

## ***ANNUAL REPORT***

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For Fiscal Year Ended March 31, 2021

OKASAN SECURITIES GROUP INC.



## *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 eleven domestic companies and one overseas company. Okasan Securities Co., Ltd. serves as the leader of seven 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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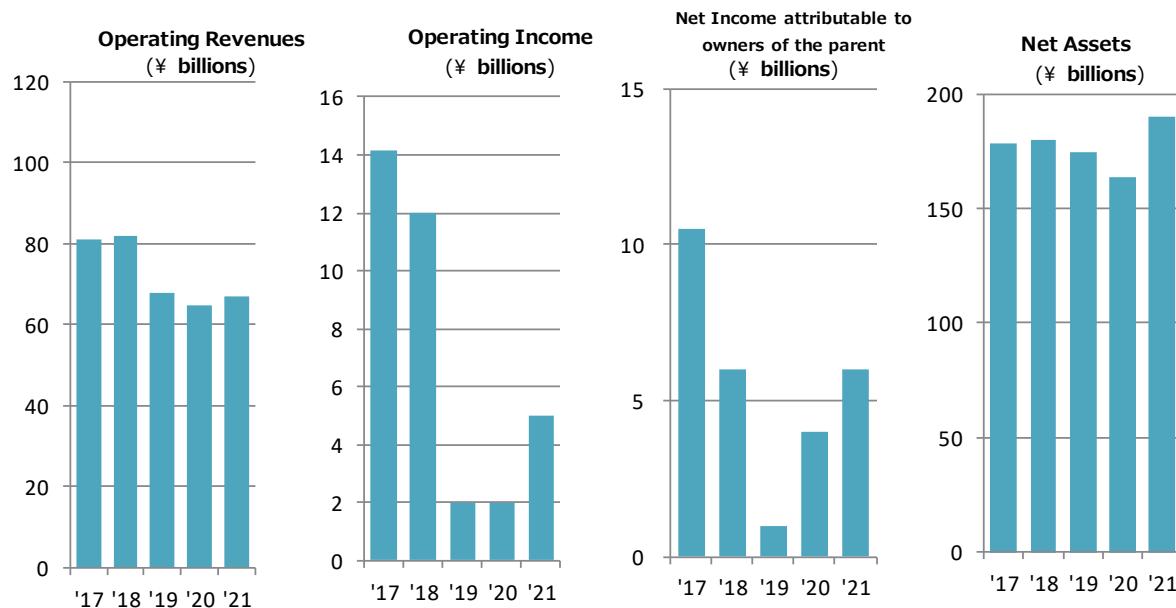
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## Consolidated Financial Highlights

Okasan Securities Group Inc. and Consolidated Subsidiaries Years ended March 31, 2020 and 2021

	Millions of yen	Thousands of U.S.dollars(note)	
	2021 (4/1/20~3/31/21)	2020 (4/1/19~3/31/20)	2021 (4/1/20~3/31/21)
Operating revenues .....	¥67,260	¥65,039	\$607,533
Operating income .....	5,106	2,073	46,120
Net income attributable to owners of the parent .....	6,017	3,627	54,349
Total assets .....	783,440	440,453	7,076,506
Net assets .....	190,304	164,448	1,718,941
Per share of common stock			
	Yen	U.S.dollars(note)	
Basic net income .....	¥ 30.42	¥ 18.32	\$ 0.27
Cash dividends applicable to the year..	15.00	10.00	0.14

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, 2021, which was ¥110.71 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 accelerate business model reforms to establish systems that assure continuing growth based on the trust of its customers well beyond the April 2023 centennial of its founding. In the medium-term management plan launched in April 2020, we set several basic policies: providing customer-first service; creating shared value; and working on digitalization. These policies are intended to respond to growing diversification in customer needs and growing business opportunities. Focusing on retail business, we will pursue reforms in various spheres, including wholesale business and business alliances, and work to increase corporate value.

In this first year of the plan, Okasan Securities Co., Ltd, the Group's core company, worked to improve the customer experience (CX) through various measures, including branch office strategies and team-based sales to expand contact points with customers, and extending Contact Center functions. It also drew on digital tools such as smartphones and tablets and renewed online trading systems. We have also worked on strengthening our alliances by acquiring additional shares in Securities Japan, Inc. and making it one of our subsidiaries and by taking over certain businesses and accounts from other securities companies. Moreover, we have promoted digitalization initiatives, including data-based marketing and introducing remote work environments. The Group will continue to reform its business model based on the medium-term management plan.

## 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**

The COVID-19 pandemic has significantly altered values and behaviors in various ways, shaking social structures or norms to their foundations. In particular, the trend toward digitization has accelerated still further. In recent years, against the backdrop of excessive focus on short-term profits, widening inequality, and environmental issues, we have seen the growth of stakeholder capitalism—capitalism that serves the interests of all stakeholders including employees, customers, and society—and a shift to recognize the growing importance of sustainability and measures that seek to create value based on medium- to long-term perspectives. Of these historical paradigm shifts, we regard the pandemic, which highlighted inequalities and divisions, as a symbol of a turning point in the times.

For the securities business in Japan, cash and deposits still account for the majority of personal financial assets. The movement from savings to asset building has been slow. However, the number of individual investors is growing, driven by shortfalls in retirement funds and institutional reforms.

Investing in securities has emerged as a clear trend, particularly among the younger generation. We expect new investors and new funds to stream into the securities market. We believe the securities business offers high growth potential in the medium to long term. Driven by downward pressure on commissions and new participants from other industries, the ideal shape of the business model is changing dramatically. Nevertheless, opportunities for expansion and growth are also increasing. We must be capable of responding to change.

Under our current medium-term management plan, we plan to implement various measures to gauge and meet the diversifying needs of our customers and to reliably capture business opportunities. We will integrate Okasan Securities Co., Ltd. and Okasan Online Securities Co., Ltd. which bring with them strengths in the face-to-face markets and online markets, respectively, thereby expanding contact points with our customers and strengthening our services in innovative ways. In addition, led by Securities Japan, Inc., which became our subsidiary in March this year, the group will engage in the IFA and other businesses that are expected to grow and expand.

As a professional securities firm, we believe our mission is to provide added value in asset management to our customers and our purpose is to contribute to the sustainability of society. To establish systems that will allow us to continue to grow and to earn the trust of our customers well beyond the approaching centennial of our founding, we will accelerate reforms and strive to achieve sustainable improvements in corporate value.

## **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 eight 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 ten 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, 2021**

#### **I . Financial conditions and operating results**

The Japanese economy declined sharply due to the impact of the COVID-19 pandemic at first, but has since returned to a recovery track, due primarily to monetary and fiscal policies. While the year-on-year decline has shrunk, growth in production and exports has been sluggish, reflecting factors such as global semiconductor shortages. Recovery of personal consumption has exhibited mixed signs. Supermarket sales have been strong due to more time spent at home, while department store sales have remained sluggish.

Under these circumstances, the stock market has trended up throughout the fiscal year. The Nikkei Stock Average, which fluctuated around 18,000 yen since early April due to pandemic uncertainty, recovered to the 20,000yen level by the end of April. The improvement was supported by various factors, including fiscal stimulus measures instituted by governments in various countries and large-scale monetary packages by major central banks. Thereafter, the situation remained stagnant through the summer. Markets climbed further with the resumption of economic activity in certain major countries, expectations for the new Suga administration, and the outcome of the US presidential election in November. At the start of 2021, stock markets around the world achieved a series of highs, based on final election results for the US Senate and growing expectations of large-scale fiscal stimulus measures. The Nikkei Stock Average reached 30,714.52 yen in February, a 30-year high, and closed trading for the fiscal year at 29,178.80 yen. In the foreign exchange market, the yen strengthened against the US dollar due to the implementation of strong monetary easing policies in the US and a narrowing gap between interest rates in Japan and the US, trading temporarily at 102 yen per dollar level at the beginning of the year 2021. However, the yen rapidly weakened against the US dollar thereafter, reflecting expectations of a steep economic recovery due to progress with vaccinations in the US and the announcement of a large-scale infrastructure investment plan. Additionally, the gap in interest rates between Japan and the US widened due to the rise in US long-term interest rates. The yen closed the fiscal year at 110 per dollar level.

Under these circumstances, our group companies maintained sales activities while taking steps to ensure the health and safety of our customers and employees amid the continuing effects of COVID-19.

Our core subsidiary, Okasan Securities Co., Ltd., has worked hard to provide a customer-first service based on the new medium-term management plan launched in April 2020. Through various measures, we worked to improve the customer experience (CX). These included branch office strategies and team-based sales to expand contact points with our customers, extending Contact Center functions, and efforts to apply digital tools, including smartphones and tablets, while renewing online trading systems. Okasan Online Securities Co., Ltd., which mainly provides internet trading services, significantly revised commissions for Japanese stocks in November, making transactions involving Japanese stocks free for trades up to a daily maximum of 2 million yen in transaction amounts, as well as expanding the sales infrastructure for exchange-traded FX and CFD. The number of active accounts reached a record high, due mainly to active trading by individual investors. In addition, we decided to merge this company with Okasan Securities Co., Ltd. by around January 2022. Okasan Asset Management Co., Ltd. focused on improving investment performance based on analyses of the economic environment and stronger research, and growing assets under management by providing customers with easy-to-understand and timely information through sales companies. With regard to products, the net asset balance increased in public investment trusts such as the newly-launched PIMCO Dynamic Multi-Asset Strategy Fund (Asset Growth Type) / (Biannual Settlement Type) (nickname: World Meister) and World REIT Selection (Asia).

In addition, we have focused on expanding our alliances. In March, our Group acquired additional shares of Securities Japan, Inc. and made the company a subsidiary. Okasan Niigata Securities Co., Ltd. has taken over part of the business related to the branches of Nissan Securities Co., Ltd. in Niigata Prefecture, while Okasan Online Securities Co., Ltd. has assumed control of accounts for exchange-traded CFDs from other securities companies.

## **II. Financial standing**

Total assets at the end of the consolidated fiscal year under review stood at ¥783,440 million, up ¥342,987 million from the end of the previous consolidated fiscal year. Total liabilities at the end of the consolidated fiscal year under review stood at ¥593,136 million, up ¥317,131 million from the end of the previous consolidated fiscal year. Net assets at the end of the consolidated fiscal year under review stood at ¥190,304 million, up ¥25,856 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 ¥783,440 million, up ¥342,987 million from the end of the previous consolidated fiscal year. This was due mainly to increases of ¥191,140 million in receivables on collateralized securities transactions, ¥89,045 million in trading assets, and ¥31,496 million in receivables on margin transactions.

### **2. Total liabilities**

Total liabilities at the end of the consolidated fiscal year under review stood at ¥593,136 million, up ¥317,131 million from the end of the previous consolidated fiscal year. This was due mainly to increases of ¥90,251 million in trading liabilities, ¥87,770 million in payables arising from unsettled trades, ¥46,822 million in payables on collateralized securities transactions, ¥46,382 million in short-term borrowings, and ¥27,414 million in deposits received.

### **3. Net assets**

Net assets at the end of the consolidated fiscal year under review stood at ¥190,304 million, up ¥25,856 million from the end of the previous consolidated fiscal year. This was due mainly to increases of ¥13,674 million in non-controlling interests, ¥6,748 million in unrealized gain on available-for-sale securities, and ¥4,041 million in retained earnings.

## **III. Business results**

Group operating revenues in the consolidated fiscal year under review were ¥67,260 million (103.4% of the figure for the previous year); net operating revenues were ¥66,109 million (103.2% of the figure for the previous year). SG&A expenses were ¥61,003 million (98.4 % of the figure for the previous year); operating income was ¥5,106 million (246.3% of the figure for the previous year); and net income attributable to owners of the parent was ¥6,017 million (165.9% of the figure for the previous year).

