

ANNUAL REPORT

For Fiscal Year Ended March 31, 2020

Corporate Profile

The Okasan Securities Group Inc. is a standalone securities company that traces its roots back to 1923, and now it is a holding company with ten domestic companies and one overseas company. Okasan Securities Co., Ltd. serves as the leader of six domestic and overseas companies that conduct the Group's securities operations. It also maintains asset management operations centered on investment trusts, in addition to the support business, in which the Group provides system infrastructure primarily to group companies, as well as back office agency services and real estate management.

Its long year of experience in the securities industry has enlightened the Okasan Securities Group to the need to engage the communities it serves with face-to-face securities making and cutting-edge online trading technologies. The Group consistently offers optimal professional investment and asset management services, made possible by the development of innovative products and the generous provision of corporate, industry, and macroeconomic analysis.

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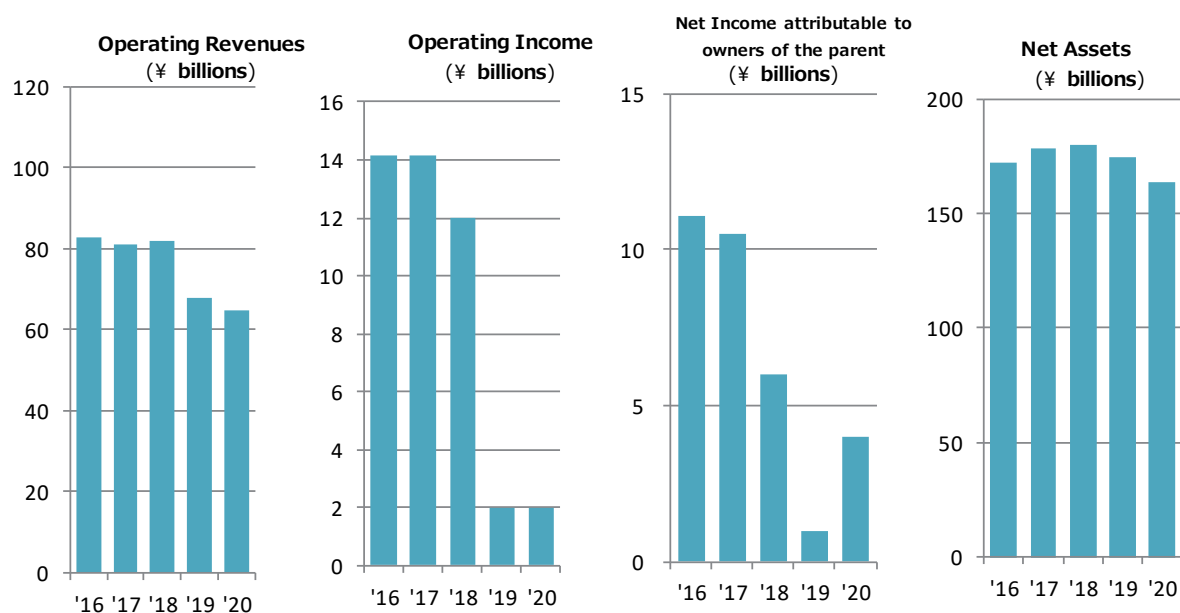
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Consolidated Financial Highlights

Okasan Securities Group Inc. and consolidated Subsidiaries Years ended March 31, 2020

	Millions of yen		Thousands of U.S.dollars ^(note)
	2020 (4/1/19~3/31/20)	2019 (4/1/18~3/31/19)	2020 (4/1/19~3/31/20)
Operating revenues	¥65,039	¥67,876	\$597,620
Operating income	2,073	1,840	19,048
Net income attributable to owners of the parent	3,627	853	33,327
Total assets	440,453	425,700	4,047,165
Net assets	164,448	175,184	1,511,054
Per share of common stock	Yen		U.S.dollars ^(note)
Basic net income	¥ 18.32	¥ 4.30	\$ 0.17
Cash dividends applicable to the year..	10.00	15.00	0.09

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, 2020, which was ¥108.83 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. Management strategies, etc.

The Okasan Securities Group will mark the centennial of its founding in April 2023. With this milestone in mind, the Group has formulated a grand design toward establishing a structure that will ensure continuing growth while winning and retaining the trust of its customers beyond the centennial. The “BEYOND 2020” medium-term management plan addressed the first three-year period of this vision, the period from April 2017 through March 2020. During this time, the Group invested strategically to give the Group the strength needed to achieve these objectives. During the consolidated fiscal year under review, the last fiscal year of that period, we pressed ahead to create a viable platform for our business. Efforts include establishing Okasan Shared Communications, a shared call center for the entire Group, as an in-house company within Okasan Information Systems. We also worked to strengthen the Group through various alliances, including business transfers accepted by one of Okasan Group’s securities subsidiaries from Togo Securities and Tahara Securities.

The Group has formulated a new medium-term management plan covering the period from April 2020 to March 2023. The plan is summarized below.

Okasan Securities Group Medium-Term Management Plan

1. Management philosophy

Customer-First

2. Reason for existence

As securities professionals, we provide optimal asset management services and contribute to customer asset building.

3. Social mission

(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) Local communities

We strive to provide added value to contribute to the growth of local communities.

4. Basic policies

(1) Providing customer-first services

We will thoroughly implement the Okasan Securities Group's customer-first philosophy by providing services from the customer's perspective.

(2) Creating shared value

We will create new revenue sources and increase cost efficiency by consolidating Group resources into a single platform.

(3) Working on digitalization

We will work to develop innovative services and to provide new value by making use of technologies.

5. Quantitative targets

ROE: 10%

Number of accounts: 1 million

Assets under custody: 10 trillion yen (as of March 31, 2023)

As we move toward the centennial of our founding in April 2023, we will build the foundations for achieving sustainable growth in our centennial year and beyond.

5. Business conditions and challenges the Company should address

COVID-19 has dealt major blows to both the real economy and to financial markets and created significant challenges for countries worldwide. In Japan as well, due to the declaration of a nationwide state of emergency and other factors, economic activity shrank dramatically. Nevertheless, these events have also had positive results. Numerous companies promptly switched to telework, leading to increased labor productivity and progress in adopting new work styles.

Looking back over human history, we see that catastrophes and hardships such as war, climate change, and pandemics lead to paradigm shifts that alter the very fabric of society. This process is now underway. The recurring lesson is the vital nature of the capacity to adapt in the face of change.

The environment in which the securities business operates is undergoing structural changes as never before. People are living longer; the number of tech-savvy senior citizens is on the rise; FinTech is becoming an increasingly influential force; and entities from regional financial institutions to companies from other sectors are moving into the business. In particular, the zero-commission wave, which got its start in the US last fall, has arrived in Japan faster than expected, generating pressure to adjust conventional business models.

Over the medium- to long-term, the securities business promises enormous growth. In Japan, the bulk of personal financial assets still rest in deposit accounts. But with 100-year human lifespans fast becoming reality, the realization of the importance of stretching the life of one's assets has gradually begun to seep into public awareness. A major shift in attitudes occurred last year when a report issued by a government panel suggested that the average Japanese would be 20 million yen short of enjoying a comfortable retirement. Moving forward, new investors and new money are likely to begin flowing into securities investment. This is likely to push the securities business from the era of commission competition into one of value-adding competition. In this new age, it will become essential to seek out and discover new value and new roles. Unless companies manage to transform themselves in response to the times, they will not survive.

The Group has formulated a new medium-term management plan set to run to the fiscal year ending March 2023. It has taken its first steps toward transforming its business model. To continue responding effectively to diversifying customer needs and expanding business opportunities, the Group will press ahead with various change based on three basic policies: providing customer-first services, creating shared value, and working on digitalization. The aim will be to increase the value of the Group.

In line with the "Customer-First" management philosophy that has guided us since our founding, we will strive, as securities professionals, to provide customers with services optimized for various needs, including asset accumulation, investment, and management. Even after we mark our centennial in April 2023, we will continue to seek to earn ever growing trust from customers and to ensure sustainable growth.

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 three 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 Group has adopted the structure of a company with an Audit & Supervisory committee to enhance the transparency of decision-making and strengthen audit and supervisory functions through the involvement of outside directors in its management affairs. Comprised of three Members—all outside directors—the Audit & Supervisory Committee determines audit policies in accordance with laws and regulations and the company's articles of incorporation, based on the rules for the Committee. The Committee also works to formulate audit opinions for 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 serve concurrently as Audit & Supervisory Committee members); and the duty to review important approval documents to oversee decision-making by the Board of Directors and the state of business execution by directors. Audit & Supervisory Committee members also work with independent auditors and the divisions in charge of internal audits to help ensure effective and appropriate audits. Okasan Securities Group Inc. has entered into agreements with the three 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 specified by 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 Group Internal Audit Dept. and assigned nine staff to this department. The Group 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, 2020

I . Financial conditions and operating results

During the consolidated fiscal year under review, Japan's economy showed signs of slowing, particularly during the second half. Trade frictions between the US and China triggered global economic deceleration. Exports were down year-on-year for month after month. Damage from the massive typhoons that struck in the fall impacted livelihoods. From October on, personal consumption sagged in response to a hike in the consumption tax rate. The emergence and spread of COVID-19 led to an increasingly pessimistic outlook among companies, particularly those in the tourism and food-service sectors. These and other factors reinforced impressions of a slowing economy. On the other hand, while unemployment hovered at just above 2%, the consumer price index stayed more or less flat, due to a further weakening of momentum for inflation.

The 225-issue Nikkei Stock Average trended at around 20,000–22,000 yen until the fall. Market participants kept an eye on developments in US-China trade negotiations and monetary policy moves in advanced nations. From October, despite concerns that the consumption tax increase would cause a slump in personal spending, hopes for easing friction between the US and China saw the US stock market hitting all-time highs for several days in succession. Buoyed by these developments, the Nikkei also recovered ground, climbing back above 24,000 yen ahead of the New Year for the first time in about a year and two months. In the foreign exchange market, the yen gathered strength against the US dollar during the summer; with progress in US-China negotiations, the yen gradually fell back against the dollar.

As the end of the fiscal year approached, the global spread of COVID-19 created turmoil in nearly every corner of the world economy. The impact rippled into financial markets, as investors sought to escape risk. Trading in the foreign exchange market expanded rapidly, and exchange rates became increasingly volatile. Against the dollar, the yen soared as high as ¥101/\$1 at one point in early March. Once the worldwide flight to safety led market participants to increase dollar liquidity, the situation reversed course. The yen fell back to ¥111/\$1 in late March.

The stock market was also affected, with concerns about the deteriorating economy and corporate earnings leading to a sharp uptick in selling pressure, particularly from late February on. In March, equities markets around the world plunged, with the Dow Jones Industrial Average in New York registering its biggest ever one-day decline and the Nikkei Stock Average briefly slipping below 17,000 yen, its lowest mark in about three years and four months. Nevertheless, the governments and central banks of Japan and other countries committed to massive economic stimulus packages and a series of monetary easing measures, which calmed some of this anxiety. Stock markets rebounded, and the Nikkei Stock Average ended the fiscal year at 18,917.01 yen.

Against this backdrop, Okasan Securities Co., Ltd., our core subsidiary, continued to engage in sales activities characterized by strong roots in local communities, providing information on market conditions to investors and offering a varied product lineup. Okasan Online Securities Co., Ltd., which primarily handles online trading, sought to expand operating revenue—focusing, for example, on attracting new accounts and delivering services based on marketing technologies and recruiting participants for face-to-face support courses on FX/CFD trading at stock exchanges in October. Okasan Asset Management Co., Ltd. sought to improve investment performance by stressing economic analysis, corporate research, and related aspects. It also worked to increase assets under management by providing customers with timely and pertinent information via sales agents. As for products, the company boosted its net assets through the public offering of investment trusts including World REIT Selection (Asia) and World Sovereign Income (nickname: Jyunihitoe).

II. Financial standing

Total assets at the end of the consolidated fiscal year under review stood at ¥440,453 million, up ¥14,752 million from the end of the previous consolidated fiscal year. Total liabilities at the end of the consolidated fiscal year under review stood at ¥276,005 million, up ¥25,488 million from the end of the previous consolidated fiscal year. Net assets at the end of the consolidated fiscal year under review stood at ¥164,448 million, down ¥10,736 million from the end of the previous consolidated fiscal year.

