,010)

22. PER SHARE INFORMATION

(a) Net Income per Share

Basic and diluted net income per share, and reconciliation of the numbers and the amounts used in the basic and diluted net income per share computations for the years ended March 31, 2018 and 2017 are as follows:

	Yen		U.S. dollars
	2018	2017	2018
Basic net income per share	¥ 29.56	¥ 52.93	\$ 0.28
Diluted net income per share	29.50	52.85	0.28

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net income attributable to owners of the parent	¥ 5,853	¥ 10,487	\$ 55,092
Net income not applicable to common shareholders	-	-	-
Net income attributable to owners of the parent available to common shares	¥ 5,853	¥ 10,487	\$ 55,092

	Number of shares (Thousand)	
	2018	2017
Weighted average number of shares outstanding on which basic net income per share is calculated	198,010	198,115
Number of diluted shares (stock acquisition rights)	407	293

(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, 2018 and 2017 are as follows:

	Yen		U.S. dollars
	2018	2017	2018
Net assets per share	¥ 791.46	¥ 792.05	\$ 7.45

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Total net assets	¥ 180,049	¥ 178,257	\$ 1,694,738
Amount deducted from total net assets:			
Stock acquisition rights	236	162	2,221
Non-controlling interests	23,100	21,335	217,432
Net assets applicable to common stockholders	¥ 156,713	¥ 156,760	\$ 1,475,085

	Number of shares (Thousand)	
	2018	2017
Number of shares outstanding at the end of year on which net assets per share is calculated	198,005	197,917

23. 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, 2018 and 2017 are as follows:

	Millions of yen		Thousands of
	2018	2017	U.S. dollars
Cash on hand and in banks	¥ 59,848	¥ 56,700	\$ 563,328
Time deposits that have maturities of over three months when acquired	(5,708)	(5,509)	(53,727)
Cash and cash equivalents	¥ 54,140	¥ 51,191	\$ 509,601

24. COMMITMENTS AND CONTINGENCIES

At March 31, 2018 and 2017, the Company and certain subsidiaries have guaranteed approximately ¥6 million (\$56 thousand) and ¥7 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.

25. 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, 2018 and 2017 are as follows:

	Millions of yen		Thousands of
	2018	2017	U.S. dollars
Within one year	¥ 1,759	¥ 1,599	\$ 16,557
Over one year	1,946	3,488	18,317
	¥ 3,705	¥ 5,087	\$ 34,874

26. 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 ¥86 million (\$809 thousand) calculated using historical method (holding period: one day, confidence interval: 99%, observation period: 1,250 days) at March 31, 2018. 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, 2018 and 2017 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					
	2018			2017		
	Carrying value	Fair value	Differences	Carrying value	Fair value	Differences
Assets:						
Cash on hand and in banks	¥ 59,848	¥ 59,848	¥ -	¥ 56,700	¥ 56,700	¥ -
Cash segregated as deposits for customers and others	68,932	68,932	-	65,396	65,396	-
Trading assets, short-term investments and investment securities						
Trading securities	112,118	112,118	-	149,438	149,438	-
Held-to-maturity debt securities	47	50	3	53	54	1
Available-for-sale securities	37,148	37,148	-	37,234	37,234	-
Receivables arising from unsettled trades	9,689	9,689	-	7,036	7,036	-
Receivables on margin transactions	51,478	51,478	-	40,260	40,260	-
Receivables on collateralized securities transactions	87,549	87,549	-	141,522	141,522	-
Short-term guarantee deposits	3,682	3,682	-	3,058	3,058	-
Total	¥ 430,491	¥ 430,494	¥ 3	¥ 500,697	¥ 500,698	¥ 1
Liabilities:						
Trading liabilities						
Trading securities	¥ 62,961	¥ 62,961	¥ -	¥ 138,256	¥ 138,256	¥ -
Payables on margin transactions	12,006	12,006	-	12,089	12,089	-
Payables on collateralized securities transactions	19,373	19,373	-	46,659	46,659	-
Deposits received	37,484	37,484	-	34,243	34,243	-
Guarantee deposits received	36,507	36,507	-	35,192	35,192	-
Short-term borrowings	89,647	89,663	16	69,070	69,070	0
Long-term borrowings	10,048	10,119	71	9,860	9,995	135
Total	¥ 268,026	¥ 268,113	¥ 87	¥ 345,369	¥ 345,504	¥ 135
Derivative transactions	¥ (30)	¥ (30)	¥ -	¥ (8)	¥ (8)	¥ -