### **1. Fees and commissions received**

Fees and commissions received totaled ¥43,851 million (110.4% 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 1,897 million shares (110.9% of the figure for the previous year), while turnover was ¥3,129.3 billion (112.4% of the figure for the previous year). In this environment, brokerage trading value of both domestic and foreign stock increased year-on-year in Okasan Securities Co., Ltd., our core subsidiary. Consequently, equity brokerage commissions were ¥21,895 million (152.7% of the figure for the previous year). Bond brokerage commissions were ¥12 million (77.5 times the figure for the

previous year). Other brokerage commissions amounted to ¥670 million (112.4% of the figure for the previous year). Total brokerage commissions were ¥22,577 million (151.2% 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, value of underwriting increased year-on-year thanks to factors including our role as lead underwriter as well as major IPO handlings. In the realm of bond underwriting, value of underwriting fell due to decrease of involvement in the large underwriting of corporate bonds targeting individual investors.

The resulting commissions on equity were ¥275 million (180.9% of the figure for the previous year). Commissions on bonds totaled ¥160 million (68.7% 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 ¥435 million (112.7% 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.

Driven by favorable market conditions, sales of publicly offered investment trusts in the second half of the consolidated fiscal year under review have trended toward recovery. However, sales declined from the previous fiscal year due to uncertainties generated by the pandemic. Sales increased for funds that invest in technology and health care, which are expected to grow under the new lifestyle emerged during the pandemic, and for balanced funds, which are designed to control and diversify investment risks. On the other hand, sales declined for funds that invest in high-dividend stocks, foreign bonds, and other items expected to generate relatively high returns.

As a result, administrative charges on offering, selling, and solicitation for sales of financial instruments to specified investors totaled ¥6,937 million (71.2% of the figure for the previous year). Other fees and commissions received, related mainly to investment trusts, amounted to ¥13,902 million (94.7% of the figure for the previous year).

Fees and commissions received (¥ billions)	Fees and commissions received		
	Breakdown by category		(Millions of yen except percentage)
	2021<A> (4/1/20~3/31/21)	2020<B> (4/1/19~3/31/20)	Ratio <A>/<B>
Brokerage commissions	¥22,577	¥14,933	151.2
Equities	21,895	14,337	152.7
Bonds	12	0	* -
Others	670	596	112.4
Underwriting fees and selling concessions	435	385	112.7
Equities	275	152	180.9
Bonds	160	233	68.7
Placement commissions	6,937	9,739	71.2
Other commissions	13,902	14,676	94.7
Total	43,851	39,733	110.4

\* The rate is shown as “-” when the ratio exceeds 1000%.

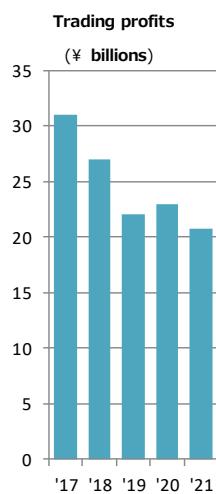
	Breakdown by product		(Millions of yen except percentage)
	2021<A>	2020<B>	Ratio
	(4/1/20～3/31/21)	(4/1/19～3/31/20)	<A>/<B>
Equities	¥22,422	¥14,765	151.9
Bonds	272	487	55.9
Investment trusts	19,656	23,078	85.2
Others	1,501	1,403	107.1
Total	43,851	39,733	110.4

## 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.

In the consolidated fiscal year under review, while domestic over-the-counter trading of foreign equities grew from the previous fiscal year, sales of foreign bonds declined from the previous fiscal year, when sales of ESG bonds for individual investors were stronger.

Consequently, total profits on equity trading were ¥13,126 million (124.9% of the figure for the previous year). Total bond trading profits were ¥7,883 million (65.7% of the figure for the previous year). Total trading profits, including loss from other trading of ¥241 million (compared to profits of ¥183 million in the previous year), were ¥20,768 million (91.5% of the figure for the previous year).



	Trading profits			(Millions of yen except percentage)
	2021<A>	2020<B>	Ratio	
	(4/1/20～3/31/21)	(4/1/19～3/31/20)	<A>/<B>	
Equities	¥13,126	¥10,507	124.9	
Bonds	7,883	12,007	65.7	
Others	-241	183	-	
Total	20,768	22,697	91.5	

## 3.Net financial income

Financial income amounted to ¥1,723 million (101.2% of the figure for the previous year). Financial expenses stood at ¥1,151 million (116.7% of the figure for the previous year). Net financial income—i.e., the difference between financial income and financial expenses—was ¥572 million (79.9% 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 ¥918 million (101.2% of the figure for the previous year).

## **5.Selling, general, and administrative expenses**

Due to lower expenses, including trading-related expenses and personnel expenses, selling, general, and administrative expenses were ¥61,003 million (98.4% of the figure for the previous year).

## **6.Other income (expenses)**

Other income amounted to ¥3,068 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 ¥15 per share.

## **IV. Cash flows**

Cash and deposits (“cash” hereafter) at the end of the consolidated fiscal year was down ¥1,249 million from the end of the previous fiscal year to ¥62,518 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 used in operating activities were ¥40,941 million, attributable mainly to the difference between cash inflows from a change of ¥89,016 million in trading assets and trading liabilities as well as a change of ¥16,932 million in deposits received and cash outflows from a change of ¥145,001 million in receivables on collateralized securities transactions and payables on collateralized securities transactions.

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

Cash used in investment activities amounted to ¥3,717 million, due mainly to the cash outflows of ¥2,088 million on the acquisition of investment securities and ¥2,050 million on the acquisition of intangible fixed assets.

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

Cash provided by financing activities amounted to ¥42,604 million, due mainly to the difference between cash inflows from a net change in short-term borrowings of ¥44,970 million and cash outflows of ¥1,975 million on dividend payments.

**Okasan Securities Group Inc. and Consolidated Subsidiaries**  
**Consolidated Balance Sheet — March 31, 2021**

				Thousands of U.S. dollars (note 3)
	Millions of yen			
	2021	2020	2021	
<b>ASSETS</b>				
Current assets:				
Cash on hand and in banks (notes 10 and 22)	¥ 69,014	¥ 70,538	\$ 623,376	
Cash segregated as deposits for customers and others	96,687	88,160	873,336	
Trading assets (notes 4 and 10)	212,318	123,273	1,917,785	
Receivables on margin transactions (note 5)	66,792	35,296	603,306	
Receivables on collateralized securities transactions (note 6)	223,362	32,222	2,017,541	
Short-term investments (note 7)	2,510	2,996	22,672	
Other current assets	18,335	16,246	165,613	
Allowance for doubtful accounts	(0)	(0)	(0)	
 Total current assets	 689,018	 368,731	 6,223,629	
Property and equipment, net of accumulated depreciation of ¥17,391 million (\$157,086 thousand) in 2021 and ¥15,965 million in 2020 (note 10)	18,355	18,379	165,793	
Intangible assets, net	4,624	6,027	41,767	
Investments and other assets:				
Investment securities (notes 7, 8 and 10)	63,680	39,909	575,196	
Long-term guarantee deposits	4,279	3,867	38,651	
Asset for retirement benefits (note 12)	2,608	1,236	23,557	
Deferred income taxes (note 11)	64	1,459	578	
Other	2,322	2,356	20,974	
Allowance for doubtful accounts	(1,510)	(1,511)	(13,639)	
 Total investments and other assets	 71,443	 47,316	 645,317	
 <b>TOTAL</b>	 ¥ 783,440	 ¥ 440,453	 \$ 7,076,506	

See accompanying notes to consolidated financial statements.

**Okasan Securities Group Inc. and Consolidated Subsidiaries**  
**Consolidated Balance Sheet—(Continued) — March 31, 2021**

	Thousands of U.S. dollars (note 3)		
	Millions of yen		
	2021	2020	2021
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities:			
Trading liabilities (note 4)	¥ 157,593	¥ 67,342	\$ 1,423,476
Payables arising from unsettled trades	92,677	4,907	837,115
Payables on margin transactions (notes 5 and 10)	18,442	15,375	166,579
Payables on collateralized securities transactions (note 6)	50,003	3,182	451,658
Deposits received	67,300	39,886	607,895
Guarantee deposits received	42,199	32,343	381,167
Short-term borrowings (notes 9 and 10)	123,559	77,177	1,116,060
Income tax payables (note 11)	1,207	919	10,902
Other current liabilities (notes 9 and 13)	7,395	10,128	66,796
Total current liabilities	560,375	251,259	5,061,648
Non-current liabilities:			
Long-term borrowings (notes 9 and 10)	9,900	9,033	89,423
Lease liabilities (note 9)	808	931	7,298
Deferred income taxes (note 11)	11,886	4,694	107,362
Liability for retirement benefits (note 12)	6,669	6,420	60,238
Other non-current liabilities (note 13)	2,260	2,461	20,414
Total non-current liabilities	31,523	23,539	284,735
Financial instruments transactions reserve (note 14)	1,238	1,207	11,182
Total liabilities	593,136	276,005	5,357,565
Net assets			
Shareholders' equity (note 15):			
Common stock			
Authorized—750,000,000 shares:			
issued—208,214,969 shares in 2021 and 2020	18,590	18,590	167,916
Capital surplus	23,841	23,622	215,346
Retained earnings	113,878	109,837	1,028,615
Treasury stock, at cost, 10,382,959 shares in 2021 and 10,426,386 shares in 2020	(3,796)	(3,814)	(34,288)
Total shareholders' equity	152,513	148,235	1,377,589
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities (note 7)	13,739	6,991	124,099
Surplus on land revaluation (note 17)	401	401	3,622
Foreign currency translation adjustments	114	62	1,030
Remeasurements of defined benefit plans	1,166	125	10,532
Total accumulated other comprehensive income	15,420	7,579	139,283
Stock acquisition rights (note 16)	422	359	3,812
Non-controlling interests	21,949	8,275	198,257
Total net assets	190,304	164,448	1,718,941
TOTAL	¥ 783,440	¥ 440,453	\$ 7,076,506

See accompanying notes to consolidated financial statements.

**Okasan Securities Group Inc. and Consolidated Subsidiaries**  
**Consolidated Statement of Income — Year ended March 31, 2021**

	Thousands of U.S. dollars (note 3)		
	Millions of yen		
	2021	2020	2021
<b>Operating revenues:</b>			
Commissions	¥ 43,851	¥ 39,733	\$ 396,089
Net gain on trading	20,768	22,697	187,589
Interest and dividend income	1,723	1,702	15,563
Service fee and other revenues	918	907	8,292
	67,260	65,039	607,533
Interest expense	1,151	986	10,397
Net operating revenues	66,109	64,053	597,136
Selling, general and administrative expenses (note 18)	61,003	61,980	551,016
Operating income	5,106	2,073	46,120
<b>Other income (expenses):</b>			
Dividend income	1,062	1,037	9,593
Exchange gain	299	157	2,701
Gain on sale of investment securities	68	1,653	614
Equity in gain of affiliates	874	2,183	7,894
Interest expense	(44)	(49)	(397)
Loss on sale and disposal of property and equipment and intangible assets	(16)	(21)	(145)
Loss on sale of investment securities	(36)	(34)	(325)
Reversal of financial instruments transactions reserve	44	9	397
Impairment loss (note 19)	(1,811)	(549)	(16,358)
Loss on devaluation of investment securities	(233)	(313)	(2,105)
Compensation expenses	(37)	-	(334)
Gain on bargain purchase	7,109	-	64,213
Loss on step acquisitions	(4,394)	-	(39,689)
Other, net	183	108	1,653
	3,068	4,181	27,712
Income before income taxes and non-controlling interests	8,174	6,254	73,832
<b>Income taxes (note 11):</b>			
Current	1,613	1,305	14,570
Deferred	224	860	2,023
	1,837	2,165	16,593
Net income	6,337	4,089	57,239
Net income attributable to non-controlling interests	320	462	2,890
Net income attributable to owners of the parent	¥ 6,017	¥ 3,627	\$ 54,349

See accompanying notes to consolidated financial statements.