1. Total assets

Total assets at the end of the consolidated fiscal year under review stood at ¥440,453 million, up ¥14,752 million from the end of the previous consolidated fiscal year. This was due mainly to increases of ¥29,658 million in trading assets and ¥18,881 million in cash segregated as deposits, despite a decrease of ¥30,419 million in receivables on collateralized securities transactions.

2. Total liabilities

Total liabilities at the end of the consolidated fiscal year under review stood at ¥276,005 million, up ¥25,488 million from the end of the previous consolidated fiscal year. This was due mainly to increases of ¥4,907 million in trade date accrual, ¥4,177 million in accounts for non-received securities and others, ¥3,832 million in short-term borrowings, and ¥3,090 million in payables on collateralized securities transactions, despite a decrease of ¥1,438 million in other fixed liabilities.

3. Net assets

Net assets at the end of the consolidated fiscal year under review stood at ¥164,448 million, down ¥10,736 million from the end of the previous consolidated fiscal year. This was due mainly to decreases of ¥15,626 million in non-controlling interests and ¥2,842 million in unrealized gain on available-for-sale securities, while capital surplus increased by ¥7,156 million.

III. Business results

Group operating revenues in the consolidated fiscal year under review were ¥65,039 million (95.8% of the figure for the previous year); net operating revenues were ¥64,053 million (95.9% of the figure for the previous year). SG&A expenses were ¥61,980 million (95.4 % of the figure for the previous year); operating income was ¥2,073 million (112.7% of the figure for the previous year); and net income attributable to owners of the parent was ¥3,627 million (425.1% of the figure for the previous year).

1. Fees and commissions received

Fees and commissions received totaled ¥39,733 million (92.4% of the figure for the previous year). The main components were as follows:

(1) Brokerage commissions

Average daily trading volumes on the First Section of the Tokyo Stock Exchange (Japanese common shares) in the consolidated fiscal year under review were 1,710 million shares (92.5% of the figure for the previous year), while turnover was ¥2,783.5 billion (91.2% of the figure for the previous year). In this environment, equity brokerage commissions were ¥14,337 million (103.1% of the figure for the previous year). Bond brokerage commissions were ¥0 million (7.3% of the figure for the previous year). Other brokerage

commissions amounted to ¥596 million (146.0% of the figure for the previous year). Total brokerage commissions were ¥14,933 million (104.3% 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

As for equity underwriting efforts during the consolidated fiscal year under review, while we served as lead underwriter for three transactions, commissions fell due to a major IPO handled the previous fiscal year. In the realm of bond underwriting, commissions increased year on year, mainly from corporate bond issuances, thanks to our roles as lead underwriter and involvement in the issuance of bonds targeting individual investors.

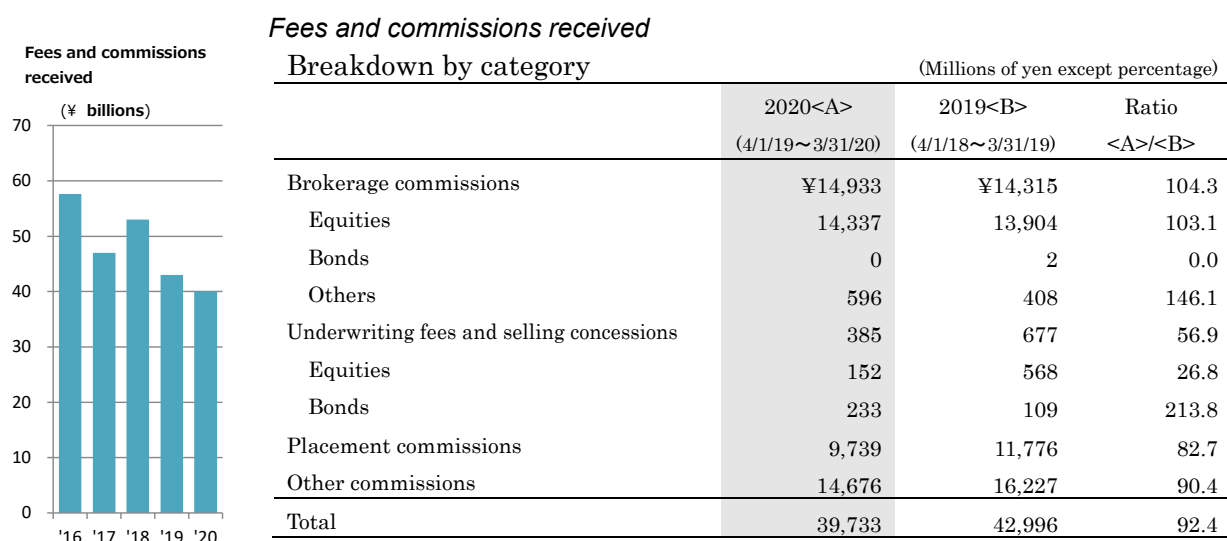
The resulting commissions on equity were ¥152 million (26.7% of the figure for the previous year). Commissions on bonds totaled ¥233 million (213.6% of the figure for the previous year). Total underwriting fees, selling concessions, and commissions on solicitation for sales of financial instruments to specified investors and others, related to both equity and bond transactions, amounted to ¥385 million (56.8% 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, sales of public offerings of investment trusts fell in response to deteriorating investor sentiment generated by US-China trade issues and concerns related to the COVID-19 pandemic. While sales of funds investing in high-yield US assets, as well as sovereign bond funds and balanced funds (both allowing risk reductions and diversification) climbed, the overall value of sales fell, with domestic and overseas equity funds most affected.

As a result, administrative charges on offering, selling, and solicitation for sales of financial instruments to specified investors totaled ¥9,739 million (82.7% of the figure for the previous year). Other fees and commissions received, related mainly to investment trusts, amounted to ¥14,676 million (90.4% of the figure for the previous year).



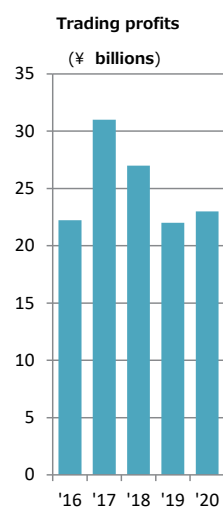
Breakdown by product	(Millions of yen except percentage)		
	2020<A> (4/1/19~3/31/20)	2019 (4/1/18~3/31/19)	Ratio <A>/
Equities	¥14,765	¥14,788	99.8
Bonds	487	259	188.0
Investment trusts	23,078	26,384	87.5
Others	1,403	1,565	89.6
Total	39,733	42,996	92.4

2.Trading profits

Profits on equity trading are earned mainly from domestic over-the-counter trading of foreign equities, particularly US stocks. Profits on bond trading arise mainly in conjunction with income from the handling of foreign bonds for customers.

During the consolidated fiscal year under review, concerns about the outlook for the world economy predominated due to US-China trade frictions and the COVID-19 pandemic. Domestic over-the-counter trading of foreign equities fell year-on-year. However, the value of sales of foreign bonds increased, thanks in part to our handling of ESG bonds.

Consequently, total profits on equity trading were ¥10,507 million (81.6% of the figure for the previous year). Total bond trading profits were ¥12,007 million (126.7% of the figure for the previous year). Total trading profits, including profit from other trading of ¥183 million (compared to a loss of ¥53 million in the previous year), were ¥22,697 million (101.8% of the figure for the previous year).



Trading profits	(Millions of yen except percentage)		
	2020<A> (4/1/19~3/31/20)	2019 (4/1/18~3/31/19)	Ratio <A>/
Equities	¥10,507	¥12,880	81.6
Bonds	12,007	9,479	126.7
Others	183	-53	-
Total	22,697	22,306	101.8

3.Net financial income

Financial income amounted to ¥1,702 million (100.4% of the figure for the previous year). Financial expenses stood at ¥986 million (92.0% of the figure for the previous year). Net financial income—i.e., the difference between financial income and financial expenses—was ¥716 million (114.7% of the figure for the previous year).

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 ¥907 million (103.3% of the figure for the previous year).

5.Selling, general, and administrative expenses

Due to lower expenses, including personnel expenses and trading-related expenses, selling, general, and administrative expenses were ¥61,980 million (95.4% of the figure for the previous year).

6.Other income (expenses)

Other income amounted to ¥4,181 million.

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 ¥10 per share.

IV. Cash flows

Cash and deposits (“cash” hereafter) at the end of the consolidated fiscal year was down ¥417 million from the end of the previous fiscal year to ¥63,767 million.

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

<Cash flows from operating activities>

Cash inflows from operating activities were ¥8,454 million, attributable mainly to the difference between cash inflows from a change of ¥33,509 million in receivables on collateralized securities transactions and payables on collateralized securities transactions and cash outflows from a change of ¥19,650 million in deposits segregated for customer and a change of ¥13,731 million in trading products.

<Cash flows from investing activities>

Cash used in investment activities amounted to ¥2,887 million, due mainly to the difference between cash inflows of ¥2,445 million from the sale of investment securities and cash outflows of ¥3,425 million on the acquisition of securities and ¥1,797 million on the acquisition of intangible fixed assets.

<Cash flows from financing activities>

Cash used in financing activities amounted to ¥5,955 million, due mainly to the difference between cash inflows from long-term borrowings of ¥6,000 million and cash outflows of ¥4,695 million on the acquisition of treasury stock by subsidiaries, ¥4,300 million on the acquisition of shares in subsidiaries not subject to change in scope of consolidation, and ¥4,049 million on repayment of long-term borrowings.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Balance Sheet — March 31, 2020

	Millions of yen		Thousands of U.S. dollars (note 3)
	2020	2019	2020
ASSETS			
Current assets:			
Cash on hand and in banks (notes 10 and 22)	¥ 70,538	¥ 71,228	\$ 648,148
Cash segregated as deposits for customers and others	88,160	69,278	810,071
Trading assets (notes 4 and 10)	123,273	93,615	1,132,712
Receivables arising from unsettled trades	-	8,346	-
Receivables on margin transactions (note 5)	35,296	32,430	324,322
Receivables on collateralized securities transactions (note 6)	32,222	62,641	296,076
Short-term investments (note 7)	2,996	2,590	27,529
Other current assets	16,246	12,543	149,279
Allowance for doubtful accounts	(0)	(11)	(0)
Total current assets	368,731	352,660	3,388,137
Property and equipment, net of accumulated depreciation of ¥15,965 million (\$146,697 thousand) in 2020 and ¥15,245 million in 2019 (note 10)	18,379	18,927	168,878
Intangible assets, net	6,027	6,397	55,380
Investments and other assets:			
Investment securities (notes 7, 8 and 10)	39,909	40,242	366,710
Long-term guarantee deposits	3,867	3,838	35,532
Asset for retirement benefits (note 12)	1,236	1,371	11,357
Deferred income taxes (note 11)	1,459	1,324	13,406
Other	2,356	2,464	21,649
Allowance for doubtful accounts	(1,511)	(1,523)	(13,884)
Total investments and other assets	47,316	47,716	434,770
TOTAL	¥ 440,453	¥ 425,700	\$ 4,047,165

See accompanying notes to consolidated financial statements.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Balance Sheet—(Continued) — March 31, 2020

	Millions of yen		Thousands of U.S. dollars (note 3)
	2020	2019	2020
LIABILITIES AND NET ASSETS			
Current liabilities:			
Trading liabilities (note 4)	¥ 67,342	¥ 64,668	\$ 618,782
Payables arising from unsettled trades	4,907	-	45,089
Payables on margin transactions (notes 5 and 10)	15,375	12,778	141,275
Payables on collateralized securities transactions (note 6)	3,182	92	29,238
Deposits received	39,886	39,464	366,498
Guarantee deposits received	32,343	30,078	297,188
Short-term borrowings (notes 9 and 10)	77,177	73,345	709,152
Income tax payables (note 11)	919	351	8,444
Other current liabilities (notes 9 and 13)	10,128	5,671	93,063
Total current liabilities	251,259	226,447	2,308,729
Non-current liabilities:			
Long-term borrowings (notes 9 and 10)	9,033	6,610	83,001
Lease liabilities (note 9)	931	835	8,555
Deferred income taxes (note 11)	4,694	4,973	43,131
Liability for retirement benefits (note 12)	6,420	6,556	58,991
Other non-current liabilities (note 13)	2,461	3,879	22,613
Total non-current liabilities	23,539	22,853	216,291
Financial instruments transactions reserve (note 14)	1,207	1,216	11,091
Total liabilities	276,005	250,516	2,536,111
Net assets			
Shareholders' equity (note 15):			
Common stock			
Authorized—750,000,000 shares;			
issued—208,214,969 shares in 2020 and 2019	18,590	18,590	170,817
Capital surplus	23,622	16,466	217,054
Retained earnings	109,837	109,166	1,009,253
Treasury stock, at cost, 10,426,386 shares in 2020 and 9,967,021 shares in 2019	(3,814)	(3,682)	(35,046)
Total shareholders' equity	148,235	140,540	1,362,078
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities (note 7)	6,991	9,833	64,238
Surplus on land revaluation (note 17)	401	401	3,684
Foreign currency translation adjustments	62	89	570
Remeasurements of defined benefit plans	125	109	1,149
Total accumulated other comprehensive income	7,579	10,432	69,641
Stock acquisition rights (note 16)	359	311	3,299
Non-controlling interests	8,275	23,901	76,036
Total net assets	164,448	175,184	1,511,054
TOTAL	¥ 440,453	¥ 425,700	\$ 4,047,165