	Thousands of U.S. dollars		
	2018		
	Carrying value	Fair value	Differences
Assets:			
Cash on hand and in banks	\$ 563,328	\$ 563,328	\$ -
Cash segregated as deposits for customers and others	648,833	648,833	-
Trading assets, short-term investments and investment securities			
Trading securities	1,055,328	1,055,328	-
Held-to-maturity debt securities	442	471	29
Available-for-sale securities	349,661	349,661	-
Receivables arising from unsettled trades	91,199	91,199	-
Receivables on margin transactions	484,545	484,545	-
Receivables on collateralized securities transactions	824,068	824,068	-
Short-term guarantee deposits	34,657	34,657	-
Total	\$ 4,052,061	\$ 4,052,090	\$ 29
Liabilities:			
Trading liabilities			
Trading securities	\$ 592,630	\$ 592,630	\$ -
Payables on margin transactions	113,008	113,008	-
Payables on collateralized securities transactions	182,351	182,351	-
Deposits received	352,824	352,824	-
Guarantee deposits received	343,628	343,628	-
Short-term borrowings	843,816	843,966	150
Long-term borrowings	94,578	95,247	669
Total	\$ 2,522,835	\$ 2,523,654	\$ 819
Derivative transactions	\$ (282)	\$ (282)	\$ -

* 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. The carrying amount of certificate of deposit approximates fair value because of the short maturity of these instruments. 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 27. DERIVATIVES.

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

	Millions of yen		Thousands of
	2018	2017	U.S. dollars
Unlisted equity securities	¥ 6,748	¥ 6,340	\$ 63,516
Investments in limited partnership and similar partnership	205	100	1,930
Total	¥ 6,953	¥ 6,440	\$ 65,446

(3) Projected future redemption of monetary claim and securities with maturities
March 31, 2018

	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	¥ 59,848	¥ -	¥ -	¥ -
Cash segregated as deposits for customers and others	68,932	-	-	-
Trading assets, short-term investments and investment securities:				
Held-to-maturity debt securities:				
Government bonds	-	48	-	-
Available-for-sale securities with maturities:				
Other	1,500	889	235	-
Receivables on margin transactions	51,478	-	-	-
Receivables on collateralized securities transactions	87,549	-	-	-
Short-term guarantee deposits	3,682	-	-	-
	<u>¥ 272,989</u>	<u>¥ 937</u>	<u>¥ 235</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	\$ 563,328	\$ -	\$ -	\$ -
Cash segregated as deposits for customers and others	648,833	-	-	-
Trading assets, short-term investments and investment securities:				
Held-to-maturity debt securities:				
Government bonds	-	452	-	-
Available-for-sale securities with maturities:				
Other	14,119	8,368	2,212	-
Receivables on margin transactions	484,545	-	-	-
Receivables on collateralized securities transactions	824,068	-	-	-
Short-term guarantee deposits	34,657	-	-	-
	<u>\$ 2,569,550</u>	<u>\$ 8,820</u>	<u>\$ 2,212</u>	<u>¥ -</u>