**Okasan Securities Group Inc. and Consolidated Subsidiaries**  
**Consolidated Statement of Comprehensive Income — Year ended March 31, 2021**

	Millions of yen		Thousands of U.S. dollars (note 3)	
	2021	2020	2021	
Net income	¥ 6,337	¥ 4,089	\$ 57,239	
<b>Other comprehensive income (loss) (note 20):</b>				
Unrealized gain (loss) on available-for-sale securities	7,149	(2,857)	64,574	
Foreign currency translation adjustments	52	(27)	470	
Remeasurements of defined benefit plans	1,045	19	9,439	
Share of other comprehensive gain (loss) of affiliates accounted for by equity method	239	(207)	2,159	
Total other comprehensive income (loss)	8,485	(3,072)	76,642	
Comprehensive income	¥ 14,822	¥ 1,017	\$ 133,881	
<b>Comprehensive income attributable to:</b>				
Owners of the parent	¥ 13,858	¥ 774	\$ 125,174	
Non-controlling interests	964	243	8,707	

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, 2021**

	Millions of yen							
	Shareholders' equity							
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity			
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	—	7,156	671	(132)		7,695		
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		
Changes arising during the year:								
Cash dividends			(1,975)			(1,975)		
Net income attributable to owners of the parent			6,017			6,017		
Purchase of treasury stock				(1)		(1)		
Disposition of treasury stock		3	(1)		20		22	
Changes in equity resulting from transactions with non- controlling interests		216			(1)		215	
Net changes other than shareholders' equity	—	219	4,041	18		4,278		
Total changes during the year	—	219	4,041	18		4,278		
Balances at March 31, 2021	¥ 18,590	¥ 23,841	¥ 113,878	¥ (3,796)	¥	¥ 152,513		

	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, 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	<u>(2,842)</u>	<u>-</u>	<u>(27)</u>	<u>16</u>	<u>(2,853)</u>	<u>48</u>	<u>(15,626)</u>	<u>(10,736)</u>
Balances at March 31, 2020	6,991	401	62	125	7,579	359	8,275	164,448
Changes arising during the year:								
Cash dividends								(1,975)
Net income attributable to owners of the parent								6,017
Purchase of treasury stock								(1)
Disposition of treasury stock								22
Changes in equity resulting from transactions with non-controlling interests								215
Net changes other than shareholders' equity	6,748	-	52	1,041	7,841	63	13,674	21,578
Total changes during the year	<u>6,748</u>	<u>-</u>	<u>52</u>	<u>1,041</u>	<u>7,841</u>	<u>63</u>	<u>13,674</u>	<u>25,856</u>
Balances at March 31, 2021	¥ 13,739	¥ 401	¥ 114	¥ 1,166	¥ 15,420	¥ 422	¥ 21,949	¥ 190,304

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, 2020	\$ 167,916	\$ 213,368	\$ 992,114	\$ (34,450)	\$ 1,338,948	
Changes arising during the year:						
Cash dividends				(17,839)		(17,839)
Net income attributable to owners of the parent				54,349		54,349
Purchase of treasury stock					(9)	(9)
Disposition of treasury stock		27	(9)		180	198
Changes in equity resulting from transactions with non-controlling interests		1,951			(9)	1,942
Net changes other than shareholders' equity						
Total changes during the year	\$ -	\$ 1,978	\$ 36,501	\$ 162	\$ 38,641	
Balances at March 31, 2021	\$ 167,916	\$ 215,346	\$ 1,028,615	\$ (34,288)	\$ 1,377,589	

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	Remeasurements of defined benefit plans	Other comprehensive income	Stock acquisition rights	Non-controlling interests	Total net assets
Balances at March 31, 2020	\$ 63,147	\$ 3,622	\$ 560	\$ 1,129	\$ 68,458	\$ 3,243	\$ 74,745	\$ 1,485,394
Changes arising during the year:								
Cash dividends								(17,839)
Net income attributable to owners of the parent								54,349
Purchase of treasury stock								(9)
Disposition of treasury stock								198
Changes in equity resulting from transactions with non-controlling interests								1,942
Net changes other than shareholders' equity	60,952	\$ -	470	9,403	70,825	569	123,512	194,906
Total changes during the year	60,952	\$ -	470	9,403	70,825	569	123,512	233,547
Balances at March 31, 2021	\$ 124,099	\$ 3,622	\$ 1,030	\$ 10,532	\$ 139,283	\$ 3,812	\$ 198,257	\$ 1,718,941

See accompanying notes to consolidated financial statements.

**Okasan Securities Group Inc. and Consolidated Subsidiaries**  
**Consolidated Statement of Cash Flows — Year ended March 31, 2021**

				Thousands of U.S. dollars (note 3)
	Millions of yen		2021	
	2021	2020	2021	
<b>Cash flows from operating activities:</b>				
Income before income taxes and non-controlling interests	¥ 8,174	¥ 6,254	\$ 73,832	
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by (used in) operating activities:				
Depreciation and amortization	3,189	3,162	28,805	
Impairment loss	1,811	549	16,358	
Interest and dividend income	(2,790)	(2,750)	(25,201)	
Interest expense	1,195	1,035	10,794	
Gain on sale of investment securities	(39)	(1,642)	(352)	
Loss on devaluation of investment securities	233	313	2,105	
Decrease (increase) in deposits segregated for customer	4,400	(19,650)	39,743	
Decrease (increase) in trading assets and increase (decrease) in trading liabilities	89,016	(13,731)	804,047	
Decrease (increase) in receivables on margin transactions and increase (decrease) in payables on margin transactions	(15,321)	(270)	(138,389)	
Decrease (increase) in receivables on collateralized securities transactions and increase (decrease) in payables on collateralized securities transactions	(145,001)	33,509	(1,309,737)	
Increase (decrease) in deposits received	16,932	441	152,940	
Decrease (increase) in short-term guarantee deposits	(626)	(5,765)	(5,654)	
Increase (decrease) in guarantee deposits received	6,106	2,265	55,153	
Increase (decrease) in allowance for doubtful accounts	(1)	(23)	(9)	
Decrease (increase) in assets for retirement benefits and increase (decrease) in liabilities for retirement benefits	(1,270)	(2)	(11,471)	
Increase (decrease) in financial instruments transactions reserve	(44)	(9)	(398)	
Foreign exchange gain	(742)	-	(6,702)	
Gain on bargain purchase	(7,109)	-	(64,213)	
Loss on step acquisitions	4,394	-	39,689	
Other, net	<u>(3,781)</u>	<u>2,396</u>	<u>(34,152)</u>	
Sub-total	(41,274)	6,082	(372,812)	
Interest and dividend received	2,679	2,782	24,198	
Interest paid	(1,174)	(1,038)	(10,604)	
Income taxes paid (refunded)	(1,172)	628	(10,586)	
Net cash provided by (used in) operating activities	<u>(40,941)</u>	<u>8,454</u>	<u>(369,804)</u>	
<b>Cash flows from investing activities:</b>				
Payment for purchase of property and equipment	(805)	(368)	(7,271)	
Payment for purchase of intangible assets	(2,050)	(1,797)	(18,517)	
Payment for purchase of investment securities	(2,088)	(3,426)	(18,860)	
Proceeds from sale of investment securities	767	2,445	6,928	
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	125	-	1,129	
Other, net	<u>334</u>	<u>259</u>	<u>3,017</u>	
Net cash provided by (used in) investing activities	<u>(3,717)</u>	<u>(2,887)</u>	<u>(33,574)</u>	

Cash flows from financing activities:

Increase in short-term borrowings	44,970	4,306	406,196
Proceeds from long-term borrowings	500	6,000	4,516
Payments on long-term borrowings	(226)	(4,049)	(2,041)
Purchase of treasury stock	(1)	(1)	(9)
Proceeds from sale of parent's stock held by subsidiaries	-	171	-
Purchase of treasury stock by a consolidated subsidiary	-	(4,695)	-
Dividends paid	(1,975)	(2,955)	(17,839)
Dividends paid to non-controlling interests of subsidiaries	(11)	(27)	(99)
Payment from changes in ownership interests in subsidiaries that do not result in scope of consolidation	(173)	(4,300)	(1,563)
Other, net	(480)	(405)	(4,336)
Net cash provided by (used in) financing activities	<u>42,604</u>	<u>(5,955)</u>	<u>384,825</u>
Effect of exchange rate changes on cash and cash equivalents	805	(29)	7,271
Net increase (decrease) in cash and cash equivalents	(1,249)	(417)	(11,282)
Cash and cash equivalents, beginning of year	<u>63,767</u>	<u>64,184</u>	<u>575,982</u>
Cash and cash equivalents, end of year (note 22)	<u>¥ 62,518</u>	<u>¥ 63,767</u>	<u>\$ 564,700</u>

See accompanying notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

Okasan Securities Group Inc. and Consolidated Subsidiaries — Year ended March 31, 2021

### 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 13 subsidiaries. One affiliate is accounted for by equity method at March 31, 2021. 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. Investments in limited partnership and similar partnership (which are deemed as securities pursuant to Article 2, Paragraph 2 of the Financial Instruments and Exchange Law) are stated at the net value of equities based on the most recent financial statements available according to the financial reporting dates specified in the respective partnership agreements.
- 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 (PITF) 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. Significant Accounting Estimates**

1. Impairment loss

- (1) Amounts recorded in the consolidated financial statements for the year ended March 31, 2021 mainly consists of the following:

	Thousands	
	Millions of yen	of U.S. dollars
Software	¥ 1,382	\$ 12,483
Leased assets	187	1,689
Other intangible assets	21	190
Buildings	9	81
Furniture and fixtures	3	27

(2) Methods of calculation

The Company determines whether there is an indication of impairment on property and equipment, and intangible assets at the end of each reporting period. When determining, each asset group consists of internally used software etc., which is regarded as the smallest unit individually generating cash flow, is used and if there is an indication of impairment, the Company considers whether impairment loss should be recognized. Value in use is estimated based on future cash flows of the asset group which shows an indication of impairment and if the value in use is less than the book value of the asset group, impairment loss is measured.

(3) Main assumptions used in estimates

For the estimation of future cash flows and discount rate to calculate the value in use of each asset group, the Company uses certain assumptions. There are possibilities that these assumptions are affected by uncertain future economic circumstances and company business conditions and subject to uncertainty.

(4) Impact on the consolidated financial statements for the year ending March 31, 2022

Though the recognition and measurement of impairment loss is determined based on the best estimates of the management, they could be affected by changes in the uncertain future economic conditions, etc. Accordingly, there could be significant impact on the amount of property and equipment, and intangible assets in the consolidated financial statements for the year ending March 31, 2022, if actual amounts differ from the estimates.

2. Deferred tax assets (liabilities)

- (1) Amounts recorded in the consolidated financial statements for the year ended March 31, 2021.

	Millions of yen	Thousands of U.S. dollars
Deferred income taxes (assets)	¥ 64	\$ 578
Deferred income taxes (liabilities)	10,428	94,192

In addition to above, at March 31, 2021, deferred income taxes (liabilities) for land revaluation excess amounting to ¥1,458 million (\$13,170 thousand) are recorded.

(2) Methods of calculation

Deferred tax assets are recognized for the future deductible temporary differences and tax loss carryforwards to the extent that it has become probable that future taxable income will allow them to be recovered. Deferred tax liabilities are recognized for the future taxable temporary differences. The Company and certain domestic consolidated subsidiaries adopt consolidated taxation system and the recoverability is determined considering the estimated taxable income based on future Group profitability.