See accompanying notes to consolidated financial statements.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Statement of Income – Year ended March 31, 2020

	Millions of yen		Thousands of U.S. dollars (note 3)
	2020	2019	2020
Operating revenues:			
Commissions	¥ 39,733	¥ 42,996	\$ 365,092
Net gain on trading	22,697	22,306	208,555
Interest and dividend income	1,702	1,696	15,639
Service fee and other revenues	907	878	8,334
	<u>65,039</u>	<u>67,876</u>	<u>597,620</u>
Interest expense	<u>986</u>	<u>1,072</u>	<u>9,060</u>
Net operating revenues	64,053	66,804	588,560
Selling, general and administrative expenses (note18)	<u>61,980</u>	<u>64,964</u>	<u>569,512</u>
Operating income	<u>2,073</u>	<u>1,840</u>	<u>19,048</u>
Other income (expenses):			
Dividend income	1,037	978	9,529
Exchange gain	157	68	1,443
Gain on sale of investment securities	1,653	72	15,189
Equity in gain of affiliates	2,183	51	20,059
Interest expense	(49)	(53)	(450)
Loss on sale and disposal of property and equipment and intangible assets	(21)	(27)	(193)
Loss on sale of investment securities	(34)	(15)	(313)
Reversal of financial instruments transactions reserve	9	70	83
Impairment loss (note 19)	(549)	(122)	(5,045)
Loss on devaluation of investment securities	(313)	-	(2,876)
Other, net	108	44	992
	<u>4,181</u>	<u>1,066</u>	<u>38,418</u>
Income before income taxes and non- controlling interests	6,254	2,906	57,466
Income taxes (note 11):			
Current	1,305	1,012	11,991
Deferred	860	281	7,903
	<u>2,165</u>	<u>1,293</u>	<u>19,894</u>
Net income	<u>4,089</u>	<u>1,613</u>	<u>37,572</u>
Net income attributable to non-controlling interests	<u>462</u>	<u>760</u>	<u>4,245</u>
Net income attributable to owners of the parent	<u>¥ 3,627</u>	<u>¥ 853</u>	<u>\$ 33,327</u>

See accompanying notes to consolidated financial statements.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Statement of Comprehensive Income (Loss) — Year ended March 31, 2020

	Millions of yen		Thousands of U.S. dollars (note 3)
	2020	2019	2020
Net income	¥ 4,089	¥ 1,613	\$ 37,572
Other comprehensive income (loss) (note 20):			
Unrealized loss on available-for-sale securities	(2,857)	(1,682)	(26,252)
Foreign currency translation adjustments	(27)	159	(248)
Remeasurements of defined benefit plans	19	(160)	175
Share of other comprehensive gain (loss) of affiliates accounted for by equity method	(207)	(124)	(1,902)
Total other comprehensive loss	(3,072)	(1,807)	(28,227)
Comprehensive income (loss)	¥ 1,017	¥ (194)	\$ 9,345
Comprehensive income (loss) attributable to:			
Owners of the parent	¥ 774	¥ (947)	\$ 7,112
Non-controlling interests	243	753	2,233

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, 2020

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balances at March 31, 2018	¥ 18,590	¥ 16,420	¥ 113,225	¥ (3,755)	¥ 144,480
Changes arising during the year:					
Cash dividends			(4,912)		(4,912)
Net income attributable to owners of the parent			853		853
Purchase of treasury stock				(6)	(6)
Disposition of treasury stock		46	(0)	79	125
Net changes other than shareholders' equity					
Total changes during the year	-	46	(4,059)	73	(3,940)
Balances at March 31, 2019	18,590	16,466	109,166	(3,682)	140,540
Changes arising during the year:					
Cash dividends			(2,955)		(2,955)
Net income attributable to owners of the parent			3,627		3,627
Purchase of treasury stock				(1)	(1)
Disposition of treasury stock		34	(1)	114	147
Changes in equity resulting from transactions with non- controlling interests		7,122		(245)	6,877
Net changes other than shareholders' equity					
Total changes during the year	-	7,156	671	(132)	7,695
Balances at March 31, 2020	¥ 18,590	¥ 23,622	¥ 109,837	¥ (3,814)	¥ 148,235

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, 2018	¥ 11,627	¥ 401	¥ (70)	¥ 275	¥ 12,233	¥ 236	¥ 23,100	¥ 180,049
Changes arising during the year:								
Cash dividends								(4,912)
Net income attributable to owners of the parent								853
Purchase of treasury stock								(6)
Disposition of treasury stock								125
Net changes other than shareholders' equity	(1,794)	-	159	(166)	(1,801)	75	801	(925)
Total changes during the year	(1,794)	-	159	(166)	(1,801)	75	801	(4,865)
Balances at March 31, 2019	9,833	401	89	109	10,432	311	23,901	175,184
Changes arising during the year:								
Cash dividends								(2,955)
Net income attributable to owners of the parent								3,627
Purchase of treasury stock								(1)
Disposition of treasury stock								147
Changes in equity resulting from transactions with non-controlling interests								6,877
Net changes other than shareholders' equity	(2,842)	-	(27)	16	(2,853)	48	(15,626)	(18,431)
Total changes during the year	(2,842)	-	(27)	16	(2,853)	48	(15,626)	(10,736)
Balances at March 31, 2020	¥ 6,991	¥ 401	¥ 62	¥ 125	¥ 7,579	¥ 359	¥ 8,275	¥ 164,448

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, 2019	\$ 170,817	\$ 151,300	\$ 1,003,087	\$ (33,833)	\$ 1,291,371
Changes arising during the year:					
Cash dividends			(27,152)		(27,152)
Net income attributable to owners of the parent			33,327		33,327
Purchase of treasury stock				(9)	(9)
Disposition of treasury stock		312	(9)	1,048	1,351
Changes in equity resulting from transactions with non- controlling interests		65,442		(2,252)	63,190
Net changes other than shareholders' equity					
Total changes during the year	-	65,754	6,166	(1,213)	70,707
Balances at March 31, 2020	\$ 170,817	\$ 217,054	\$ 1,009,253	\$ (35,046)	\$ 1,362,078

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, 2019	\$ 90,352	\$ 3,684	\$ 818	\$ 1,002	\$ 95,856	\$ 2,858	\$ 219,618	\$ 1,609,703	
Changes arising during the year:									
Cash dividends								(27,152)	
Net income attributable to owners of the parent								33,327	
Purchase of treasury stock								(9)	
Disposition of treasury stock								1,351	
Changes in equity resulting from transactions with non-controlling interests								63,190	
Net changes other than shareholders' equity	(26,114)	-	(248)	147	(26,215)	441	(143,582)	(169,356)	
Total changes during the year	(26,114)	-	(248)	147	(26,215)	441	(143,582)	(98,649)	
Balances at March 31, 2020	\$ 64,238	\$ 3,684	\$ 570	\$ 1,149	\$ 69,641	\$ 3,299	\$ 76,036	\$ 1,511,054	

See accompanying notes to consolidated financial statements.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Statement of Cash Flows — Year ended March 31, 2020

	Millions of yen		Thousands of U.S. dollars (note 3)
	2020	2019	2020
Cash flows from operating activities:			
Income before income taxes and non-controlling interests	¥ 6,254	¥ 2,906	\$ 57,466
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by (used in) operating activities:			
Depreciation and amortization	3,162	3,098	29,055
Impairment loss	549	122	5,045
Interest and dividend income	(2,750)	(2,681)	(25,269)
Interest expense	1,035	1,125	9,510
Gain on sale of investment securities	(1,642)	(83)	(15,088)
Loss on devaluation of investment securities	313	-	2,876
Decrease (increase) in deposits segregated for customer	(19,650)	(150)	(180,557)
Decrease (increase) in trading assets and increase (decrease) in trading liabilities	(13,731)	21,523	(126,169)
Decrease (increase) in receivables on margin transactions and increase (decrease) in payables on margin transactions	(270)	19,860	(2,481)
Decrease (increase) in receivables on collateralized securities transactions and increase (decrease) in payables on collateralized securities transactions	33,509	5,627	307,902
Increase (decrease) in deposits received	441	1,833	4,052
Decrease (increase) in short-term guarantee deposits	(5,765)	(512)	(52,973)
Increase (decrease) in guarantee deposits received	2,265	(6,429)	20,812
Increase (decrease) in allowance for doubtful accounts	(23)	101	(211)
Decrease (increase) in assets for retirement benefits and increase (decrease) in liabilities for retirement benefits	(2)	131	(18)
Increase (decrease) in financial instruments transactions reserve	(9)	(70)	(83)
Other, net	2,396	(3,440)	22,016
Sub-total	6,082	42,961	55,885
Interest and dividend received	2,782	2,677	25,563
Interest paid	(1,038)	(1,127)	(9,538)
Income taxes paid	628	(4,641)	5,771
Net cash provided by (used in) operating activities	8,454	39,870	77,681
Cash flows from investing activities:			
Payment for short-term investments	-	(1,000)	-
Payment for purchase of property and equipment	(368)	(329)	(3,382)
Payment for purchase of intangible assets	(1,797)	(2,402)	(16,512)
Payment for purchase of investment securities	(3,426)	(809)	(31,480)
Proceeds from sale of investment securities	2,445	622	22,466
Other, net	259	(1,224)	2,380
Net cash provided by (used in) investing activities	(2,887)	(5,142)	(26,528)

Cash flows from financing activities:

Increase (decrease) in short-term borrowings	4,306	(17,523)	39,566
Proceeds from long-term borrowings	6,000	-	55,132
Payments on long-term borrowings	(4,049)	(2,260)	(37,205)
Purchase of treasury stock	(1)	(6)	(9)
Proceeds from sale of parent's stock held by subsidiaries	171	283	1,571
Purchase of treasury stock by a consolidated subsidiary	(4,695)	-	(43,141)
Dividends paid	(2,955)	(4,912)	(27,152)
Dividends paid to non-controlling interests of subsidiaries	(27)	(32)	(248)
Payment from changes in ownership interests in subsidiaries that do not result in scope of consolidation	(4,300)	-	(39,511)
Other, net	(405)	(430)	(3,721)
Net cash provided by (used in) financing activities	(5,955)	(24,880)	(54,718)
Effect of exchange rate changes on cash and cash equivalents	(29)	196	(267)
Net increase (decrease) in cash and cash equivalents	(417)	10,044	(3,832)
Cash and cash equivalents, beginning of year	64,184	54,140	589,764
Cash and cash equivalents, end of year (note 22)	<u>¥ 63,767</u>	<u>¥ 64,184</u>	<u>\$ 585,932</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 12 subsidiaries. Two affiliates are accounted for by equity method at March 31, 2020. 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 principally 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. Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not measured at fair value and the difference in amounts to be paid or received on the 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. Gensaki transactions originate in the Japanese financial markets, and involve the selling (“Borrowings on Gensaki transactions”)/purchasing (“Loans on Gensaki transactions”) of commercial paper, certificates of deposit, Japanese government bonds and various other debt securities to/from an institution wishing to make a short-term investment, with the Company agreeing to repurchase/resell them from/to the institution on a specified date at a specified price. Under the “Accounting Standards for Financial Instruments”, Gensaki transactions are accounted for as financing transactions. Gensaki transactions are carried at their contractual amounts.