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>

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

March 31, 2018

	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	¥ 86,387	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term borrowings	3,260	4,438	3,050	2,360	200	-
Borrowings from securities finance	6,503	-	-	-	-	-
Total	<u>¥ 96,150</u>	<u>¥ 4,438</u>	<u>¥ 3,050</u>	<u>¥ 2,360</u>	<u>¥ 200</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	\$ 813,131	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term borrowings	30,685	41,773	28,709	22,214	1,883	-
Borrowings from securities finance	61,210	-	-	-	-	-
Total	<u>\$ 905,026</u>	<u>\$ 41,773</u>	<u>\$ 28,709</u>	<u>\$ 22,214</u>	<u>\$ 1,883</u>	<u>\$ -</u>

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	¥ 73,141	¥ 3,020	¥ 4,000	¥ 2,840	¥ -	¥ -

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

27. 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, 2018 and 2017 are summarized as follows:

(1) Stocks

March 31, 2018

	Millions of yen		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Stock index futures:			
Written	¥ 2,554	¥ (27)	¥ (27)
Purchased	1,166	0	0
Stock index options:			
Written	6	5	1
Purchased	10	6	(4)
Stock options traded over-the-counter:			
Written	2	2	(0)
Purchased	1	2	1
			¥ (29)

	Thousands of U.S. dollars		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Stock index futures:			
Written	\$ 24,040	\$ (254)	\$ (254)
Purchased	10,975	0	0
Stock index options:			
Written	56	47	9
Purchased	94	57	(37)
Stock options traded over-the-counter:			
Written	19	19	(0)
Purchased	10	19	9
			\$ (273)

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
			¥ <u>19</u>

The fair value of stock index futures and stock index options is computed using prices on the market and the fair value of stock options traded over-the-counter is computed based on the underlying stock prices, volatilities and interest rate.

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

(2) Bond

March 31, 2018

	Millions of yen		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Bond futures:			
Written	¥ 16,447	¥ 13	¥ 13
Purchased	906	(1)	(1)
			¥ <u>12</u>

	Thousands of U.S. dollars		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Bond futures:			
Written	\$ 154,810	\$ 122	\$ 122
Purchased	8,528	(9)	(9)
			\$ <u>113</u>

March 31, 2017

	Millions of yen		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Bond futures:			
Written	¥ 4,510	¥ 2	¥ 2
			¥ <u>2</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, 2018

	<u>Millions of yen</u>		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Forward foreign exchange:			
Written:			
Russian ruble	¥ 330	¥ (2)	¥ (2)
Brazilian real	322	2	2
Australian dollar	311	1	1
Mexican Peso	283	(9)	(9)
Indian rupee	259	(5)	(5)
South African rand	186	(3)	(3)
Other	284	(1)	(1)
Purchased:			
U.S. dollars	170	0	<u>0</u>
			<u>¥ (17)</u>

	<u>Thousands of U.S. dollars</u>		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Forward foreign exchange:			
Written:			
Russian ruble	\$ 3,106	\$ (19)	\$ (19)
Brazilian real	3,031	19	19
Australian dollar	2,927	9	9
Mexican Peso	2,664	(85)	(85)
Indian rupee	2,438	(47)	(47)
South African rand	1,751	(28)	(28)
Other	2,673	(9)	(9)
Purchased:			
U.S. dollars	1,600	0	<u>0</u>
			<u>\$ (160)</u>

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>

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, 2018 and 2017 are summarized as follows:

Nature of transaction	Hedged items	Contract or notional amounts		
		Millions of yen		Thousands of U.S. dollars
		2018	2017	2018
Interest rate swaps:				
Variable rate received for fixed rate	Long-term borrowings	¥ 6,200	¥ 5,340	\$ 58,358

*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.

28. 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 ¥32 million (\$301 thousand) and ¥25 million for the years ended March 31, 2018 and 2017, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Consolidated balance sheet amount:			
Balance at beginning of the year	¥ 5,421	¥ 5,490	\$ 51,026
Increase/(decrease)	14	(69)	132
Balance at end of the year	¥ 5,435	¥ 5,421	\$ 51,158
Fair value	¥ 6,303	¥ 6,322	\$ 59,328

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

29. 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, 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 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. The amount is determined based on the price appraised by the third party.