(3) Main assumptions used in estimates

Estimates on future taxable income are calculated based on future business plans with decisions and assumptions made by the management considering the external environments.

(4) Impact on the consolidated financial statements for the year ending March 31, 2022

Though the recognition of deferred tax assets is determined based on the estimates on future taxable income, these estimates could be affected by changes in the uncertain future economic conditions, etc. There could be significant impact on the consolidated financial statements for the year ending March 31, 2022, if actual amounts differ from the estimates.

**p. Accounting standards issued but not yet applied**

1. Accounting Standard for Revenue Recognition etc.

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 26, 2021)
- Revised Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 21, 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.

q. **Changes in presentation method**

(Adoption of "Accounting Standard for Disclosure of Accounting Estimates")

The Group adopted "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) to the consolidated financial statements for the current consolidated fiscal year, and therefore significant accounting estimates are disclosed in the note to the consolidated financial statements.

The note does not include information for the prior consolidated fiscal year in accordance with the transitional provision set out in paragraph 11 of the Accounting Standard.

- r. **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, 2021.

**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, 2021, which was ¥110.71 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, 2021 and 2020 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
<b>Trading assets:</b>			
Securities and other	¥ 212,312	¥ 123,057	\$ 1,917,731
Derivatives	6	216	54
	<u>¥ 212,318</u>	<u>¥ 123,273</u>	<u>\$ 1,917,785</u>
<b>Trading liabilities:</b>			
Securities and other	¥ 157,560	¥ 67,185	\$ 1,423,178
Derivatives	33	157	298
	<u>¥ 157,593</u>	<u>¥ 67,342</u>	<u>\$ 1,423,476</u>

#### 5. MARGIN TRANSACTIONS

Margin transactions at March 31, 2021 and 2020 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
<b>Assets:</b>			
Loans receivable from customers	¥ 60,150	¥ 25,860	\$ 543,311
Cash deposits as collateral for securities borrowed from securities finance companies	6,642	9,436	59,995
	<u>¥ 66,792</u>	<u>¥ 35,296</u>	<u>\$ 603,306</u>
<b>Liabilities:</b>			
Borrowings from securities finance companies	¥ 8,269	¥ 3,877	\$ 74,690
Proceeds from securities sold for customers' accounts	10,173	11,498	91,889
	<u>¥ 18,442</u>	<u>¥ 15,375</u>	<u>\$ 166,579</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, 2021 and 2020 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
<b>Assets:</b>			
Loans on Gensaki transactions	¥ 223,362	¥ 32,222	\$ 2,017,541
	<u>¥ 223,362</u>	<u>¥ 32,222</u>	<u>\$ 2,017,541</u>
<b>Liabilities:</b>			
Cash collateral for securities loaned	¥ 849	¥ 182	\$ 7,669
Borrowings on Gensaki transactions	49,154	3,000	443,989
	<u>¥ 50,003</u>	<u>¥ 3,182</u>	<u>\$ 451,658</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 is summarized as follows:

	Millions of yen			
	Gross	Gross		
Balance sheet	unrealized gain	unrealized loss	Fair value	
Government, corporate and other bonds	¥ 31	¥ 2	-	¥ 33

There were no held-to-maturity debt securities with fair value at March 31, 2021.

Acquisition cost, balance sheet amount, gross unrealized gain and gross unrealized loss of available-for-sale securities with fair value at March 31, 2021 and 2020 are summarized as follows:

	Millions of yen			
	Gross	Gross		
Acquisition cost	unrealized gain	unrealized loss	Balance sheet	
<b>At March 31, 2021</b>				
Current:				
Other	¥ 2,510	¥ -	¥ (0)	¥ 2,510
Non-current:				
Equity securities	¥ 28,175	¥ 25,978	¥ (575)	¥ 53,578
Other	819	125	(9)	935
	<u>¥ 28,994</u>	<u>¥ 26,103</u>	<u>¥ (584)</u>	<u>¥ 54,513</u>
<b>At March 31, 2020</b>				
Current:				
Other	¥ 3,000	¥ -	¥ (35)	¥ 2,965
Non-current:				
Equity securities	¥ 12,705	¥ 17,364	¥ (2,125)	¥ 27,944
Other	339	36	(9)	366
	<u>¥ 13,044</u>	<u>¥ 17,400</u>	<u>¥ (2,134)</u>	<u>¥ 28,310</u>

	Thousands of U.S. dollars			
	Gross	Gross		
Acquisition cost	unrealized gain	unrealized loss	Balance sheet	
<b>At March 31, 2021</b>				
Current:				
Other	\$ 22,672	\$ -	\$ (0)	\$ 22,672
Non-current:				
Equity securities	\$ 254,494	\$ 234,649	\$ (5,194)	\$ 483,949
Other	7,397	1,129	(81)	8,445
	<u>\$ 261,891</u>	<u>\$ 235,778</u>	<u>\$ (5,275)</u>	<u>\$ 492,394</u>

Securities classified as available-for-sale securities for which fair value is not available are unlisted equity securities amounting to ¥8,356 million (\$75,477 thousand) and ¥11,233 million, and investments in limited partnership and similar partnership amounting to ¥811 million (\$7,325 thousand) and ¥366 million at March 31, 2021 and 2020, respectively.

For the years ended March 31, 2021 and 2020, 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, 2021					
Equity securities	¥ 208	¥ 73	¥ -		
Other	506	2	35		
	<u>¥ 714</u>	<u>¥ 75</u>	<u>¥ 35</u>		
March 31, 2020					
Equity securities	¥ 2,209	¥ 1,628	¥ -		
Other	258	29	34		
	<u>¥ 2,467</u>	<u>¥ 1,657</u>	<u>¥ 34</u>		
	Thousands of U.S. dollars				
	Proceeds from sales of available-for- sale securities	Gross realized gains	Gross realized losses		
March 31, 2021					
Equity securities	\$ 1,879	\$ 659	\$ -		
Other	4,570	18	316		
	<u>\$ 6,449</u>	<u>\$ 677</u>	<u>\$ 316</u>		

For the years ended March 31, 2021 and 2020, impairment losses of ¥232 million (\$2,096 thousand) and ¥313 million were 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, 2021 and 2020 are ¥3,243 million (\$29,293 thousand) and ¥9,269 million, respectively.

## 9. BORROWINGS

The weighted-average interest rates applicable to the short-term borrowings are 0.43 % and 0.69% at March 31, 2021 and 2020, respectively.

Long-term borrowings at March 31, 2021 and 2020 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Borrowings, maturing in installments through 2026; bearing weighted average interest of 2.05% at March 31, 2021	¥ 13,073	¥ -	\$ 118,083
Borrowings, maturing in installments through 2025; bearing weighted average interest of 2.05% at March 31, 2020	-	12,799	-
Less current installments	3,173	3,766	28,660
	¥ 9,900	¥ 9,033	\$ 89,423

Lease liabilities at March 31, 2021 and 2020 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Lease liabilities maturing in installments through 2029; bearing weighted average interest of 2.17% at March 31, 2021	¥ 1,274	¥ -	\$ 11,507
Lease liabilities maturing in installments through 2029; bearing weighted average interest of 2.89% at March 31, 2020	-	1,288	-
Less current installments	466	357	4,209
	¥ 808	¥ 931	\$ 7,298

- (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
	2021	2020	2021
Long-term borrowings	¥ 6,000	¥ 6,000	\$ 54,196

Annual maturities of borrowings after March 31, 2022, are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2023	¥ 740	\$ 6,684
2024	2,840	25,653
2025	4,340	39,201
2026	1,980	17,885
2027 or later	-	-

Annual maturities of lease liabilities after March 31, 2022, are as follows:

Year ending March 31			Thousands of U.S. dollars	
	Millions of yen			
2023	¥ 337		\$ 3,044	
2024		287		2,592
2025		77		695
2026		52		470
2027 or later		55		497

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 (\$189,685 thousand) with 6 financial institutions both at March 31, 2021 and 2020.

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, 2021 and 2020, the carrying value of assets pledged is as follows:

	Millions of Yen		Thousands of U.S. dollars	
	2021	2020		2021
Cash in banks	¥ 1,926	¥ 1,893	\$ 17,397	
Trading assets	22,911	7,872		206,946
Property and equipment	4,440	4,469		40,105
Investment securities	13,038	10,082		117,767
	¥ 42,315	¥ 24,316		\$ 382,215

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

	Millions of yen		Thousands of U.S. dollars	
	2021	2020		2021
Short-term borrowings	¥ 25,869	¥ 10,399	\$ 233,665	
Borrowings from securities finance companies	2,292	347		20,703
Long-term borrowings	200	2,953		1,806
	¥ 28,361	¥ 13,699		\$ 256,174

In addition to above, at March 31, 2021, trading assets, etc. amounting to ¥69,789 million (\$630,377 thousand) and investments securities amounting to ¥3,348 million (\$30,241 thousand) are deposited as guarantee for settlement of trading accounts and securities borrowed, respectively. In addition to above, at March 31, 2020, trading assets, etc. amounting to ¥46,259 million and investments securities amounting to ¥1,613 million were deposited as guarantee for settlement of trading accounts and securities borrowed, respectively.

The fair value of the securities pledged at March 31, 2021 and 2020 are as follows:

	Millions of Yen		U.S. dollars 2021	Thousands of
	2021	2020		U.S. dollars 2021
Loaned securities on margin transactions	¥ 10,534	¥ 11,283	\$ 95,150	
Securities pledged as collateral for borrowing from securities finance companies	8,210	3,905	74,158	
Loaned securities	931	176	8,409	
Other	72,940	20,093	658,838	
	<u>¥ 92,615</u>	<u>¥ 35,457</u>	<u>\$ 836,555</u>	

The fair value of the securities received as collateral at March 31, 2021 and 2020 are as follows:

	Millions of Yen		U.S. dollars 2021	Thousands of
	2021	2020		U.S. dollars 2021
Securities received on margin transactions	¥ 58,472	¥ 21,188	\$ 528,155	
Securities borrowed	6,328	9,569	57,158	
Securities pledged as collateral	76,052	46,715	686,948	
Other	223,601	32,538	2,019,700	
	<u>¥ 364,453</u>	<u>¥ 110,010</u>	<u>\$ 3,291,961</u>	

## 11. INCOME TAXES

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

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and deferred tax liabilities at March 31, 2021 and 2020 are as follows:

	Millions of yen		U.S. dollars 2021	Thousands of
	2021	2020		U.S. dollars 2021
<b>Deferred tax assets:</b>				
Tax loss carryforwards	¥ 2,129	¥ 2,732	\$ 19,230	
Liability for retirement benefits (employees)	1,492	1,879	13,477	
Depreciation and amortization (including impairment loss)	1,122	927	10,135	
Accrued bonuses	628	544	5,672	
Asset retirement obligations	483	461	4,363	
Allowance for doubtful accounts	461	460	4,164	
Financial instruments transactions reserve	378	368	3,414	
Impairment loss on land etc.	240	238	2,168	
Loss on devaluation of investment securities	194	123	1,752	
Retirement benefits payable for directors and corporate auditors	131	143	1,183	
Cost recognized for the stock options	128	110	1,156	
Social insurance costs for accrued bonuses	90	79	813	
Loss on devaluation of golf memberships	49	50	443	
Other	459	339	4,146	
	<u>7,984</u>	<u>8,453</u>	<u>72,116</u>	
Valuation allowance for tax loss carryforwards	(2,051)	(2,412)	(18,526)	
Valuation allowance for deductible temporary differences	(2,924)	(2,488)	(26,411)	
Total valuation allowance	<u>(4,975)</u>	<u>(4,900)</u>	<u>(44,937)</u>	
Total	3,009	3,553	27,179	