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

- h. **Property and equipment**— Property and equipment are stated at cost. Depreciation of property and equipment of the Company and its domestic consolidated subsidiaries is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings purchased in Japan 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.
Regarding the transition to the Group Tax Sharing System established under the "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 8, 2020) and the items for which the taxation system to each separate entity was revised in line with the transition to the Group Tax Sharing System, in accordance with the treatment of Paragraph 3 of the “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the group Tax Sharing System” (Practical Issues Task Force (PTIF) No. 39, March 31, 2020), the provisions of paragraph 44 of the “Implementation Guidance on Tax Effect Accounting” (Accounting Standards Board of Japan Guidance No. 28, February 16, 2018) are not applied, and the amounts of deferred tax assets and deferred tax liabilities are calculated based on the provisions of the Income Tax Act before the revision.

- 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. Accounting Standard for Revenue Recognition etc.
 - Accounting Standard 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)
 - Revised Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)
 - (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.
 2. Accounting Standard for Fair Value Measurement etc.
 - Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019)
 - Revised Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019)
 - Revised Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019)
 - Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019)
 - Revised Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) each have established detailed guidance regarding fair value measurements that are nearly identical (IFRS No. 13 in IASB, Topic 820 in FASB). In order to improve the comparability with such international accounting standards, the Accounting Standards Board of Japan has published “Accounting Standard for Fair Value Measurement” etc.

The ASBJ basic policy in developing accounting standards for fair value measurement is thought to be setting accounting standards, generally adopting all principles of IFRS No. 13, from a standpoint of comparability between financial statements of domestic and overseas companies. However, for any item that we should take into account in practices, etc. that have been conducted in Japan, other accounting treatments without impairing comparability shall be determined.

(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.

3. Accounting Standard for Disclosure of Accounting Estimates

- Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020)

(1) Overview

In 2003, The International Accounting Standards Board (IASB) issued “Presentation of Financial Statements” (International Accounting Standards 1 (IAS 1) with paragraph 125 of the standard requiring disclosure regarding key sources of uncertainty in accounting estimates. The ASBJ developed and issued “Accounting Standard for Disclosure of Accounting Estimates” in response to requests to consider requiring similar disclosure under Japanese GAAP as such footnote information is considered extremely useful to users of financial statements.

The basic approach taken by the ASBJ in the development of this Standard was , rather than to expand individual notes, to state the general principle (purpose of disclosure), and then allow the company to make a decision on specific content to be disclosed in light of the purpose of disclosure. In the development, the ASBJ made it its policy to refer to the provisions of paragraph 125 of IAS 1.

(2) Planned applicable date

The accounting standards will be applied from the end of the year ending March 31, 2021.

4. Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections

- Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections” (ASBJ Statement No. 24, March 31, 2020)

(1) Overview

Standards Advisory Council of ASBJ recommended that ASBJ would consider improvement of disclosure for the notes to “The accounting policies and methods which has been adopted in the cases where the relevant accounting standards were not clear”. By responding to the recommends, the ASBJ issued the revised “Accounting Standards for Accounting Policy Disclosures, Accounting Changes and Error Corrections”.

In addition, this Standard provides that when the company improves disclosure of the notes for “The accounting policies and methods which has been adopted in the cases where the relevant accounting standards were not clear” it should refer to the provisions of “Note 1-2 of Explanatory Notes on corporate Accounting Principles” in order not to effect on accounting practices in the cases where the relevant accounting standards are clear.

(2) Planned applicable date

The accounting standards will be applied from the end of the year ending March 31, 2021.

- 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, 2020.

3. BASIS OF FINANCIAL STATEMENT TRANSLATION

The translations of the yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2020, which was ¥108.83 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, 2020 and 2019 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Trading assets:			
Securities and other	¥ 123,057	¥ 93,599	\$ 1,130,727
Derivatives	216	16	1,985
	<u>¥ 123,273</u>	<u>¥ 93,615</u>	<u>\$ 1,132,712</u>
Trading liabilities:			
Securities and other	¥ 67,185	¥ 64,661	\$ 617,339
Derivatives	157	7	1,443
	<u>¥ 67,342</u>	<u>¥ 64,668</u>	<u>\$ 618,782</u>

5. MARGIN TRANSACTIONS

Margin transactions at March 31, 2020 and 2019 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Assets:			
Loans receivable from customers	¥ 25,860	¥ 26,165	\$ 237,618
Cash deposits as collateral for securities borrowed from securities finance companies	9,436	6,265	86,704
	<u>¥ 35,296</u>	<u>¥ 32,430</u>	<u>\$ 324,322</u>
Liabilities:			
Borrowings from securities finance companies	¥ 3,877	¥ 3,161	\$ 35,624
Proceeds from securities sold for customers' accounts	11,498	9,617	105,651
	<u>¥ 15,375</u>	<u>¥ 12,778</u>	<u>\$ 141,275</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, 2020 and 2019 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Assets:			
Cash collateral for securities borrowed	¥ -	¥ 30	\$ -
Loans on Gensaki transactions	32,222	62,611	296,076
	<u>¥ 32,222</u>	<u>¥ 62,641</u>	<u>\$ 296,076</u>
Liabilities:			
Cash collateral for securities loaned	¥ 182	¥ 92	\$ 1,672
Borrowings on Gensaki transactions	3,000	-	27,566
	<u>¥ 3,182</u>	<u>¥ 92</u>	<u>\$ 29,238</u>

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, 2020 and 2019 are summarized as follows:

	Millions of yen			
	Balance sheet	Gross unrealized gain	Gross unrealized loss	Fair value
At March 31, 2020				
Government, corporate and other	¥ 31	¥ 2	¥ -	¥ 33
At March 31, 2019				
Government, corporate and other	¥ 41	¥ 3	¥ -	¥ 44

Thousands of U.S. dollars				
	Balance sheet	Gross unrealized gain	Gross unrealized loss	Fair value
At March 31, 2020				
Government, corporate and other	\$ 285	\$ 18	\$ -	\$ 303

Acquisition cost, balance sheet amount, gross unrealized gain and gross unrealized loss of available-for-sale securities with fair value at March 31, 2020 and 2019 are summarized as follows:

Millions of yen				
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet
At March 31, 2020				
Current:				
Other	¥ 3,000	¥ -	¥ (35)	¥ 2,965
Non-current:				
Equity securities	¥ 12,705	¥ 17,364	¥ (2,125)	¥ 27,944
Other	339	36	(9)	366
	¥ 13,044	¥ 17,400	¥ (2,134)	¥ 28,310
At March 31, 2019				
Current:				
Other	¥ 2,600	¥ 10	¥ (20)	¥ 2,590
Non-current:				
Equity securities	¥ 12,946	¥ 20,036	¥ (738)	¥ 32,244
Other	922	77	(37)	962
	¥ 13,868	¥ 20,113	¥ (775)	¥ 33,206

Thousands of U.S. dollars				
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet
At March 31, 2020				
Current:				
Other	\$ 27,566	\$ -	\$ (322)	\$ 27,244
Non-current:				
Equity securities	\$ 116,742	\$ 159,552	\$ (19,526)	\$ 256,768
Other	3,115	331	(83)	3,363
	\$ 119,857	\$ 159,883	\$ (19,609)	\$ 260,131

Securities classified as available-for-sale securities for which fair value is not available are unlisted equity securities amounting to ¥11,233 million (\$103,216 thousand) and ¥6,669 million, and investments in limited partnership and similar partnership amounting to ¥366 million (\$3,363 thousand) and ¥325 million at March 31, 2020 and 2019, respectively.

For the years ended March 31, 2020 and 2019, 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, 2020				
Equity securities	¥	2,209	¥ 1,628	¥ -
Other		258	29	34
	¥	2,467	¥ 1,657	¥ 34
March 31, 2019				
Equity securities	¥	358	¥ 30	¥ -
Other		264	1	15
	¥	622	¥ 31	¥ 15

		Thousands of U.S. dollars		
		Proceeds from sales of available-for- sale securities	Gross realized gains	Gross realized losses
March 31, 2020				
Equity securities	\$	20,298	\$ 14,959	\$ -
Other		2,370	267	312
	\$	22,668	\$ 15,226	\$ 312

For the year ended March 31, 2020, impairment losses of ¥313 million (\$2,876 thousand) was recognized in the consolidated statement of income as loss on devaluation of investment securities. For available-for-sale securities with fair value when the fair value of the securities has declined by more than 50% from their acquisition costs, in principle, impairment losses on the securities are recognized in the consolidated statement of income, and when the fair value of the securities has declined by more than 30% but less than 50% from their acquisition costs, impairment losses on the securities are recognized in the consolidated statement of income, unless the value is considered recoverable.

8. INVESTMENTS IN AFFILIATES

The aggregate carrying amount of investments in affiliates at March 31, 2020 and 2019 are ¥9,269 million (\$85,170 thousand) and ¥5,174 million, respectively.

9. BORROWINGS

The weighted-average interest rates applicable to the short-term borrowings are 0.69 % and 0.70% at March 31, 2020 and 2019, respectively.

Long-term borrowings at March 31, 2020 and 2019 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Borrowings, maturing in installments through 2025; bearing weighted average interest of 2.05% at March 31, 2020	¥ 12,799	¥ -	\$ 117,605
Borrowings, maturing in installments through 2022; bearing weighted average interest of 1.79% at March 31, 2019	-	11,048	-
Less current installments	3,766	4,438	34,604
	<u>¥ 9,033</u>	<u>¥ 6,610</u>	<u>\$ 83,001</u>

Lease liabilities at March 31, 2020 and 2019 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Lease liabilities maturing in installments through 2029; bearing weighted average interest of 2.89% at March 31, 2020	¥ 1,288	¥ -	\$ 11,835
Lease liabilities maturing in installments through 2025; bearing weighted average interest of 3.11% at March 31, 2019	-	1,135	-
Less current installments	357	300	3,280
	<u>¥ 931</u>	<u>¥ 835</u>	<u>\$ 8,555</u>

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

	Millions of Yen		Thousands of U.S. dollars
	2020	2019	2020
Long-term borrowings	¥ 6,000	¥ -	\$ 55,132
Current installments of long-term borrowings	-	4,000	-

Annual maturities of borrowings after March 31, 2021, are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31		
2022	¥ 2,833	\$ 26,031
2023	200	1,838
2024	2,000	18,377
2025	4,000	36,755
2026 or later	-	-

Annual maturities of lease liabilities after March 31, 2021, are as follows:

Year ending March 31	Millions of yen		Thousands of U.S. dollars	
2022	¥	335	\$	3,078
2023		295		2,711
2024		242		2,224
2025		35		322
2026 or later		24		220

To meet its liquidity needs stably and expeditiously and to strengthen financial operations, Okasan Securities Co., Ltd. (a subsidiary of the Company) established a commitment line of ¥21,000 million (\$192,961 thousand) with 6 financial institutions both at March 31, 2020 and 2019.

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, 2020 and 2019, the carrying value of assets pledged is as follows:

	Millions of Yen		Thousands of U.S. dollars	
	2020	2019	2020	
Cash in banks	¥ 1,893	¥ 1,910	\$ 17,394	
Trading assets	7,872	7,451	72,333	
Property and equipment	4,469	4,498	41,064	
Investment securities	10,082	11,985	92,640	
	<u>¥ 24,316</u>	<u>¥ 25,844</u>	<u>\$ 223,431</u>	

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

	Millions of yen		Thousands of U.S. dollars	
	2020	2019	2020	
Short-term borrowings	¥ 10,399	¥ 7,573	\$ 95,553	
Borrowings from securities finance companies	347	673	3,188	
Long-term borrowings	2,953	5,910	27,134	
	<u>¥ 13,699</u>	<u>¥ 14,156</u>	<u>\$ 125,875</u>	

In addition to above, at March 31, 2020, trading assets, etc. amounting to ¥46,259 million (\$425,057 thousand) and investments securities amounting to ¥1,613 million (\$14,821 thousand) are deposited as guarantee for settlement of trading accounts and securities borrowed, respectively. In addition to above, at March 31, 2019, trading assets, etc. amounting to ¥37,264 million and investments securities amounting to ¥1,428 million were deposited as guarantee for settlement of trading accounts and securities borrowed, respectively.