30. 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, 2018 and 2017 are summarized as follows:

	Millions of yen						
	2018						
	Reported segments				Total	Adjustments	Consolidated
Securities	Asset management	Support					
Operating revenues:							
Revenues from third parties	¥ 68,575	¥ 12,379	¥ 963	¥ 81,917	¥ 4	¥ 81,921	
Intersegment revenues	4,434	1	11,331	15,766	(15,766)	-	
Total	¥ 73,009	¥ 12,380	¥ 12,294	¥ 97,683	¥ (15,762)	¥ 81,921	
Segment income	¥ 12,044	¥ 1,398	¥ (847)	¥ 12,595	¥ (875)	¥ 11,720	
Segment assets	¥ 434,109	¥ 19,452	¥ 28,721	¥ 482,282	¥ (4,522)	¥ 477,760	
Segment liabilities	¥ 308,478	¥ 1,749	¥ 15,022	¥ 325,249	¥ (27,538)	¥ 297,711	
Others:							
Depreciation	¥ 608	¥ 34	¥ 2,872	¥ 3,514	¥ 95	¥ 3,609	
Interest and dividend income	2,077	-	1	2,078	(332)	1,746	
Interest expense	1,390	-	-	1,390	(227)	1,163	
Equity in gain of affiliates	93	-	0	93	-	93	
Impairment loss	-	-	4,823	4,823	-	4,823	
Investments in affiliates	5,240	-	-	5,240	-	5,240	
Increase in property and equipment and intangible assets	574	4	3,474	4,052	4	4,056	

Millions of yen							
2017							
Reported segments							
	Securities	Asset management	Support	Total	Adjustments	Consolidated	
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	

Thousands of U.S. dollars							
2018							
Reported segments							
	Securities	Asset management	Support	Total	Adjustments	Consolidated	
Operating revenues:							
Revenues from third parties	\$ 645,473	\$ 116,519	\$ 9,064	\$ 771,056	\$ 38	\$ 771,094	
Intersegment revenues	41,736	9	106,655	148,400	(148,400)	-	
Total	687,209	116,528	115,719	919,456	(148,362)	771,094	
Segment income	\$ 113,366	\$ 13,159	\$ (7,973)	\$ 118,552	\$ (8,236)	\$ 110,316	
Segment assets	\$ 4,086,116	\$ 183,095	\$ 270,341	\$ 4,539,552	\$ (42,564)	\$ 4,496,988	
Segment liabilities	\$ 2,903,595	\$ 16,463	\$ 141,397	\$ 3,061,455	\$ (259,205)	\$ 2,802,250	
Others:							
Depreciation	\$ 5,723	\$ 320	\$ 27,033	\$ 33,076	\$ 894	\$ 33,970	
Interest and dividend income	19,550	-	9	19,559	(3,125)	16,434	
Interest expense	13,084	-	-	13,084	(2,137)	10,947	
Equity in gain of affiliates	875	-	0	875	-	875	
Impairment loss	-	-	45,397	45,397	-	45,397	
Investments in affiliates	49,322	-	-	49,322	-	49,322	
Increase in property and equipment and intangible assets	5,403	38	32,699	38,140	38	38,178	

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Elimination of intersegment transactions	¥ 2,858	¥ 2,770	\$ 26,901
Unallocated company-wide expenses	(3,733)	(2,917)	(35,137)
	<u>¥ (875)</u>	<u>¥ (147)</u>	<u>\$ (8,236)</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
	2018	2017	2018
Elimination of intersegment balances	¥ (48,320)	¥ (57,400)	\$ (454,819)
Unallocated company-wide assets	43,798	50,297	412,255
	<u>¥ (4,522)</u>	<u>¥ (7,103)</u>	<u>\$ (42,564)</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
	2018	2017	2018
Elimination of intersegment balances	¥ (46,131)	¥ (54,616)	\$ (434,215)
Unallocated company-wide liabilities	18,593	19,571	175,010
	<u>¥ (27,538)</u>	<u>¥ (35,045)</u>	<u>\$ (259,205)</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, 2018 and 2017.