Deferred tax liabilities:

Unrealized gain on available-for-sale securities	(12,639)	(4,668)	(114,163)
Land revaluation excess	(1,458)	(1,457)	(13,170)
Asset for retirement benefits (employees)	(315)	(328)	(2,845)
Dividends receivable	(222)	(138)	(2,005)
Asset retirement obligations	(167)	(175)	(1,508)
Other	(30)	(22)	(272)
Total	(14,831)	(6,788)	(133,963)
Net deferred tax liabilities	¥ (11,822)	¥ (3,235)	\$ (106,784)

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						
	2021						
	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	¥ 492	¥ 85	¥ 91	¥ 156	¥ 359	¥ 946	¥ 2,129
Valuation allowance	(490)	(85)	(91)	(138)	(359)	(888)	(2,051)
Deferred tax assets recognized	¥ 2	¥ -	¥ -	¥ 18	¥ -	¥ 58	¥ 78

	Thousands of U.S. dollars						
	2021						
	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	\$ 4,444	\$ 768	\$ 822	\$ 1,409	\$ 3,243	\$ 8,544	\$19,230
Valuation allowance	(4,426)	(768)	(822)	(1,246)	(3,243)	(8,021)	(18,526)
Deferred tax assets recognized	\$ 18	\$ -	\$ -	\$ 163	\$ -	\$ 523	\$ 704

The Company recognized deferred tax assets of ¥78 million (\$704 thousand) for tax loss carryforwards (the amounts by multiplying the statutory tax rate) of ¥2,129 million (\$19,230 thousand). The deferred tax assets mainly include the deferred tax assets of the Company of ¥10 million (\$90 thousand) for tax loss carryforwards and the deferred tax assets of two subsidiaries in the Company's tax filing group of ¥50 million (\$452 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						
	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

The Company recognized deferred tax assets of ¥320 million for tax loss carryforwards (the amounts by multiplying the statutory tax rate) of ¥2,732 million. The deferred tax assets include the deferred tax assets of the Company of ¥50 million for tax loss carryforwards and the deferred tax assets of two subsidiaries in the Company's tax filing group of ¥270 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, 2021 and 2020 is as follows:

	2021	2020
Statutory tax rate	30.5%	30.5%
Expenses not deductible for tax purposes	7.2	11.3
Income not credited for tax purposes	(6.9)	(10.0)
Per capita tax	1.0	1.4
Equity in gain of affiliates	(3.1)	(10.4)
Valuation allowance	3.2	10.8
Differences in income tax rates applicable to consolidated subsidiaries	0.9	1.0
Gain on bargain purchase	(26.5)	-
Loss on step acquisitions	16.7	-
Other	(0.4)	0.1
<b>Effective tax rate</b>	<b>22.5%</b>	<b>34.6%</b>

## 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, 2021 and 2020 and for the years then ended.

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Retirement benefit obligation at beginning of year	¥ 14,048	¥ 14,487	\$ 126,890
Service cost	765	826	6,910
Interest cost	3	-	27
Actuarial gain or loss	(155)	(346)	(1,400)
Benefits paid	(882)	(919)	(7,967)
Increase due to new consolidation	190	-	1,716
Retirement benefit obligation at end of year	<u>¥ 13,969</u>	<u>¥ 14,048</u>	<u>\$ 126,176</u>

Note: 1. Certain consolidated subsidiaries adopt the simplified method for calculation of retirement benefit obligation.  
 2. Retirement benefit expenses of the consolidated subsidiaries adopted the simplified method are included in above service cost.

#### (2) Reconciliation of changes in plan assets

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Plan assets at beginning of year	¥ 8,969	¥ 9,399	\$ 81,013
Expected return on plan assets	43	45	388
Actuarial gain or loss	1,307	(266)	11,806
Employer contributions	260	271	2,348
Benefits paid	(449)	(480)	(4,055)
Plan assets at end of year	<u>¥ 10,130</u>	<u>¥ 8,969</u>	<u>\$ 91,500</u>

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Funded retirement benefit obligation	¥ 7,920	¥ 8,108	\$ 71,538
Plan assets	(10,130)	(8,969)	(91,500)
	(2,210)	(861)	(19,962)
Unfunded retirement benefit obligation	6,049	5,940	54,638
Net of liability and assets for retirement benefits	<u>¥ 3,839</u>	<u>¥ 5,079</u>	<u>\$ 34,676</u>
Liability for retirement benefits	¥ 6,447	¥ 6,815	\$ 58,233
Asset for retirement benefits	2,608	1,236	23,557
Net of liability and asset for retirement benefits	<u>¥ 3,839</u>	<u>¥ 5,079</u>	<u>\$ 34,676</u>

(4) The components of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Service cost	¥ 765	¥ 826	\$ 6,910
Interest cost	3	-	27
Expected return on plan assets	(43)	(45)	(388)
Amortization of actuarial gain or loss	41	(53)	370
Retirement benefit expenses	¥ 766	¥ 728	\$ 6,919

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Actuarial gain or loss	¥ 1,503	¥ 27	\$ 13,576

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Unrecognized actuarial gain or loss	¥ 1,689	¥ 186	\$ 15,256

(7) Plan assets

(a) Percentage by major category of plan assets

	2021	2020
Equity securities	39%	32%
General account	29	34
Debt securities	19	21
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, 2021 and 2020 are as follows:

	2021	2020
(a) Discount rate	0.10%	0.03%
(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 ¥196 million (\$1,770 thousand) and ¥200 million for the years ended March 31, 2021 and 2020, 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, 2021 and 2020, the subsidiaries provide for the amount of ¥221 million (\$1,996 thousand) and ¥105 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, 2021 and 2020:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance, beginning of year	¥ 1,168	¥ 1,135	\$ 10,550
Liabilities incurred by asset acquisition	41	24	370
Accretion expenses	10	13	90
Liabilities settled	(21)	(4)	(189)
Other	12	-	108
Balance, end of year	¥ 1,210	¥ 1,168	\$ 10,929

### **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, 2021 and 2020 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, 2020 which was approved by the Board of Directors held on May 15, 2019 are as follows:

- |                                     |                |
|-------------------------------------|----------------|
| (a) Total dividends                 | ¥2,955 million |
| (b) Cash dividends per common share | ¥15            |
| (c) Record date                     | March 31, 2019 |
| (d) Effective date                  | June 7, 2019   |

Cash dividends for treasury stock held by subsidiaries of ¥43 million were excluded from the above table.

Dividends paid during the year ended March 31, 2021 which was approved by the Board of Directors held on May 19, 2020 are as follows:

(a) Total dividends	¥1,975 million (\$17,839 thousand)
(b) Cash dividends per common share	¥10 (\$0.09)
(c) Record date	March 31, 2020
(d) Effective date	June 8, 2020

Cash dividends for treasury stock held by subsidiaries of ¥23 million (\$208 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, 2021 which was approved by the Board of Directors held on May 19, 2021 are as follows:

(a) Total dividends	¥2,999 million (\$27,089 thousand)
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥15 (\$0.14)
(d) Record date	March 31, 2021
(e) Effective date	June 9, 2021

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 (\$768 thousand) and ¥85 million which is included in selling, general and administrative expenses for the years ended March 31, 2021 and 2020, respectively. The gain on unexercised and forfeited stock options is ¥0 million which is included in other income for the year ended March 31, 2020.

Description of each stock option plans at March 31, 2021 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	6th Plan approved on June 26, 2020
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.)	4 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	304,800 shares of common stock

Grant date	July 13, 2015	July 14, 2016	July 14, 2017	July 13, 2018	July 12, 2019	July 13, 2020
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.	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.	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	From July 14, 2020 to July 13, 2050

A summary of the scale and movement of the stock option plan for the year ended March 31, 2021 is as follows:

	1st	2nd	3rd	4th	5th	6th
Non-vested:						
Outstanding at March 31, 2020	-	-	-	-	-	-
Granted	-	-	-	-	-	304,800
Forfeited	-	-	-	-	-	-
Vested	-	-	-	-	-	304,800
Outstanding at March 31, 2021	-	-	-	-	-	-
Vested:						
Outstanding at March 31, 2020	83,500	163,600	124,700	183,700	259,800	-
Vested	-	-	-	-	-	304,800
Exercised	5,000	9,800	6,600	12,800	16,000	-
Forfeited	-	-	-	-	-	-
Outstanding at March 31, 2021	78,500	153,800	118,100	170,900	243,800	304,800

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

	1st	2nd	3rd	4th	5th	6th
Exercise price	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)
Average stock price at exercise	¥355 (\$3.21)	¥355 (\$3.21)	¥355 (\$3.21)	¥348 (\$3.14)	¥349 (\$3.15)	-
Fair value at the grant date	¥715 (\$6.46)	¥383 (\$3.46)	¥614 (\$5.55)	¥403 (\$3.64)	¥331(\$2.99)	¥280 (\$2.53)

The fair value of the 6th stock options was estimated using the Black-Scholes option-valuation model with the following assumptions:

Expected volatility \*1 34.286%

Expected remaining outstanding period \*2 5.4 years

Expected dividend \*3 ¥10 (\$0.09) per share

Risk-free interest rate \*4 -0.116%

\*1 Expected volatility is based on the actual stock prices traded from February 18, 2015 to July 13, 2020.

\*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, 2020.

\*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, 2021 and 2020 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, 2021 and 2020 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Commissions and brokerage	¥ 10,434	¥ 11,134	\$ 94,246
Employees' compensation and benefits	30,891	31,229	279,027
Occupancy and rental	7,458	7,512	67,365
Data processing and office supplies	4,971	4,922	44,901
Depreciation and amortization	3,189	3,162	28,805
Taxes other than income taxes	1,018	734	9,195
Provision for doubtful accounts	(0)	(19)	(0)
Other	3,042	3,306	27,477
	<u>¥ 61,003</u>	<u>¥ 61,980</u>	<u>\$ 551,016</u>

## 19. IMPAIRMENT LOSS

### For the year ended March 31, 2021

The Company recognized an impairment loss on a part of business assets, such as securities core system of Okasan Information Systems Co., Ltd., a consolidated subsidiary of the Company as a result of decision to move to new system in the second half of the year ending March 31, 2023:

Location	Usage	Classification
	Millions of yen	Thousands of U.S. dollars
<b>Classification</b>		
Software	¥ 1,382	\$ 12,483
Leased assets	187	1,689
Other intangible assets	21	190
Buildings	9	81
Furniture and fixtures	3	27
	<u>¥ 1,602</u>	<u>\$ 14,470</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, which is calculated discounting future cash flows at a rate of 3.47%

### For the year ended March 31, 2020

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
	Millions of yen	
<b>Classification</b>		
Buildings	¥ 393	
Furniture and fixtures	70	
Other intangible assets	30	
	<u>¥ 493</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, 2021 and 2020 are as follows:

	Thousands of Millions of yen		U.S. dollars
	2021	2020	2021
<b>Net unrealized holding gain (loss) on available-for-sale securities:</b>			
Arising during the year	¥ 10,218	¥ (2,769)	\$ 92,295
Reclassification adjustment	69	(1,328)	623
Before tax amount	10,287	(4,097)	92,918
Tax benefit (expense)	(3,138)	1,240	(28,344)
Net-of-tax amount	7,149	(2,857)	64,574
<b>Foreign currency translation adjustments:</b>			
Arising during the year	52	(27)	470
<b>Remeasurements of defined benefit plans:</b>			
Arising during the year	1,463	80	13,215
Reclassification adjustment	41	(53)	370
Before tax amount	1,504	27	13,585
Tax benefit (expense)	(459)	(8)	(4,146)
Net-of-tax amount	1,045	19	9,439
<b>Share of other comprehensive gain (loss) of affiliates accounted for by equity method:</b>			
Arising during the year	263	(207)	2,376
Reclassification adjustment	(35)	-	(316)
Before tax amount	228	(207)	2,060
Tax benefit (expense)	11	-	99
Net-of-tax amount	239	(207)	2,159
<b>Total other comprehensive income (loss)</b>	<b>¥ 8,485</b>	<b>¥ (3,072)</b>	<b>\$ 76,642</b>