The fair value of the securities pledged at March 31, 2020 and 2019 are as follows:

					Thousands of U.S. dollars
	Millions of Yen				U.S. dollars
	2020		2019		2020
Loaned securities on margin transactions	¥	11,283	¥	9,778	\$ 103,675
Securities pledged as collateral for borrowing from securities finance companies		3,905		3,292	35,882
Loaned securities		176		189	1,617
Other		20,093		34,047	184,628
	¥	35,457	¥	47,306	\$ 325,802

The fair value of the securities received as collateral at March 31, 2020 and 2019 are as follows:

	Thousands of U.S. dollars		
	Millions of Yen		U.S. dollars
	2020	2019	2020
Securities received on margin transactions	¥ 21,188	¥ 24,347	\$ 194,689
Securities borrowed	9,569	290	87,926
Securities pledged as collateral	46,715	49,458	429,248
Other	32,538	69,478	298,980
	¥ 110,010	¥ 143,573	\$ 1,010,843

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, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Tax loss carryforwards	¥ 2,732	¥ 3,240	\$ 25,103
Liability for retirement benefits (employees)	1,879	1,848	17,265
Depreciation and amortization (including impairment loss)	927	1,142	8,518
Accrued bonuses	544	506	4,999
Asset retirement obligations	461	408	4,236
Allowance for doubtful accounts	460	466	4,227
Financial instruments transactions reserve	368	371	3,381
Impairment loss on land etc.	238	229	2,187
Retirement benefits payable for directors and corporate auditors	143	158	1,314
Loss on devaluation of investment securities	123	125	1,130
Cost recognized for the stock options	110	95	1,011
Social insurance costs for accrued bonuses	79	70	726
Loss on devaluation of golf memberships	50	51	459
Other	339	164	3,115
	8,453	8,873	77,671
Valuation allowance for tax loss carryforwards	(2,412)	(2,589)	(22,163)
Valuation allowance for deductible temporary differences	(2,488)	(1,904)	(22,861)
Total valuation allowance	(4,900)	(4,493)	(45,024)
Total	3,553	4,380	32,647

Deferred tax liabilities:

Unrealized gain on available-for-sale securities	(4,668)	(5,911)	(42,892)
Land revaluation excess	(1,457)	(1,457)	(13,388)
Asset for retirement benefits (employees)	(328)	(295)	(3,014)
Asset retirement obligations	(175)	(209)	(1,608)
Dividends receivable	(138)	(130)	(1,268)
Other	(22)	(27)	(202)
Total	(6,788)	(8,029)	(62,372)
Net deferred tax liabilities	¥ (3,235)	¥ (3,649)	\$ (29,725)

Valuation allowance increased by ¥407 million (\$3,740 thousand) due to reduction of deferred tax assets of ¥881 million (\$ 8,095 thousand) as a result of a consideration of the recoverability of the deferred tax assets based on the current year performance and the forecast of future performance.

Tax loss carryforwards (the amounts shown in the table below represent the deferred tax assets on the tax loss carryforwards that obtained by multiplying a statutory tax rate) will expire as follows:

	Millions of yen						
	2020						
	1 year or less	Over 1 year through 2 years	Over 2 years through 3 years	Over 3 years through 4 years	Over 4 years through 5 years	Over 5 years	Total
Tax loss carryforwards	¥ 440	¥ 492	¥ 86	¥ 91	¥ 192	¥ 1,431	¥ 2,732
Valuation allowance	(440)	(483)	(86)	(91)	(192)	(1,120)	(2,412)
Deferred tax assets recognized	¥ -	¥ 9	¥ -	¥ -	¥ -	¥ 311	¥ 320

	Thousands of U.S. dollars						
	2020						
	1 year or less	Over 1 year through 2 years	Over 2 years through 3 years	Over 3 years through 4 years	Over 4 years through 5 years	Over 5 years	Total
Tax loss carryforwards	\$ 4,043	\$ 4,521	\$ 790	\$ 836	\$ 1,764	\$13,149	\$25,103
Valuation allowance	(4,043)	(4,438)	(790)	(836)	(1,764)	(10,292)	(22,163)
Deferred tax assets recognized	\$ -	\$ 83	\$ -	\$ -	\$ -	\$ 2,857	\$ 2,940

The Company recognized deferred tax assets of ¥320 million (\$2,940 thousand) for tax loss carryforwards (the amounts by multiplying the statutory tax rate) of ¥2,732 million (\$25,103 thousand). The deferred tax assets include the deferred tax assets of the Company of ¥50 million (\$459 thousand) for tax loss carryforwards and the deferred tax assets of two subsidiaries in the Company's tax filing group of ¥270 million (\$2,481 thousand) for tax loss carryforwards. The tax loss carryforwards of the Company have been incurred because the Company recorded the loss before income taxes for the years ended March 31, 2013 and 2019 in its non-consolidated financial statements. And the tax loss carryforwards of the two subsidiaries have been incurred because they recorded the loss before income taxes for the year ended March 31, 2019 in their non-consolidated financial statements. The amount of the deferred tax assets for the tax loss carryforwards considered realizable by taking into consideration of the estimated taxable income based on future Group profitability.

	Millions of yen						
	2019						
	1 year or less	Over 1 year through 2 years	Over 2 years through 3 years	Over 3 years through 4 years	Over 4 years through 5 years	Over 5 years	Total
Tax loss carryforwards	¥ 331	¥ 440	¥ 550	¥ 86	¥ 91	¥ 1,742	¥ 3,240
Valuation allowance	(331)	(440)	(479)	(86)	(84)	(1,169)	(2,589)
Deferred tax assets recognized	¥ -	¥ -	¥ 71	¥ -	¥ 7	¥ 573	¥ 651

The Company recognized deferred tax assets of ¥651 million for tax loss carryforwards (the amounts by multiplying the statutory tax rate) of ¥3,240 million. The deferred tax assets include the deferred tax assets of the Company of ¥189 million for tax loss carryforwards and the deferred tax assets of two subsidiaries in the Company's tax filing group of ¥462 million for tax loss carryforwards. The tax loss carryforwards of the Company have been incurred because the Company recorded the loss before income taxes for the years ended March 31, 2013 and 2019 in its non-consolidated financial statements. And the tax loss carryforwards of the two subsidiaries have been incurred because they recorded the loss before income taxes for the year ended March 31, 2019 in their non-consolidated financial statements. The amount of the deferred tax assets for the tax loss carryforwards considered realizable by taking into consideration of the estimated taxable income based on future Group profitability.

A reconciliation of the statutory tax rate and the effective tax rate as a percentage of income before income taxes and non-controlling interests for the years ended March 31, 2020 and 2019 is as follows:

	2020	2019
Statutory tax rate	30.5%	30.5%
Expenses not deductible for tax purposes	11.3	15.6
Income not credited for tax purposes	(10.0)	(12.2)
Per capita tax	1.4	3.1
Equity in gain of affiliates	(10.4)	(0.1)
Valuation allowance	10.8	6.4
Differences in income tax rates applicable to consolidated subsidiaries	1.0	1.2
Other	0.1	0.0
Effective tax rate	34.6%	44.5%

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, 2020 and 2019 and for the years then ended.

(1) Reconciliation of changes in retirement benefit obligation

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Retirement benefit obligation at beginning of year	¥ 14,487	¥ 14,423	\$ 133,116
Service cost	826	814	7,590
Interest cost	-	9	-
Actuarial gain or loss	(346)	31	(3,179)
Benefits paid	(919)	(791)	(8,445)
Other	-	1	-
Retirement benefit obligation at end of year	¥ 14,048	¥ 14,487	\$ 129,082

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
	2020	2019	2020
Plan assets at beginning of year	¥ 9,399	¥ 9,516	\$ 86,364
Expected return on plan assets	45	46	414
Actuarial gain or loss	(266)	(27)	(2,444)
Employer contributions	271	281	2,490
Benefits paid	(480)	(418)	(4,411)
Other	-	1	-
Plan assets at end of year	¥ 8,969	¥ 9,399	\$ 82,413

(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
	2020	2019	2020
Funded retirement benefit obligation	¥ 8,108	¥ 8,406	\$ 74,502
Plan assets	(8,969)	(9,399)	(82,413)
	(861)	(993)	(7,911)
Unfunded retirement benefit obligation	5,940	6,081	54,580
Net of liability and assets for retirement benefits	¥ 5,079	¥ 5,088	\$ 46,669
Liability for retirement benefits	¥ 6,315	¥ 6,459	\$ 58,026
Asset for retirement benefits	1,236	1,371	11,357
Net of liability and asset for retirement benefits	¥ 5,079	¥ 5,088	\$ 46,669

(4) The components of retirement benefit expenses

	Thousands of U.S. dollars	
	Millions of yen	2020
	2020	2019
Service cost	¥ 826	¥ 814
Interest cost	-	9
Expected return on plan assets	(45)	(46)
Amortization of actuarial gain or loss	(53)	(173)
Retirement benefit expenses	¥ 728	¥ 604
	\$ 7,590	\$ -
	(414)	(487)
	\$ 6,689	

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

	Thousands of U.S. dollars	
	Millions of yen	2020
	2020	2019
Actuarial gain or loss	¥ 27	¥ (231)
	\$ 248	

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

	Thousands of U.S. dollars	
	Millions of yen	2020
	2020	2019
Unrecognized actuarial gain or loss	¥ 186	¥ 159
	\$ 1,709	

(7) Plan assets

(a) Percentage by major category of plan assets

	2020	2019
Equity securities	32%	37%
General account	34	32
Debt securities	21	18
Other	13	13
Total	100%	100%

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

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

(8) Basis for calculation of actuarial assumptions

The assumptions used in accounting for the above plans at March 31, 2020 and 2019 are as follows:

	2020	2019
(a) Discount rate	0.03%	0.00%
(b) Long-term expected rate of return	0.50%	0.50%

Defined contribution plans

The amount to be paid by the Company and consolidated subsidiaries to the defined contribution plans is ¥200 million (\$1,838 thousand) and ¥207 million for the years ended March 31, 2020 and 2019, 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, 2020 and 2019, the subsidiaries provide for the amount of ¥105 million (\$965 thousand) and ¥97 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 62 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, 2020 and 2019:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance, beginning of year	¥ 1,135	¥ 1,099	\$ 10,429
Liabilities incurred by asset acquisition	24	45	221
Accretion expenses	13	13	119
Liabilities settled	(4)	(22)	(37)
Balance, end of year	¥ 1,168	¥ 1,135	\$ 10,732

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, 2020 and 2019 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, 2019 which was approved by the Board of Directors held on May 22, 2018 are as follows:

(a) Total dividends	¥4,912 million
(b) Cash dividends per common share	¥25
(c) Record date	March 31, 2018
(d) Effective date	June 8, 2018

Cash dividends for treasury stock held by subsidiaries of ¥85 million were excluded from the above table.

Dividends paid during the year ended March 31, 2020 which was approved by the Board of Directors held on May 15, 2019 are as follows:

(a) Total dividends	¥2,955 million (\$27,152 thousand)
(b) Cash dividends per common share	¥15 (\$0.14)
(c) Record date	March 31, 2019
(d) Effective date	June 7, 2019

Cash dividends for treasury stock held by subsidiaries of ¥43 million (\$395 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, 2020 which was approved by the Board of Directors held on May 19, 2020 are as follows:

(a) Total dividends	¥1,999 million (\$18,368 thousand)
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥10 (\$0.09)
(d) Record date	March 31, 2020
(e) Effective date	June 8, 2020

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 ¥85 million (\$781 thousand) and ¥84 million which is included in selling, general and administrative expenses for the years ended March 31, 2020 and 2019, respectively. The gain on unexercised and forfeited stock options is ¥0 million (\$0 thousand) which is included in other income for the year ended March 31, 2020.

Description of each stock option plans at March 31, 2020 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	4th Plan approved on June 28, 2018	5th Plan approved on June 27, 2019
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.)	3 directors of the Company (except for audit and supervisory committee members), 7 directors of its subsidiary (Okasan Securities Co., Ltd.) and 19 executive officers of its subsidiary (Okasan Securities Co., Ltd.)	3 directors of the Company (except for audit and supervisory committee members), 5 directors of its subsidiary (Okasan Securities Co., Ltd.) and 20 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	202,900 shares of common stock	261,300 shares of common stock

Grant date	July 13, 2015	July 14, 2016	July 14, 2017	July 13, 2018	July 12, 2019
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.	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.	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	From July 14, 2018 to July 13, 2048	From July 13, 2019 to July 12, 2049

A summary of the scale and movement of the stock option plan for the year ended March 31, 2020 is as follows:

	1st	2nd	3rd	4th	5th
Non-vested:					
Outstanding at March 31, 2019	-	-	-	-	-
Granted	-	-	-	-	261,300
Forfeited	-	-	-	-	-
Vested	-	-	-	-	261,300
Outstanding at March 31, 2020	-	-	-	-	-
Vested:					
Outstanding at March 31, 2019	97,500	190,900	139,700	202,900	-
Vested	-	-	-	-	261,300
Exercised	14,000	27,300	15,000	19,200	-
Forfeited	-	-	-	-	1,500
Outstanding at March 31, 2020	83,500	163,600	124,700	183,700	259,800

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

	1st	2nd	3rd	4th	5th
Exercise price	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)
Average stock price at exercise	¥397 (\$3.65)	¥397 (\$3.65)	¥397 (\$3.65)	¥397 (\$3.65)	-
Fair value at the grant date	¥715 (\$6.57)	¥383 (\$3.52)	¥614 (\$5.64)	¥403 (\$3.70)	¥331 (\$3.04)

The fair value of the 5th stock options was estimated using the Black-Scholes option-valuation model with the following assumptions:

Expected volatility *1	32.352%
Expected remaining outstanding period *2	5.5 years
Expected dividend *3	¥15 (\$0.14) per share
Risk-free interest rate *4	-0.233%

*1 Expected volatility is based on the actual stock prices traded from January 11, 2014 to July 12, 2019.