Goodwill by reported segments

The information is not applicable for the years ended March 31, 2018 and 2017.

Negative goodwill incurred by reported segments

The information is not applicable for the years ended March 31, 2018 and 2017.

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, 2018, 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, 2018, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

BDO Toyo & Co.
Tokyo, Japan
June 29, 2018

BDO Toyo & Co.

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REFERENCE DATA

Okasan Securities Co., Ltd.
Balance Sheets – March 31, 2018

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
ASSETS			
Current assets:			
Cash on hand and in banks	¥ 13,009	¥ 15,117	\$ 122,449
Cash segregated as deposits for customers and others	27,779	24,479	261,474
Trading assets	111,120	149,171	1,045,934
Receivables arising from unsettled trades	10,220	6,439	96,197
Receivables on margin transactions	44,653	36,542	420,303
Receivables on collateralized securities transactions	87,549	141,522	824,068
Short-term guarantee deposits	2,064	2,309	19,428
Deferred income taxes	880	911	8,283
Other current assets	2,902	2,985	27,316
Allowance for doubtful accounts	(6)	(5)	(56)
Total current assets	300,170	379,470	2,825,396
Property and equipment, net of accumulated depreciation	3,120	3,128	29,367
Intangible assets, net	282	290	2,654
Investments and other assets:			
Investment securities	663	540	6,241
Securities in associated companies	211	211	1,986
Long-term guarantee deposits	3,653	3,630	34,384
Deferred income taxes	1,282	1,349	12,067
Prepaid pension cost	647	293	6,090
Other	1,041	1,021	9,799
Allowance for doubtful accounts	(674)	(682)	(6,344)
Total investments and other assets	6,823	6,362	64,223
TOTAL	¥ 310,395	¥ 389,250	\$ 2,921,640

Okasan Securities Co., Ltd.
Balance Sheets—(Continued) — March 31, 2018

	Millions of yen		Thousands of U.S. dollar
	2018	2017	2018
LIABILITIES AND NET ASSETS			
Current liabilities:			
Trading liabilities	¥ 62,983	¥ 138,274	\$ 592,837
Payables on margin transactions	10,061	11,073	94,701
Payables on collateralized securities transactions	19,332	46,659	181,965
Deposits received	24,717	22,535	232,653
Guarantee deposits received	7,670	7,485	72,195
Short-term borrowings	78,515	52,315	739,034
Income tax payables	643	1,133	6,052
Other current liabilities	7,811	8,016	73,522
Total current liabilities	211,732	287,490	1,992,959
Non-current liabilities:			
Long-term borrowings	4,000	6,700	37,651
Liability for retirement benefits	4,946	4,775	46,555
Other non-current liabilities	1,498	1,488	14,100
Total non-current liabilities	10,444	12,963	98,306
Financial instruments transactions reserve	847	800	7,973
Total liabilities	223,023	301,253	2,099,238
Net assets			
Shareholder's equity:			
Common stock			
Authorized—240,000 shares			
Issued—100,000 shares in 2018 and 2017	5,000	5,000	47,063
Capital surplus	29,200	29,200	274,849
Retained earnings	53,155	53,778	500,330
Total shareholder's equity	87,355	87,978	822,242
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	17	19	160
Total net assets	87,372	87,997	822,402
TOTAL	¥ 310,395	¥ 389,250	\$ 2,921,640