## 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, 2021 and 2020 are as follows:

	Yen		U.S. dollars
	2021	2020	2021
Basic net income per share	¥ 30.42	¥ 18.32	\$ 0.27
Diluted net income per share	30.26	18.25	0.27
Thousands of			
	Millions of yen		U.S. dollars
	2021	2020	2021
Net income attributable to owners of the parent	¥ 6,017	¥ 3,627	\$ 54,349
Net income attributable to owners of the parent available to common shares	¥ 6,017	¥ 3,627	\$ 54,349
	Number of shares (Thousand)		
	2021	2020	
Weighted average number of shares outstanding on which basic net income per share is calculated	197,826	198,006	
Number of diluted shares (stock acquisition rights)	1,009	757	

### (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, 2021 and 2020 are as follows:

	Yen		U.S. dollars
	2021	2020	2021
Net assets per share	¥ 848.87	¥ 787.78	\$ 7.67
Thousands of			
	Millions of yen		U.S. dollars
	2021	2020	2021
Total net assets	¥ 190,304	¥ 164,448	\$ 1,718,941
Amount deducted from total net assets:			
Stock acquisition rights	422	359	3,812
Non-controlling interests	21,949	8,275	198,257
Net assets applicable to common stockholders	¥ 167,933	¥ 155,814	\$ 1,516,872
	Number of shares (Thousand)		
	2021	2020	
Number of shares outstanding at the end of year on which net assets per share is calculated	197,832	197,789	

## 22. SUPPLEMENTARY CASH FLOW INFORMATION

- (1) 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, 2021 and 2020 are as follows:

	Millions of yen		U.S. dollars 2021	Thousands of
	2021	2020		U.S. dollars
				2021
Cash on hand and in banks	¥ 69,014	¥ 70,538	\$ 623,376	
Time deposits that have maturities of over three months when acquired	(6,496)	(6,771)	(58,676)	
Cash and cash equivalents	¥ 62,518	¥ 63,767	\$ 564,700	

- (2) Assets and liabilities of newly consolidated subsidiary by share acquisition

Major components of assets and liabilities of Securities Japan, Inc., which was newly consolidated by the stock acquisition and details of the difference between the acquisition costs and net payment for the stock acquisition for the year ended March 31, 2021 were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 32,991	\$ 297,995
Non-current assets	20,115	181,691
Current liabilities	(20,904)	(188,818)
Non-current liabilities	(5,264)	(47,548)
Non-controlling interests	(13,152)	(118,797)
Gain on bargain purchase	(7,109)	(64,213)
Stocks held prior to acquisition of control	(4,035)	(36,446)
Equity method valuation prior to acquisition of control	(5,590)	(50,492)
Reversal of valuation difference prior to acquisition of control	890	8,039
Loss on step acquisition	4,394	39,689
Acquisition costs	2,336	21,100
Cash and cash equivalents	(2,461)	(22,229)
Net gain for stock acquisition	¥ (125)	\$ (1,129)

## 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 noncancelable operating leases at March 31, 2021 and 2020 are as follows:

	Millions of yen		U.S. dollars 2021	Thousands of
	2021	2020		U.S. dollars
				2021
Within one year	¥ 1,877	¥ 1,821	\$ 16,954	
Over one year	5,584	5,453	50,438	
	¥ 7,461	¥ 7,274	\$ 67,392	

## **24. FINANCIAL INSTRUMENTS**

### **Conditions of Financial instruments**

#### **(1) Management policy**

The Company and subsidiaries (the “Group”) primarily 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. Secondarily, 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 ¥60 million (\$542 thousand) calculated using historical method (holding period: one day, confidence interval: 99%, observation period: 1,250 days) at March 31, 2021. 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, 2021 and 2020 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					
	2021			2020		
	Carrying value	Fair value	Differences	Carrying value	Fair value	Differences
<b>Assets:</b>						
Cash on hand and in banks	¥ 69,014	¥ 69,014	¥ -	¥ 70,538	¥ 70,538	¥ -
Cash segregated as deposits for customers and others	96,687	96,687	-	88,160	88,160	-
Trading assets, short-term investments and investment securities						
Trading securities	212,312	212,312	-	123,057	123,057	-
Held-to-maturity debt securities	-	-	-	31	33	2
Available-for-sale securities	57,023	57,023	-	31,275	31,275	-
Receivables on margin transactions	66,792	66,792	-	35,296	35,296	-
Receivables on collateralized securities transactions	223,362	223,362	-	32,222	32,222	-
Short-term guarantee deposits	10,808	10,808	-	9,960	9,960	-
Total	<u>¥ 735,998</u>	<u>¥ 735,998</u>	<u>¥ -</u>	<u>¥ 390,539</u>	<u>¥ 390,541</u>	<u>¥ 2</u>
<b>Liabilities:</b>						
Trading liabilities						
Trading securities	¥ 157,560	¥ 157,560	¥ -	¥ 67,185	¥ 67,185	¥ -
Payables arising from unsettled trades	92,677	92,677	-	4,907	4,907	-
Payables on margin transactions	18,442	18,442	-	15,375	15,375	-
Payables on collateralized securities transactions	50,003	50,003	-	3,182	3,182	-
Deposits received	67,300	67,300	-	39,886	39,886	-
Guarantee deposits received	42,199	42,199	-	32,343	32,343	-
Short-term borrowings	123,559	123,560	1	77,177	77,179	2
Long-term borrowings	9,900	9,925	25	9,033	9,040	7
Total	<u>¥ 561,640</u>	<u>¥ 561,666</u>	<u>¥ 26</u>	<u>¥ 249,088</u>	<u>¥ 249,097</u>	<u>¥ 9</u>
Derivative transactions	<u>¥ (26)</u>	<u>¥ (26)</u>	<u>¥ -</u>	<u>¥ 59</u>	<u>¥ 59</u>	<u>¥ -</u>

	Thousands of U.S. dollars		
	2021		
	Carrying value	Fair value	Differences
<b>Assets:</b>			
Cash on hand and in banks	\$ 623,376	\$ 623,376	\$ -
Cash segregated as deposits for customers and others	873,336	873,336	-
Trading assets, short-term investments and investment securities			
Trading securities	1,917,731	1,917,731	-
Held-to-maturity debt securities	-	-	-
Available-for-sale securities	515,066	515,066	-
Receivables arising from unsettled trades	-	-	-
Receivables on margin transactions	603,306	603,306	-
Receivables on collateralized securities transactions	2,017,541	2,017,541	-
Short-term guarantee deposits	97,625	97,625	-
<b>Total</b>	<b>\$ 6,647,981</b>	<b>\$ 6,647,981</b>	<b>\$ -</b>
<b>Liabilities:</b>			
<b>Trading liabilities</b>			
Trading securities	\$ 1,423,177	\$ 1,423,177	\$ -
Payables arising from unsettled trades	837,115	837,115	-
Payables on margin transactions	166,579	166,579	-
Payables on collateralized securities transactions	451,658	451,658	-
Deposits received	607,895	607,895	-
Guarantee deposits received	381,167	381,167	-
Short-term borrowings	1,116,060	1,116,069	9
Long-term borrowings	89,423	89,649	226
<b>Total</b>	<b>\$ 5,073,074</b>	<b>\$ 5,073,309</b>	<b>\$ 235</b>
<b>Derivative transactions</b>	<b>\$ (235)</b>	<b>\$ (235)</b>	<b>\$ -</b>

\* 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**

	Thousands of			U.S. dollars
	Millions of yen		2021	
	2021	2020	2021	
Unlisted equity securities	¥ 8,355	¥ 11,233	\$ 75,467	
Investments in limited partnership and similar partnership	811	366	7,326	
Total	¥ 9,166	¥ 11,599	\$ 82,793	

(3) Projected future redemption of monetary claim and securities with maturities  
March 31, 2021

	Millions of yen			
	Due after one year Due within one year	Due after through five years	Due after through ten years	Due after ten years
Cash on hand and in banks	¥ 69,014	¥ -	¥ -	¥ -
Cash segregated as deposits for customers and others	96,687	-	-	-
Trading assets, short-term investments and investment securities:				
Held-to-maturity debt securities:				
Government bonds	-	-	-	-
Available-for-sale securities with maturities:				
Other	2,510	532	115	-
Receivables on margin transactions	66,792	-	-	-
Receivables on collateralized securities transactions	223,362	-	-	-
Short-term guarantee deposits	10,808	-	-	-
	¥ 469,173	¥ 532	¥ 115	¥ -
	Thousands of U.S. dollars			
	Due after one year Due within one year	Due after through five years	Due after through ten years	Due after ten years
Cash on hand and in banks	\$ 623,376	\$ -	\$ -	\$ -
Cash segregated as deposits for customers and others	873,336	-	-	-
Trading assets, short-term investments and investment securities:				
Held-to-maturity debt securities:				
Government bonds	-	-	-	-
Available-for-sale securities with maturities:				
Other	22,672	4,805	1,039	-
Receivables on margin transactions	603,306	-	-	-
Receivables on collateralized securities transactions	2,017,541	-	-	-
Short-term guarantee deposits	97,625	-	-	-
	\$ 4,237,856	\$ 4,805	\$ 1,039	\$ -

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	¥ -

(4) The annual maturities of the long-term debt and other interest-bearing debt  
March 31, 2021

	Millions of yen					
	Due within one year	Due after one year through two years	Due after two years	Due after three years	Due after four years	Due after five years
Short-term borrowings	¥ 120,886	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term borrowings	3,173	740	2,840	4,340	1,980	-
Borrowings from securities finance companies	8,269	-	-	-	-	-
Total	¥ <u>131,828</u>	¥ <u>740</u>	¥ <u>2,840</u>	¥ <u>4,340</u>	¥ <u>1,980</u>	¥ -

	Thousands of U.S. dollars					
	Due within one year	Due after one year through two years	Due after two years	Due after three years	Due after four years	Due after five years
Short-term borrowings	\$ 1,087,400	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term borrowings	28,660	6,684	25,653	39,201	17,885	-
Borrowings from securities finance companies	74,691	-	-	-	-	-
Total	\$ <u>1,190,751</u>	\$ <u>6,684</u>	\$ <u>25,653</u>	\$ <u>39,201</u>	\$ <u>17,885</u>	\$ -

March 31, 2020

	Millions of yen					
	Due within one year	Due after one year through two years	Due after two years	Due after three years	Due after four 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	¥ <u>81,054</u>	¥ <u>2,833</u>	¥ <u>200</u>	¥ <u>2,000</u>	¥ <u>4,000</u>	¥ -

\* 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, 2021 and 2020 are summarized as follows:

#### (1) Stocks

March 31, 2021

	Millions of yen					
	Contract		Valuation			
	or	notional	Fair value	gain (loss)	amounts	
<b>Stock index futures:</b>						
Written	¥	261	¥	0	¥	0
Purchased	-	-	-	-	-	-
<b>Stock index options:</b>						
Written	-	-	-	-	-	-
Purchased	-	-	-	-	-	-
<b>Stock options traded over-the-counter:</b>						
Written	2	5		(2)		
Purchased	1	5		4		
			¥	2		

	Thousands of U.S. dollars					
	Contract		Valuation			
	or	notional	Fair value	gain (loss)	amounts	
<b>Stock index futures:</b>						
Written	\$	2,358	\$	0	\$	0
Purchased	-	-	-	-	-	-
<b>Stock index options:</b>						
Written	-	-	-	-	-	-
Purchased	-	-	-	-	-	-
<b>Stock options traded over-the-counter:</b>						
Written	18	45		(18)		
Purchased	9	45		36		
			\$	18		