*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 applicable for the year ended March 31, 2019.

*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, 2020 and 2019 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. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major elements of selling, general and administrative expenses for the years ended March 31, 2020 and 2019 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Commissions and brokerage	¥ 11,134	¥ 12,039	\$ 102,306
Employees' compensation and benefits	31,229	32,555	286,952
Occupancy and rental	7,512	7,530	69,025
Data processing and office supplies	4,922	5,326	45,227
Depreciation and amortization	3,162	3,098	29,055
Taxes other than income taxes	734	1,050	6,744
Provision for doubtful accounts	(19)	96	(175)
Other	3,306	3,270	30,378
	<u>¥ 61,980</u>	<u>¥ 64,964</u>	<u>\$ 569,512</u>

19. IMPAIRMENT LOSS

The Company recognized an impairment loss on a part of business assets, such as business offices of Okasan Securities Co., Ltd., a consolidated subsidiary of the Company as a result of the consideration of the future collectability:

Location	Usage		Classification
Chuo City, Tokyo	Business assets		Buildings and other
	Millions of yen	Thousands of U.S. dollars	
<u>Classification</u>			
Buildings	¥ 393	\$ 3,611	
Furniture and fixtures	70	643	
Other intangible assets	30	276	
	¥ <u>493</u>	\$ <u>4,530</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.

20. OTHER COMPREHENSIVE INCOME (LOSS)

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net unrealized holding gain (loss) on available-for-sale securities:			
Arising during the year	¥ (2,769)	¥ (2,372)	\$ (25,443)
Reclassification adjustment	(1,328)	(12)	(12,203)
Before tax amount	(4,097)	(2,384)	(37,646)
Tax benefit (expense)	1,240	702	11,394
Net-of-tax amount	(2,857)	(1,682)	(26,252)
Foreign currency translation adjustments:			
Arising during the year	(27)	159	(248)
Remeasurements of defined benefit plans:			
Arising during the year	80	(57)	735
Reclassification adjustment	(53)	(174)	(487)
Before tax amount	27	(231)	248
Tax benefit (expense)	(8)	71	(73)
Net-of-tax amount	19	(160)	175
Share of other comprehensive gain (loss) of affiliates accounted for by equity method:			
Arising during the year	(207)	(124)	(1,902)
Total other comprehensive loss	¥ <u>(3,072)</u>	¥ <u>(1,807)</u>	\$ <u>(28,227)</u>

21. 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, 2020 and 2019 are as follows:

	Yen		U.S. dollars
	2020	2019	2020
Basic net income per share	¥ 18.32	¥ 4.30	\$ 0.17
Diluted net income per share	18.25	4.29	0.17
	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net income attributable to owners of the parent	¥ 3,627	¥ 853	\$ 33,327
Net income not applicable to common shareholders	-	-	
Net income attributable to owners of the parent available to common shares	¥ 3,627	¥ 853	\$ 33,327
	Number of shares (Thousand)		
	2020	2019	
Weighted average number of shares outstanding on which basic net income per share is calculated	198,006	198,229	
Number of diluted shares (stock acquisition rights)	757	590	

(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, 2020 and 2019 are as follows:

	Yen		U.S. dollars
	2020	2019	2020
Net assets per share	¥ 787.78	¥ 761.53	\$ 7.24
	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Total net assets	¥ 164,448	¥ 175,184	\$ 1,511,054
Amount deducted from total net assets:			
Stock acquisition rights	359	311	3,299
Non-controlling interests	8,275	23,901	76,036
Net assets applicable to common stockholders	¥ 155,814	¥ 150,972	\$ 1,431,719
	Number of shares (Thousand)		
	2020	2019	
Number of shares outstanding at the end of year on which net assets per share is calculated	197,789	198,248	

22. SUPPLEMENTARY CASH FLOW INFORMATION

Reconciliation between “Cash on hand and in banks” in the accompanying consolidated balance sheet and “Cash and cash equivalents” in the accompanying consolidated statement of cash flows at March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cash on hand and in banks	¥ 70,538	¥ 71,228	\$ 648,148
Time deposits that have maturities of over three months when acquired	(6,771)	(7,044)	(62,216)
Cash and cash equivalents	¥ 63,767	¥ 64,184	\$ 585,932

23. LEASES

(a) Finance Lease

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

(b) Operating Lease

Future minimum lease payments required under noncancellable operating leases at March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Within one year	¥ 1,821	¥ 1,787	\$ 16,732
Over one year	5,453	7,036	50,106
	¥ 7,274	¥ 8,823	\$ 66,838

24. FINANCIAL INSTRUMENTS

Conditions of Financial instruments

(1) Management policy

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

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

Regarding the trading business, the Group works to do brokerage for trading in securities smoothly and contribute to a sound market system in an Exchange transaction, and works to make fair prices and transact smoothly in a Non-Exchange transaction 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 ¥62 million (\$570 thousand) calculated using historical method (holding period: one day, confidence interval: 99%, observation period: 1,250 days) at March 31, 2020. 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, 2020 and 2019 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					
	2020			2019		
	Carrying value	Fair value	Differences	Carrying value	Fair value	Differences
Assets:						
Cash on hand and in banks	¥ 70,538	¥ 70,538	¥ -	¥ 71,228	¥ 71,228	¥ -
Cash segregated as deposits for customers and others	88,160	88,160	-	69,278	69,278	-
Trading assets, short-term investments and investment securities						
Trading securities	123,057	123,057	-	93,599	93,599	-
Held-to-maturity debt securities	31	33	2	42	44	2
Available-for-sale securities	31,275	31,275	-	35,796	35,796	-
Receivables arising from unsettled trades	-	-	-	8,346	8,346	-
Receivables on margin transactions	35,296	35,296	-	32,430	32,430	-
Receivables on collateralized securities transactions	32,222	32,222	-	62,641	62,641	-
Short-term guarantee deposits	9,960	9,960	-	4,195	4,195	-
Total	<u>¥ 390,539</u>	<u>¥ 390,541</u>	<u>¥ 2</u>	<u>¥ 377,555</u>	<u>¥ 377,557</u>	<u>¥ 2</u>
Liabilities:						
Trading liabilities						
Trading securities	¥ 67,185	¥ 67,185	¥ -	¥ 64,661	¥ 64,661	¥ -
Payables arising from unsettled trades	4,907	4,907	-	-	-	-
Payables on margin transactions	15,375	15,375	-	12,778	12,778	-
Payables on collateralized securities transactions	3,182	3,182	-	92	92	-
Deposits received	39,886	39,886	-	39,464	39,464	-
Guarantee deposits received	32,343	32,343	-	30,078	30,078	-
Short-term borrowings	77,177	77,179	2	73,345	73,370	25
Long-term borrowings	9,033	9,040	7	6,610	6,619	9
Total	<u>¥ 249,088</u>	<u>¥ 249,097</u>	<u>¥ 9</u>	<u>¥ 227,028</u>	<u>¥ 227,062</u>	<u>¥ 34</u>
Derivative transactions	<u>¥ 59</u>	<u>¥ 59</u>	<u>¥ -</u>	<u>¥ 9</u>	<u>¥ 9</u>	<u>¥ -</u>

	Thousands of U.S. dollars		
	2020		
	Carrying value	Fair value	Differences
Assets:			
Cash on hand and in banks	\$ 648,148	\$ 648,148	\$ -
Cash segregated as deposits for customers and others	810,071	810,071	-
Trading assets, short-term investments and investment securities			
Trading securities	1,130,727	1,130,727	-
Held-to-maturity debt securities	285	303	18
Available-for-sale securities	287,375	287,375	-
Receivables arising from unsettled trades	-	-	-
Receivables on margin transactions	324,322	324,322	-
Receivables on collateralized securities transactions	296,076	296,076	-
Short-term guarantee deposits	91,519	91,519	-
Total	<u>\$ 3,588,523</u>	<u>\$ 3,588,541</u>	<u>\$ 18</u>
Liabilities:			
Trading liabilities			
Trading securities	\$ 617,339	\$ 617,339	\$ -
Payables arising from unsettled trades	45,089	45,089	
Payables on margin transactions	141,275	141,275	-
Payables on collateralized securities transactions	29,238	29,238	-
Deposits received	366,498	366,498	-
Guarantee deposits received	297,188	297,188	-
Short-term borrowings	709,152	709,170	18
Long-term borrowings	83,001	83,065	64
Total	<u>\$ 2,288,780</u>	<u>\$ 2,288,862</u>	<u>\$ 82</u>
Derivative transactions	<u>\$ 542</u>	<u>\$ 542</u>	<u>\$ -</u>

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

(1) Fair value measurement of financial instruments

Assets:

Cash on hand and in banks, Cash segregated as deposits for customers and others, Receivables 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 25. DERIVATIVES.

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unlisted equity securities	¥ 11,233	¥ 6,669	\$ 103,216
Investments in limited partnership and similar partnership	366	326	3,363
Total	¥ 11,599	¥ 6,995	\$ 106,579

(3) Projected future redemption of monetary claim and securities with maturities
March 31, 2020

	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	¥ 70,538	¥ -	¥ -	¥ -
Cash segregated as deposits for customers and others	88,160	-	-	-
Trading assets, short-term investments and investment securities: Held-to-maturity debt securities: Government bonds	31	-	-	-
Available-for-sale securities with maturities: Other	2,965	262	78	-
Receivables on margin transactions	35,296	-	-	-
Receivables on collateralized securities transactions	32,222	-	-	-
Short-term guarantee deposits	9,960	-	-	-
	¥ 239,172	¥ 262	¥ 78	¥ -

	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	\$ 648,148	\$ -	\$ -	\$ -
Cash segregated as deposits for customers and others	810,071	-	-	-
Trading assets, short-term investments and investment securities: Held-to-maturity debt securities: Government bonds	285	-	-	-
Available-for-sale securities with maturities: Other	27,245	2,407	717	-
Receivables on margin transactions	324,322	-	-	-
Receivables on collateralized securities transactions	296,076	-	-	-
Short-term guarantee deposits	91,519	-	-	-
	\$ 2,197,666	\$ 2,407	\$ 717	¥ -

March 31, 2019

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	¥ 71,228	¥ -	¥ -	¥ -	
Cash segregated as deposits for customers and others	69,278	-	-	-	
Trading assets, short-term investments and investment securities:					
Held-to-maturity debt securities:					
Government bonds	-	42	-	-	
Available-for-sale securities with maturities:					
Other	2,590	749	183	-	
Receivables on margin transactions	32,430	-	-	-	
Receivables on collateralized securities transactions	62,641	-	-	-	
Short-term guarantee deposits	4,195	-	-	-	
	¥ 242,362	¥ 791	¥ 183	¥ -	

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

March 31, 2020

Millions of yen						
	Due within one year	Due after one year throug h two years	Due after two years throug h three years	Due after three years throug h four years	Due after four years throug h five years	Due after five years
Short-term borrowings	¥ 73,411	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term borrowings	3,766	2,833	200	2,000	4,000	-
Borrowings from securities finance	3,877	-	-	-	-	-
Total	¥ 81,054	¥ 2,833	¥ 200	¥ 2,000	¥ 4,000	¥ -

Thousands of U.S. dollars						
	Due within one year	Due after one year throug h two years	Due after two years throug h three years	Due after three years throug h four years	Due after four years throug h five years	Due after five years

Short-term borrowings	\$ 674,548	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term borrowings	34,604	26,031	1,838	18,377	36,755	-
Borrowings from securities finance	<u>35,624</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$ <u>744,776</u>	\$ <u>26,031</u>	\$ <u>1,838</u>	\$ <u>18,377</u>	\$ <u>36,755</u>	\$ <u>-</u>