Okasan Securities Co., Ltd.
Statement of Income — Year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollar
	2018	2017	2018
Operating revenues:			
Commissions	¥ 36,266	¥ 31,380	\$ 341,359
Net gain on trading	25,748	30,318	242,357
Interest and dividend income	1,230	1,044	11,578
	<u>63,244</u>	<u>62,742</u>	<u>595,294</u>
Interest expense	1,051	1,070	9,893
Net operating revenues	<u>62,193</u>	<u>61,672</u>	<u>585,401</u>
Selling, general and administrative expenses	<u>50,357</u>	<u>48,799</u>	<u>473,993</u>
Operating income	<u>11,836</u>	<u>12,873</u>	<u>111,408</u>
Other income (expenses):			
Reversal of (provision for) financial instruments transactions reserve	(46)	687	(433)
Other, net	338	392	3,182
	<u>292</u>	<u>1,079</u>	<u>2,749</u>
Income before income taxes	12,128	13,952	114,157
Income taxes:			
Current	3,652	4,666	34,375
Deferred	99	(351)	932
	<u>3,751</u>	<u>4,315</u>	<u>35,307</u>
Net income	<u>¥ 8,377</u>	<u>¥ 9,637</u>	<u>\$ 78,850</u>

CORPORATE DATA

(At August, 2018)

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, 2018)

Vice Chairman

Tetsuo Kato

President

Hiroyuki Shinshiba

Director

Mitsuru Tanaka

Director

Hiroyuki Shindo

Director

Akira Terayama

Audit & Supervisory Committee Members

Director

Nobuyuki Natsume

Outside Director

Seishi Higo

Outside Director

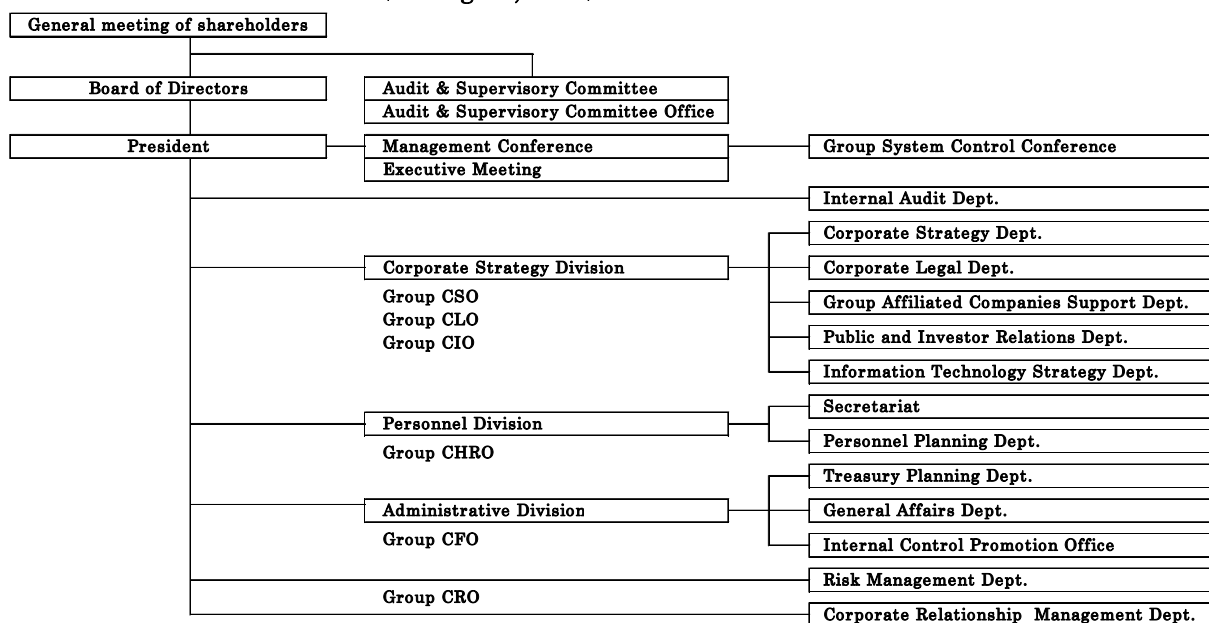
Hirokazu Kono

Outside Director

Tsuneo Muneoka

ORGANIZATION CHART

(At August, 2018)



OKASAN SECURITIES GROUP INC.

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