March 31, 2020

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

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, 2021

	Millions of yen		
	Contract or notional amounts	Valuation Fair value gain (loss)	
<b>Bond futures:</b>			
Written	¥ -	¥ -	¥ -
Purchased	5,293	(2)	<u>(2)</u>
	¥	<u>(2)</u>	
<b>Thousands of U.S. dollars</b>			
	Contract or notional amounts	Valuation Fair value gain (loss)	
<b>Bond futures:</b>			
Written	\$ -	\$ -	\$ -
Purchased	47,810	(18)	<u>(18)</u>
	\$	<u>(18)</u>	

March 31, 2020

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

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

(3) Foreign exchange  
March 31, 2021

	Millions of yen				
	Contract		Valuation		
	or	notional	Fair value	gain (loss)	amounts
<b>Forward foreign exchange:</b>					
Written:					
U.S. dollars	¥	369	¥	(7)	¥
Mexican Peso		261		(7)	(7)
Indian rupee		254		(4)	(4)
Russian ruble		213		(4)	(4)
South Africa Rand		109		(1)	(1)
Australian dollars		74		(1)	(1)
Other		133		0	0
	¥				<u>¥ (24)</u>

	Thousands of U.S. dollars				
	Contract		Valuation		
	or	notional	Fair value	gain (loss)	amounts
<b>Forward foreign exchange:</b>					
Written:					
U.S. dollars	\$	3,333	\$	(63)	\$
Mexican Peso		2,358		(63)	(63)
Indian rupee		2,294		(36)	(36)
Russian ruble		1,924		(36)	(36)
South Africa Rand		985		(9)	(9)
Australian dollars		668		(9)	(9)
Other		1,201		0	0
	\$				<u>\$ (216)</u>

March 31, 2020

	Millions of yen				
	Contract		Valuation		
	or	notional	Fair value	gain (loss)	amounts
<b>Forward foreign exchange:</b>					
Written:					
U.S. dollars	¥	1,288	¥	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>

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, 2021 and 2020 are summarized as follows:

Nature of transaction	Hedged items	Contract or notional amounts		
		Thousands of		
		Millions of yen	U.S. dollars	
		2021	2020	2021
<b>Interest rate swaps:</b>				
Variable rate received for fixed rate	Long-term borrowings	¥ 2,000	¥ 2,000	\$ 18,065

\*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 ¥68 million (\$614 thousand) and ¥64 million for the years ended March 31, 2021 and 2020, respectively.

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

	Thousands of		
	Millions of yen	U.S. dollars	
	2021	2020	2021
<b>Consolidated balance sheet amount:</b>			
Balance at beginning of the year	¥ 5,376	¥ 5,402	\$ 48,559
Increase/(decrease)	294	(26)	2,656
Balance at end of the year	<u>¥ 5,670</u>	<u>¥ 5,376</u>	<u>\$ 51,215</u>
<b>Fair value</b>			
	<u>¥ 8,574</u>	<u>¥ 8,346</u>	<u>\$ 77,446</u>

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

## **27. BUSINESS COMBINATION**

Business combination by acquisition of shares

### 1. Outline of the business combination

#### (1) Name and business of acquired company

Name: Securities Japan, Inc.

Business: Financial instruments transaction business

#### (2) Principal rationale for the business combination

Security Japan, Inc. (here after “Security Japan”) provides services to support asset building for customers through four operating channels, such as, over-the-counter, internet, agency for unlicensed institutions, and Independent Financial Advisor (IFA). In addition to strong sales base in Tokyo and Kanagawa areas, Security Japan has business relationships with about 50 securities firms and about 40 contracted IFAs and has built unique networks through various sales channels. The unique networks of Security Japan would play important role for the Group’s medium-term management plan, called “Creating shared

value". Accordingly, strengthening cooperation with Security Japan is in correspondence with the growth strategy of the Group. In order to accelerate the growth strategy more, the Group decided to acquire Security Japan as a subsidiary.

- (3) Date of business combination
    - March 26, 2021 (Date of share acquisition)
    - March 31, 2021 (Deemed date of acquisition)
  - (4) Legal form of business combination
    - Cash acquisition
  - (5) Entity name after business combination
    - No change
  - (6) Proportion of voting rights acquired
    - Prior to acquisition: 37.9%
    - Acquired additionally on the date of business combination: 13.4%
    - After acquisition: 51.4%
  - (7) The objective of the acquisition is to obtain voting rights of Securities Japan, Inc., an affiliate accounted for by the equity method.
2. Period of business results for the acquired company included within the consolidated financial statements  
Equity gain from operation from April 1, 2020 to March 31, 2021 was recorded in Equity in gain of affiliates, since Securities Japan, Inc. was an affiliate accounted for by equity method.
3. Breakdown of acquisition costs and type of compensation
- |   | Millions of<br>yen | Thousands of<br>U.S. dollars |
|---|--------------------|------------------------------|
| Fair value of shares held prior to acquisition as of the date of the business combination | ¥ 4,340            | \$ 39,202                    |
| Compensation for acquisition:   | 2,337              | 21,109                       |
| Cash and deposits   |                    |                              |
| Acquisition costs   | 6,677              | 60,311                       |
4. Name and amount of principal acquisition-related expenses  
Disclosures are omitted because they are insignificant.
5. Acquisition costs and difference from total cost of individual transactions required for the acquisition
- |                           | Millions of<br>yen | Thousands of<br>U.S. dollars |
|---------------------------|--------------------|------------------------------|
| Loss on step acquisitions | ¥ 4,394            | \$ 39,689                    |
6. Amount of gain on bargain purchase and reasons for occurrence
- (1) Amount of gain on bargain purchase
- |                          | Millions of<br>yen | Thousands of<br>U.S. dollars |
|--------------------------|--------------------|------------------------------|
| Gain on bargain purchase | ¥ 7,109            | \$ 64,213                    |
- (2) Reasons for occurrence  
It was generated because the amount calculated as the fair value of the assets and liabilities of the acquired company exceeds the acquisition costs.
7. Amount and principal breakdown of assets and liabilities assumed on the date of business combination
- |                    | Millions of<br>yen | Thousands of<br>U.S. dollars |
|--------------------|--------------------|------------------------------|
| Current assets     | ¥ 32,992           | \$ 298,004                   |
| Non-current assets | 20,115             | 181,691                      |
| Total assets       | <u>¥ 53,107</u>    | <u>\$ 479,695</u>            |

Current liabilities	20,905	188,826
Non-current liabilities	5,264	47,548
Total liabilities	<u>¥ 26,169</u>	<u>\$ 236,374</u>

8. Estimation and method of calculation of effect on Consolidated Statement of Income for the year ended March 31, 2021 if business combination assumed completed on the first day of the fiscal year

	Millions of yen	Thousands of U.S. dollars
Operating income	¥ 3,489	\$ 31,515
Operating loss	102	921

The estimated effect on operating income and loss if business combination assumed completed on the first day of the fiscal year. Audit certification has not been obtained for this note.

## 28. BALANCES AND TRANSACTIONS WITH RELATED PARTY

A close relative of the Company's officer owns directly 0.02% of the equity ownership in the Company at March 31, 2021.

Transactions between the Company and Ms. Yasuko Kato for the year ended March 31, 2021 were summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Transactions:		
Yasuko Kato:		
Purchases of shares of associated company	¥ 79	\$ 714

A close relative of the Company's officer owns directly 0.02% of the equity ownership in the Company at March 31, 2021.

Transactions between the consolidated subsidiary of the Company and Ms. Yasuko Kato for the year ended March 31, 2021 were summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Transactions:		
Yasuko Kato:		
Purchases of land	¥ 12	\$ 108

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
Transactions:	
Purchases of shares of associated company	¥ 1,400

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
Transactions:	
Santo Co., Ltd.:	
Purchases of shares of associated company	¥ 3,788
Tosei Co., Ltd.:	
Purchases of shares of associated company	333

## **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, 2021 and 2020 are summarized as follows:

	Millions of yen					
	2021					
	Reported segments					
	Securities	Asset management	Support	Total	Adjustments	Consolidated
<b>Operating revenues:</b>						
Revenues from third parties	¥ 57,203	¥ 9,046	¥ 1,010	¥ 67,259	¥ 1	¥ 67,260
Intersegment revenues	¥ 3,569	¥ 66	¥ 11,846	¥ 15,481	(15,481)	-
<b>Total</b>	<b>¥ 60,772</b>	<b>¥ 9,112</b>	<b>¥ 12,856</b>	<b>¥ 82,740</b>	<b>¥ (15,480)</b>	<b>¥ 67,260</b>
Segment income	¥ 4,327	¥ 473	¥ 1,397	¥ 6,197	¥ (1,091)	¥ 5,106
Segment assets	¥ 740,075	¥ 16,953	¥ 27,459	¥ 784,487	¥ (1,047)	¥ 783,440
Segment liabilities	¥ 596,578	¥ 1,498	¥ 12,469	¥ 610,545	¥ (17,409)	¥ 593,136
<b>Others:</b>						
Depreciation	¥ 514	¥ 40	¥ 2,439	¥ 2,993	¥ 196	¥ 3,189
Interest and dividend income	2,019	0	-	2,019	(296)	1,723
Interest expense	1,347	-	-	1,347	(196)	1,151
Equity in gain of affiliates	874	-	-	874	-	874
Impairment loss	266	-	1,603	1,869	(58)	1,811
Investments in affiliates	1,542	-	-	1,542	-	1,542
Increase in property and equipment and intangible assets	984	21	2,520	3,525	20	3,545
	Millions of yen					
	2020					
	Reported segments					
	Securities	Asset management	Support	Total	Adjustments	Consolidated
<b>Operating revenues:</b>						
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)	-
<b>Total</b>	<b>¥ 57,595</b>	<b>¥ 10,285</b>	<b>¥ 12,611</b>	<b>¥ 80,491</b>	<b>¥ (15,452)</b>	<b>¥ 65,039</b>
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
<b>Others:</b>						
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

	Thousands of U.S. dollars					
	2021					
	Reported segments					
	Securities	management	Asset Support	Total	Adjustments	Consolidated
<b>Operating revenues:</b>						
Revenues from third parties	\$ 516,692	\$ 81,709	\$ 9,123	\$ 607,524	\$ 9	\$ 607,533
Intersegment revenues	32,238	596	107,000	139,834	(139,834)	-
<b>Total</b>	<b>\$ 548,930</b>	<b>\$ 82,305</b>	<b>\$ 116,123</b>	<b>\$ 747,358</b>	<b>\$ (139,825)</b>	<b>\$ 607,533</b>
Segment income	\$ 39,084	\$ 4,272	\$ 12,619	\$ 55,975	\$ (9,855)	\$ 46,120
Segment assets	\$ 6,684,807	\$ 153,130	\$ 248,026	\$ 7,085,963	\$ (9,457)	\$ 7,076,506
Segment liabilities	\$ 5,388,655	\$ 13,531	\$ 112,628	\$ 5,514,814	\$ (157,249)	\$ 5,357,565
<b>Others:</b>						
Depreciation	\$ 4,643	\$ 361	\$ 22,031	\$ 27,035	\$ 1,770	\$ 28,805
Interest and dividend income	18,237	0	-	18,237	(2,674)	15,563
Interest expense	12,167	-	-	12,167	(1,770)	10,397
Equity in gain of affiliates	7,894	-	-	7,894	-	7,894
Impairment loss	2,403	-	14,479	16,882	(524)	16,358
Investments in affiliates	13,928	-	-	13,928	-	13,928
Increase in property and equipment and intangible assets	8,888	190	22,762	31,840	181	32,021

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

	Thousands of Millions of yen		U.S. dollars 2021
	2021	2020	
Elimination of intersegment transactions	¥ 2,604	¥ 2,581	\$ 23,521
Unallocated company-wide expenses	(3,695)	(3,273)	(33,376)
	¥ (1,091)	¥ (692)	\$ (9,855)

Company-wide expenses are holding company's expenses.