March 31, 2019

	Millions of yen					
	Due within one year	Due after one year throug h two years	Due after two years throug h three years	Due after three years throug h four years	Due after four years throug h five years	Due after five years
Short-term borrowings	¥ 68,907	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term borrowings	4,438	3,750	2,660	200	-	-
Borrowings from securities finance	3,161	-	-	-	-	-
Total	¥ 76,506	¥ 3,750	¥ 2,660	¥ 200	¥ -	¥ -

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

25. DERIVATIVES

Derivatives utilized for trading purposes

The contract or notional amounts and fair value of derivative financial instruments for trading purposes held at March 31, 2020 and 2019 are summarized as follows:

(1) Stocks

March 31, 2020

Millions of yen					
	Contract or notional amounts	Fair value	Valuation gain (loss)		
Stock index futures:					
Written	¥ 194	¥ 1	¥ 1		
Purchased	72	(2)	(2)		
Stock index options:					
Written	12	155	(143)		
Purchased	16	166	150		
Stock options traded over-the-counter:					
Written	-	-	-		
Purchased	-	-	-		
			¥ 6		

Thousands of U.S. dollars					
	Contract or notional amounts	Fair value	Valuation gain (loss)		
Stock index futures:					
Written	\$ 1,783	\$ 9	\$ 9		
Purchased	662	(18)	(18)		
Stock index options:					
Written	110	1,424	(1,314)		
Purchased	147	1,525	1,378		
Stock options traded over-the-counter:					
Written	-	-	-		
Purchased	-	-	-		
			\$ 55		

March 31, 2019

	Millions of yen			
	Contract or notional amounts	Fair value	Valuation gain (loss)	
Stock index futures:				
Written	¥ 902	¥ 0	¥ 0	
Purchased	1,410	0	0	
Stock index options:				
Written	7	4	3	
Purchased	19	15	(4)	
Stock options traded over-the-counter:				
Written	1	0	1	
Purchased	1	0	(1)	
			¥ (1)	

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, 2020

	Millions of yen			
	Contract or notional amounts	Fair value	Valuation gain (loss)	
Bond futures:				
Written	¥ 764	¥ 1	¥ 1	
Purchased	-	-	-	
			¥ 1	

	Thousands of U.S. dollars			
	Contract or notional amounts	Fair value	Valuation gain (loss)	
Bond futures:				
Written	\$ 7,020	\$ 9	\$ 9	
Purchased	-	-	-	
			\$ 9	

March 31, 2019

	Millions of yen			
	Contract or notional amounts	Fair value	Valuation gain (loss)	
Bond futures:				
Written	¥ 3,678	¥ (1)	¥ (1)	
Purchased	-	-	-	
			¥ (1)	

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, 2020

Millions of yen			
	Contract or notional amounts	Valuation	
		Fair value	gain (loss)
Forward foreign exchange:			
Written:			
U.S. dollars	¥ 1,288	¥ 26	¥ 26
Mexican Peso	389	0	0
Indian rupee	200	(3)	(3)
Russian ruble	158	7	7
South Africa Rand	134	7	7
Brazilian real	125	4	4
Other	276	7	7
		¥	<u>48</u>

Thousands of U.S. dollars			
	Contract or notional amounts	Valuation	
		Fair value	gain (loss)
Forward foreign exchange:			
Written:			
U.S. dollars	\$ 11,835	\$ 239	\$ 239
Mexican Peso	3,574	0	0
Indian rupee	1,838	(27)	(27)
Russian ruble	1,452	64	64
South Africa Rand	1,231	64	64
Brazilian real	1,149	37	37
Other	2,536	64	64
		\$	<u>441</u>

March 31, 2019

Millions of yen			
	Contract or notional amounts	Valuation	
		Fair value	gain (loss)
Forward foreign exchange:			
Written:			
U.S. dollars	¥ 1,580	¥ (6)	¥ (6)
Mexican Peso	490	2	2
Indian rupee	447	(3)	(3)
Australian dollar	416	(1)	(1)
Russian ruble	324	(0)	(0)
Brazilian real	257	6	6
Other	393	(0)	(0)
		¥	<u>(2)</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, 2020 and 2019 are summarized as follows:

Nature of transaction	Hedged items	Contract or notional amounts			
		Thousands of		U.S. dollars	
		Millions of yen		2020	
		2020	2019		
Interest rate swaps:					
Variable rate received for fixed rate	Long-term borrowings	¥ 2,000	¥ 6,200	\$ 18,377	

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

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

26. INVESTMENT AND RENTAL PROPERTY

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 ¥64 million (\$588 thousand) and ¥49 million for the years ended March 31, 2020 and 2019, respectively.

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

	Thousands of	
	U.S. dollars	
	2020	2019
Consolidated balance sheet amount:		
Balance at beginning of the year	¥ 5,402	¥ 5,435
Increase/(decrease)	(26)	(33)
Balance at end of the year	¥ 5,376	¥ 5,402
Fair value	¥ 8,346	¥ 8,341

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

27. BUSINESS COMBINATION

Transactions under common control

(a) Acquisition of its own shares by a consolidated subsidiary

Okasan Asset Management Co., Ltd., which is a consolidated subsidiary of the Company, acquired its own shares on July 1, 2019 from its non-controlling interests in order to enhance management governance by revising the capital structure.

In accordance with “Accounting Standard for Business Combinations” and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures”, this acquisition was accounted for as a transaction with non-controlling interests among the transactions under common control.

Okasan Asset Management Co., Ltd. acquired the shares in cash amounting to ¥4,695 million (\$43,141 thousand) and recorded increase in capital surplus of ¥2,037 million (\$18,717 thousand) because the acquisition cost of the shares was lower than the amount of decrease in non-controlling interests.

(b) Additional acquisition of the subsidiary's shares

The Company acquired the shares of Okasan Kogyo Co., Ltd., which is a consolidated subsidiary of the Company, on October 1, 2019 from its non-controlling interests in order to enhance management governance by revising the capital structure.

In accordance with "Accounting Standard for Business Combinations" and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures", this acquisition was accounted for as a transaction with non-controlling interests among the transactions under common control.

The Company acquired the shares in cash amounting to ¥4,121 million (\$37,866 thousand) and recorded increase in capital surplus of ¥4,929 million (\$45,291 thousand).

28. BALANCES AND TRANSACTIONS WITH RELATED PARTY

The Company owns directly 30% and indirectly 3% of the equity ownership in Securities Japan, Inc. at March 31, 2020.

Transactions between the Company and Securities Japan, Inc. for the year ended March 31, 2020 were summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Transactions:		
Purchases of shares of associated company	¥ 1,400	\$ 12,864

The Company's officer and the close relatives had a majority equity ownership in Santo Co., Ltd. and Tosei Co., Ltd. at March 31, 2020.

Transactions between the Company and the above two companies for the year ended March 31, 2020 were summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Transactions:		
Santo Co., Ltd.:		
Purchases of shares of associated company	¥ 3,788	\$ 34,807
Tosei Co., Ltd.:		
Purchases of shares of associated company	333	3,060

There were no related party transactions for the year ended March 31, 2019.

29. SEGMENT INFORMATION

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

"Securities business", "Asset management business" and "Support business" are the Company's reported segments.

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

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

Segment income is calculated based on operating income in the consolidated statement of income. Intersegment revenues and transfer are based on arms-length transactions.

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

The reported segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2020 and 2019 are summarized as follows:

Millions of yen								
2020								
	Reported segments				Adjustments	Consolidated		
	Securities	Asset management	Support	Total				
Operating revenues:								
Revenues from third parties	¥ 53,814	¥ 10,219	¥ 1,004	¥ 65,037	¥ 2	¥ 65,039		
Intersegment revenues	3,781	66	11,607	15,454	(15,454)	-		
Total	¥ 57,595	¥ 10,285	¥ 12,611	¥ 80,491	¥ (15,452)	¥ 65,039		
Segment income	¥ 767	¥ 818	¥ 1,180	¥ 2,765	¥ (692)	¥ 2,073		
Segment assets	¥ 395,467	¥ 16,068	¥ 27,806	¥ 439,341	¥ 1,112	¥ 440,453		
Segment liabilities	¥ 277,503	¥ 1,439	¥ 13,307	¥ 292,249	¥ (16,244)	¥ 276,005		
Others:								
Depreciation	¥ 559	¥ 35	¥ 2,436	¥ 3,030	¥ 132	¥ 3,162		
Interest and dividend income	1,988	0	-	1,988	(286)	1,702		
Interest expense	1,173	-	-	1,173	(187)	986		
Equity in gain of affiliates	2,183	-	-	2,183	-	2,183		
Impairment loss	558	-	-	558	(9)	549		
Investments in affiliates	9,222	-	-	9,222	-	9,222		
Increase in property and equipment and intangible assets	834	42	1,849	2,725	26	2,751		
Millions of yen								
2019								
	Reported segments				Adjustments	Consolidated		
	Securities	Asset management	Support	Total				
Operating revenues:								
Revenues from third parties	¥ 55,861	¥ 11,032	¥ 980	¥ 67,873	¥ 3	¥ 67,876		
Intersegment revenues	4,012	47	11,380	15,439	(15,439)	-		
Total	¥ 59,873	¥ 11,079	¥ 12,360	¥ 83,312	¥ (15,436)	¥ 67,876		
Segment income	¥ 746	¥ 948	¥ 976	¥ 2,670	¥ (830)	¥ 1,840		
Segment assets	¥ 372,511	¥ 19,828	¥ 28,298	¥ 420,637	¥ 5,063	¥ 425,700		
Segment liabilities	¥ 253,724	¥ 1,522	¥ 14,057	¥ 269,303	¥ (18,787)	¥ 250,516		
Others:								
Depreciation	¥ 586	¥ 32	¥ 2,372	¥ 2,990	¥ 108	¥ 3,098		
Interest and dividend income	1,998	0	-	1,998	(302)	1,696		
Interest expense	1,269	-	-	1,269	(197)	1,072		
Equity in gain of affiliates	51	-	-	51	-	51		
Impairment loss	111	-	11	122	-	122		

Investments in affiliates	5,127	-	-	5,127	-	5,127
Increase in property and equipment and intangible assets	504	12	2,577	3,093	41	3,134

	Thousands of U.S. dollars					
	2020					
	Reported segments					Consolidated
	Securities	Asset management	Support	Total	Adjustments	
Operating revenues:						
Revenues from third parties	\$ 494,478	\$ 93,899	\$ 9,225	\$ 597,602	\$ 18	\$ 597,620
Intersegment revenues	34,742	606	106,653	142,001	(142,001)	-
Total	\$ 529,220	\$ 94,505	\$ 115,878	\$ 739,603	\$ (141,983)	\$ 597,620
Segment income	\$ 7,048	\$ 7,516	\$ 10,843	\$ 25,407	\$ (6,359)	\$ 19,048
Segment assets	\$ 3,633,805	\$ 147,643	\$ 255,499	\$ 4,036,947	\$ 10,218	\$ 4,047,165
Segment liabilities	\$ 2,549,876	\$ 13,222	\$ 122,273	\$ 2,685,371	\$ (149,260)	\$ 2,536,111
Others:						
Depreciation	\$ 5,136	\$ 322	\$ 22,384	\$ 27,842	\$ 1,213	\$ 29,055
Interest and dividend income	18,267	0	-	18,267	(2,628)	15,639
Interest expense	10,778	-	-	10,778	(1,718)	9,060
Equity in gain of affiliates	20,059	-	-	20,059	-	20,059
Impairment loss	5,127	-	-	5,127	(82)	5,045
Investments in affiliates	84,738	-	-	84,738	-	84,738
Increase in property and equipment and intangible assets	7,663	386	16,990	25,039	239	25,278

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

	Thousands of U.S. dollars	
	Millions of yen	
	2020	2019
Elimination of intersegment	¥ 2,581	¥ 2,621
Unallocated company-wide expenses	(3,273)	(3,451)
	¥ (692)	¥ (830)

Company-wide expenses are holding company's expenses.

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

	Thousands of U.S. dollars	
	Millions of yen	
	2020	2019
Elimination of intersegment balances	¥ (30,882)	¥ (36,543)
Unallocated company-wide assets	31,994	41,606

¥	1,112	¥	5,063	\$	10,218
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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
	2020	2019	2020
Elimination of intersegment balances	¥ (31,580)	¥ (35,039)	\$ (290,177)
Unallocated company-wide liabilities	15,336	16,252	140,917
	<u>¥ (16,244)</u>	<u>¥ (18,787)</u>	<u>\$ (149,260)</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

Please see the above reported segment information.

Goodwill by reported segments

The information is not applicable for the years ended March 31, 2020 and 2019.

Negative goodwill incurred by reported segments

The Company recorded gain on negative goodwill of ¥1,866 million (\$17,146 thousand) because of the additional acquisition of the shares of Securities Japan, Inc which is the affiliate accounted for by equity method for the year ended March 31, 2020. The gain on negative goodwill is included in the equity in gain in affiliates in the accompanying consolidated statement of income.

The information is not applicable for the year ended March 31, 2019.

Independent Auditor's Report

To the Board of Directors of
Okasan Securities Group Inc.

Opinion

We have audited the consolidated financial statements of Okasan Securities Group Inc. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2020, and the consolidated statement of income, comprehensive income (loss), changes in net assets and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Recoverability of deferred tax assets	
Key audit matter	How the scope of our audit addressed the key audit matter
<p>The Company recorded the deferred tax assets of ¥3,553 million and the deferred tax liabilities of ¥5,331 million except for the deferred tax liabilities for land revaluation excess. Deferred tax assets on tax loss carryforwards of ¥320 million were recognized at March 31, 2020 as disclosed in note 11. These tax loss carryforwards were recorded by three entities in the consolidated tax filing group. The Company determined the recoverability of deferred tax assets by taking into consideration an expected future taxable income based on the future profitability of whole consolidated tax filing group.</p> <p>The Company estimated the future taxable income based on the future business plan of</p>	<p>We have verified the recoverability of the deferred tax assets for consolidated tax filing group by employing the following audit procedures.</p> <p>We have examined the balance of temporary differences and tax loss carryforwards for consolidated tax filing group by engaging a tax professional and the schedule for resolving of them.</p> <p>In order to evaluate the estimation of the future taxable income made by management, we have examined the future business plan which is a basis for the future taxable income. When examining the future business plan, we have verified the consistency with the approved revenue and expenditure plan of each entity in</p>

<p>whole consolidated tax filing group. We have determined the recoverability of deferred tax assets as a key audit matter because the significant assumptions made by management have high uncertainty due to being easily affected by external factors such as market trends and economic conditions not only in Japan but also globally because of the nature of financial instruments business.</p>	<p>the consolidated tax filing group and have evaluated the accuracy of the estimation based on the level of achievement of business plan for previous considerable years.</p> <p>In order to ascertain the reasonableness of the external factors such as market trends and economic conditions which are significant underlying assumptions for a future taxable income, we have discussed with the management of the Company and its core securities subsidiary and have compared with available external information.</p> <p>In order to ascertain the reasonableness of the future business plan of each entity in the consolidated tax filing group, we have examined the evaluation for the uncertainty reflecting the risk specific to the financial instruments business which is made by management.</p>
2. Reasonableness for calculation of negative goodwill	
Key audit matter	How the scope of our audit addressed the key audit matter
<p>The Company recorded the gain on negative goodwill of ¥1,866 million which is included in the equity in gain in affiliates for the year ended March 31, 2020 as disclosed in note 30.</p> <p>The gain on negative goodwill was recorded when the Company additionally acquired the shares of Securities Japan, Inc., an affiliated company of the Company is accounted for by the equity method on October 1, 2019 which was used as the base date.</p> <p>When it is expected that a negative goodwill will arise, the acquired company should examine whether all identifiable assets and liabilities are identified and should review whether the acquisition cost is allocated reasonably. But when the acquisition cost is still lower than the amount allocated to the assets and liabilities after the examination, the difference is recorded as negative goodwill.</p> <p>We have determined the reasonableness of calculation of negative goodwill as a key audit matter because the amount of the gain on negative goodwill is significant.</p>	<p>We have verified the reasonableness of calculation of negative goodwill by employing the following audit procedures.</p> <p>We have examined that this additional share acquisition was based on the rational reason by interviewing the management of the Company and the executive officers of Securities Japan, Inc.</p> <p>We have examined the rationality of a calculation method for the acquisition cost by checking the suitability and ability of the specialized department for calculating the acquisition cost.</p> <p>We have audited the financial statements of Securities Japan, Inc. at the base date of the additional share acquisition and have compared the audited assets and liabilities with the assets and liabilities identified by management. We have also ascertained whether there will be costs or losses relating to certain matters which expect to happen after the acquisition.</p> <p>We have verified the accuracy of the calculation sheet of the negative goodwill.</p>

Responsibilities of Management, the Audit and Supervisory Board and its Members

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern using the going concern basis of accounting, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

The Audit and Supervisory Board and its Members are responsible for overseeing the execution of the duties of Directors related to designing and operating the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The audit procedures shall be selected and applied as determined by the auditor. In addition, sufficient and appropriate audit evidence shall be obtained to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosure of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Board and its Members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Board and its Members with a statement that we have complied with relevant ethical requirements regarding independence in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Supervisory Board and its Members, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience Translation

Our audit 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.

Crowe Toyo & Co.
Tokyo, Japan
June 29, 2020

Crowe Toyo & Co.

REFERENCE DATA

Okasan Securities Co., Ltd. Balance Sheet — March 31, 2020

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
ASSETS			
Current assets:			
Cash on hand and in banks	¥ 24,701	¥ 20,543	\$ 226,969
Cash segregated as deposits for customers and others	52,557	32,379	482,928
Trading assets	122,353	92,709	1,124,258
Receivables arising from unsettled trades	-	8,870	-
Receivables on margin transactions	27,718	27,989	254,691
Receivables on collateralized securities transactions	32,222	62,641	296,076
Short-term guarantee deposits	7,990	3,184	73,417
Other current assets	3,220	3,980	29,587
Allowance for doubtful accounts	(0)	(11)	(0)
Total current assets	270,761	252,284	2,487,926
Property and equipment, net of accumulated depreciation	2,508	2,920	23,045
Intangible assets, net	387	447	3,556
Investments and other assets:			
Investment securities	769	761	7,066
Securities in associated companies	211	211	1,939
Long-term guarantee deposits	5,102	3,670	46,881
Deferred income taxes	1,856	1,793	17,054
Prepaid pension cost	1,002	888	9,207
Other	1,045	1,034	9,602
Allowance for doubtful accounts	(684)	(686)	(6,285)
Total investments and other assets	9,301	7,671	85,464
TOTAL	¥ 282,957	¥ 263,322	\$ 2,599,991

Okasan Securities Co., Ltd.
Balance Sheet—(Continued) — March 31, 2020

	Millions of yen		Thousands of U.S. dollar
	2020	2019	2020
LIABILITIES AND NET ASSETS			
Current liabilities:			
Trading liabilities	¥ 66,531	¥ 64,542	\$ 611,330
Payables arising from unsettled trades	5,024	-	46,164
Payables on margin transactions	12,851	11,097	118,083
Payables on collateralized securities transactions	3,000	-	27,566
Deposits received	28,005	28,511	257,328
Guarantee deposits received	8,333	6,647	76,569
Short-term borrowings	59,515	59,815	546,862
Income tax payables	409	12	3,758
Other current liabilities	8,591	4,041	78,939
Total current liabilities	192,259	174,665	1,766,599
Non-current liabilities:			
Long-term borrowings	6,000	700	55,132
Liability for retirement benefits	5,238	5,131	48,130
Other non-current liabilities	1,780	1,536	16,356
Total non-current liabilities	13,018	7,367	119,618
Financial instruments transactions reserve	836	837	7,682
Total liabilities	206,113	182,869	1,893,899
Net assets			
Shareholder's equity:			
Common stock			
Authorized—240,000 shares			
Issued—100,000 shares in 2020 and 2019	5,000	5,000	45,943
Capital surplus	29,200	29,200	268,309
Retained earnings	42,647	46,248	391,868
Total shareholder's equity	76,847	80,448	706,120
Accumulated other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities	(3)	5	(28)
Total net assets	76,844	80,453	706,092
TOTAL	¥ 282,957	¥ 263,322	\$ 2,599,991

Okasan Securities Co., Ltd.
Statement of Income — Year ended March 31, 2020

	Millions of yen		Thousands of U.S. dollar
	2020	2019	2020
Operating revenues:			
Commissions	¥ 26,108	¥ 28,612	\$ 239,897
Net gain on trading	22,053	22,002	202,637
Interest and dividend income	1,210	1,189	11,119
	49,371	51,803	453,653
Interest expense	827	957	7,599
Net operating revenues	48,544	50,846	446,054
Selling, general and administrative expenses	47,231	49,216	433,989
Operating income	1,313	1,630	12,065
Other income (expenses):			
Impairment loss	(503)	-	(4,622)
Reversal of (provision for) financial instruments transactions reserve	-	10	-
Other, net	314	189	2,885
	(189)	199	(1,737)
Income before income taxes	1,124	1,829	10,328
Income taxes:			
Current	784	362	7,204
Deferred	(59)	374	(542)
	725	736	6,662
Net income	¥ 399	¥ 1,093	\$ 3,666

CORPORATE DATA

(At August, 2020)

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

11 companies

Listed Stock Exchanges

Tokyo Stock Exchange
Nagoya Stock Exchange

BOARD OF DIRECTORS

(At August, 2020)

Chairman

KATO Tetsuo

President

SHINSHIBA Hiroyuki

Vice Chairman

SHINDO Hiroyuki

Director

TANAKA Mitsuru

Director

IKEDA Yoshihiro

Director

EGOSHI Makoto

Audit & Supervisory Committee Members

Outside Director

HIGO Seishi

Outside Director

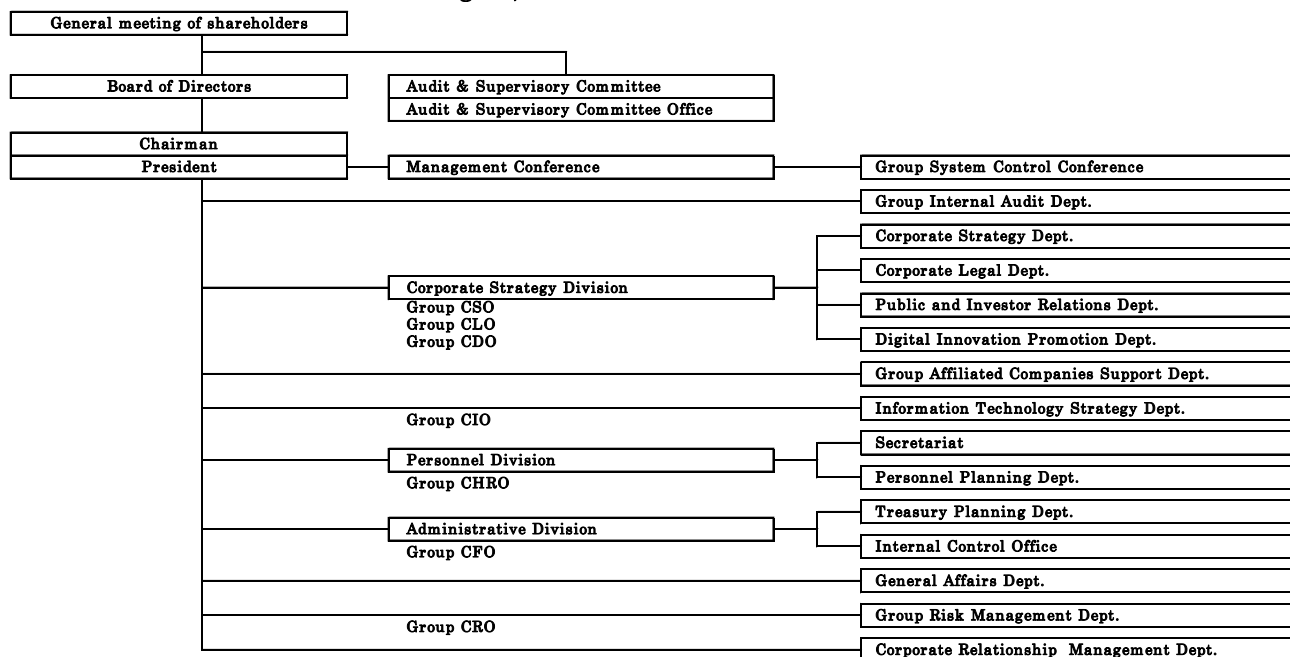
KONO Hirokazu

Outside Director

NAGAI Mikito

ORGANIZATIONAL CHART

(At August, 2020)



OKASAN SECURITIES GROUP INC.

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