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

	Thousands of Millions of yen		U.S. dollars 2021
	2021	2020	
Elimination of intersegment balances	¥ (41,421)	¥ (30,882)	\$ (374,140)
Unallocated company-wide assets	40,374	31,994	364,683
	¥ (1,047)	¥ 1,112	\$ (9,457)

Company-wide assets are holding company's assets.

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

	Thousands of Millions of yen		U.S. dollars 2021
	2021	2020	
Elimination of intersegment balances	¥ (40,276)	¥ (31,580)	\$ (363,797)
Unallocated company-wide liabilities	22,867	15,336	206,548
	<u>¥ (17,409)</u>	<u>¥ (16,244)</u>	<u>\$ (157,249)</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, 2021 and 2020.

#### **Negative goodwill incurred by reported segments**

The Company recorded gain on negative goodwill of ¥7,109 million (\$64,213 thousand) because of the additional acquisition of the shares of Securities Japan, Inc. which became a consolidated subsidiary for the year ended March 31, 2021.

The Company recorded gain on negative goodwill of ¥1,866 million 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.

### 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. (the Company) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2021, 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, 2021, 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.

<b>1. Impairment loss on the mission critical system for securities trading</b>	
<b>Key audit matter</b>	<b>How the scope of our audit addressed the key audit matter</b>
<p>The Group recorded the impairment loss on the mission critical system for securities trading of ¥1,602 million as disclosed in note 19.</p> <p>The Board of Directors of the Company resolved that the mission critical system for securities trading utilized by the securities companies in the Group, including the Okasan Securities Co., Ltd. will be transferred to a newly developed system in the second half of the year ending March 31, 2023.</p> <p>The Company identified that there is an indication of impairment for the asset group of the mission critical system for securities trading that is owned by Okasan Information Systems Co., Ltd.</p> <p>The Company determined to measure the recoverable amount by value in use and recognized an impairment loss by reducing the carrying amount of the asset group to the value</p>	<p>We have performed the following audit procedures to verify the future cash flows including the forecast of operating revenues and expenses until the end of use and the discount rate.</p> <ul style="list-style-type: none"> <li>• We have examined whether the scope of the asset group of the mission critical system which will be no longer in use is appropriate, for identifying an indication of impairment in the assets group by management.</li> <li>• In order to ascertain the reasonableness of the future cash flows estimation, we have examined the forecast of operating revenues and expenses, which is a basis for the estimation, is consistent with future business plan of Okasan Information Systems Co., Ltd., inspected the related documents and inquired of responsible department</li> </ul>

<p>in use. When the Company calculates the value in use, it is necessary to estimate the future cash flows including the forecast of operating revenues and expenses until the end of use of the asset group by Okasan Information Systems Co., Ltd. and the discount rate. In particular, the estimation of the future operating revenues, which is based on the system license agreement with customers, is strongly affected by the assumption made by management including future fee revision at the time of contract renewal. We have determined the impairment loss on the asset group of the mission critical system for securities trading as a key audit matter because the assumptions made by management on the future cash flows including the forecast of operating revenues and expenses and the discount rate have high uncertainty.</p>	<p>managers. We also have evaluated the accuracy of the business plan by comparing the previous years' business plan with the actual result.</p> <ul style="list-style-type: none"> <li>In order to ascertain the reasonableness of the forecast of operating revenues, we have compared the revenue with the system license fee for the main customer, Okasan Securities Co., Ltd. In order to ascertain the reasonableness of the estimation made by management including future fee revision at the time of contract renewal, we have inspected the related documents and inquired of responsible department managers.</li> <li>In order to ascertain the reasonableness of the discount rate, we have compared available external data by utilizing our specialized department for evaluation.</li> </ul>
<b>2. Calculation of gain on negative goodwill</b>	
<b>Key audit matter</b>	<b>How the scope of our audit addressed the key audit matter</b>
<p>The Company recorded the loss on step acquisitions of ¥4,394 million and the gain on negative goodwill of ¥7,109 million that was incurred because Securities Japan, Inc. was included in consolidation as at March 31, 2021 as disclosed in note 27. Because the conversion into a subsidiary of Securities Japan, Inc. is the case of a business combination with an affiliated company that is accounted for by the equity method, the Company recorded the transaction according to the accounting treatment when the acquisition is achieved by multiple transactions (step acquisitions). The difference between the carrying amount (market value on business combination date) and the amount accounted for by the equity method of ¥4,394 million is recorded as the loss on step acquisitions for the year ended March 31, 2021, and the amount where the carrying amount was less than the net amount allocated to the assets and liabilities of ¥7,109 million is recorded as the gain on negative goodwill. The Company recorded a large amount of negative goodwill even if the transaction price, which was the acquisition cost, was determined based on the stock valuation report obtained from an outside expert and the stocks were acquired from counterparties including third party.</p>	<p>We have performed the following audit procedures to verify the stock valuation method employed and input data selected in the stock valuation report that had been utilized by the management.</p> <ul style="list-style-type: none"> <li>We have examined that the additional share acquisition was supported by a rational reason by interviewing the management of the Company and the management of Securities Japan, Inc. We also have examined whether the content, scope and purpose of the work performed by the outside expert in the stock valuation is reasonable.</li> <li>We have examined that the professional aptitude, ability and objectivity of the outside expert utilized by the management.</li> <li>We have examined the stock valuation report utilizing our specialized department for stock valuation by employing the following audit procedures.             <ul style="list-style-type: none"> <li>We have examined the stock valuation method employed by the outside expert is a market approach and we have ascertained that the stock valuation method is reasonable.</li> <li>In order to ascertain the reasonableness of the input data required for the stock valuation, we have compared with the available external data using the</li> </ul> </li> </ul>

<p>The amount of negative goodwill is affected by the net amount allocated to the assets and liabilities and the transaction price etc. In particular, the transaction price is strongly affected by the stock valuation method employed and input data selected by the outside expert when he/she prepared the stock valuation report, and the specialized knowledge is required for its employment and selection. We have determined the reasonableness of the stock valuation method employed and input data selected in the stock valuation report that is utilized by management for calculating the gain on negative goodwill is as a key audit matter because careful examination and professional judgement are required.</p>	<p>comparable company analysis method (a method of calculating the stock price by comparing with stock price of a listed company of the similar size that mainly operates the securities business), that is one of the market approaches.</p>
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***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 auditor's 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 30, 2021

*Crowe Toyo & Co.*

## **REFERENCE DATA**

**Okasan Securities Co., Ltd.**  
**Balance Sheet — March 31, 2021**

	Millions of yen			Thousands of U.S. dollars	
	2021		2020		2021
	¥	¥	\$	\$	
<b>ASSETS</b>					
Current assets:					
Cash on hand and in banks	¥ 26,054	¥ 24,701	\$ 235,336		
Cash segregated as deposits for customers and others	39,954	52,557	360,889		
Trading assets	210,186	122,353	1,898,528		
Receivables on margin transactions	35,418	27,718	319,917		
Receivables on collateralized securities transactions	223,362	32,222	2,017,541		
Short-term guarantee deposits	9,059	7,990	81,826		
Other current assets	3,543	3,220	32,002		
Allowance for doubtful accounts	(0)	(0)	(0)		
Total current assets	547,576	270,761	4,946,039		
Property and equipment, net of accumulated depreciation	2,322	2,508	20,974		
Intangible assets, net	349	387	3,152		
Investments and other assets:					
Investment securities	1,072	769	9,683		
Securities in associated companies	211	211	1,906		
Long-term guarantee deposits	5,225	5,102	47,195		
Deferred income taxes	1,886	1,856	17,036		
Prepaid pension cost	965	1,002	8,716		
Other	1,039	1,045	9,385		
Allowance for doubtful accounts	(682)	(684)	(6,160)		
Total investments and other assets	9,716	9,301	87,761		
<b>TOTAL</b>	<b>¥ 559,963</b>	<b>¥ 282,957</b>	<b>\$ 5,057,926</b>		

**Okasan Securities Co., Ltd.**  
**Balance Sheet—(Continued) — March 31, 2021**

	Thousands of U.S. dollar			
	Millions of yen		2021	
	2021	2020		
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities:				
Trading liabilities	¥ 156,508	¥ 66,531	\$ 1,413,675	
Payables arising from unsettled trades	92,577	5,024	836,212	
Payables on margin transactions	8,969	12,851	81,013	
Payables on collateralized securities transactions	49,155	3,000	443,998	
Deposits received	42,130	28,005	380,544	
Guarantee deposits received	10,948	8,333	98,889	
Short-term borrowings	102,815	59,515	928,688	
Income tax payables	400	409	3,613	
Other current liabilities	5,567	8,591	50,284	
Total current liabilities	469,069	192,259	4,236,916	
Non-current liabilities:				
Long-term borrowings	6,700	6,000	60,519	
Liability for retirement benefits	5,251	5,238	47,430	
Other non-current liabilities	1,652	1,780	14,922	
Total non-current liabilities	13,603	13,018	122,871	
Financial instruments transactions reserve	775	836	7,000	
Total liabilities	483,447	206,113	4,366,787	
Net assets				
Shareholder's equity:				
Common stock				
Authorized—240,000 shares				
Issued—100,000 shares in 2021 and 2020	5,000	5,000	45,163	
Capital surplus	29,200	29,200	263,752	
Retained earnings	42,300	42,647	382,079	
Total shareholder's equity	76,500	76,847	690,994	
Accumulated other comprehensive income:				
Unrealized gain (loss) on available-for-sale securities	16	(3)	145	
Total net assets	76,516	76,844	691,139	
<b>TOTAL</b>	¥ 559,963	¥ 282,957	\$ 5,057,926	

**Okasan Securities Co., Ltd.**

**Statement of Income — Year ended March 31, 2021**

	Millions of yen		Thousands of U.S. dollar
	2021	2020	2021
<b>Operating revenues:</b>			
Commissions	¥ 29,442	¥ 26,108	\$ 265,938
Net gain on trading	19,756	22,053	178,448
Interest and dividend income	1,230	1,210	11,110
	<u>50,428</u>	<u>49,371</u>	<u>455,496</u>
Interest expense	973	827	8,788
Net operating revenues	49,455	48,544	446,708
Selling, general and administrative expenses	45,804	47,231	413,730
Operating income	3,651	1,313	32,978
<b>Other income (expenses):</b>			
Impairment loss	(178)	(503)	(1,608)
Reversal of (provision for) financial instruments transactions reserve	62	-	560
Other, net	448	314	4,047
	<u>332</u>	<u>(189)</u>	<u>2,999</u>
Income before income taxes	3,983	1,124	35,977
<b>Income taxes:</b>			
Current	1,369	784	12,365
Deferred	(39)	(59)	(352)
	<u>1,330</u>	<u>725</u>	<u>12,013</u>
Net income	¥ 2,653	¥ 399	\$ 23,964



## **CORPORATE DATA**

(At August, 2021)

**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**

12 companies

**Listed Stock Exchanges**

Tokyo Stock Exchange  
Nagoya Stock Exchange

## **BOARD OF DIRECTORS**

(At August, 2021)

**Chairman**

KATO Tetsuo

**President**

SHINSHIBA Hiroyuki

**Director**

TANAKA Mitsuru

**Director**

IKEDA Yoshihiro

**Director**

EGOSHI Makoto

**Audit & Supervisory Committee Members**

**Outside Director**

HIGO Seishi

**Outside Director**

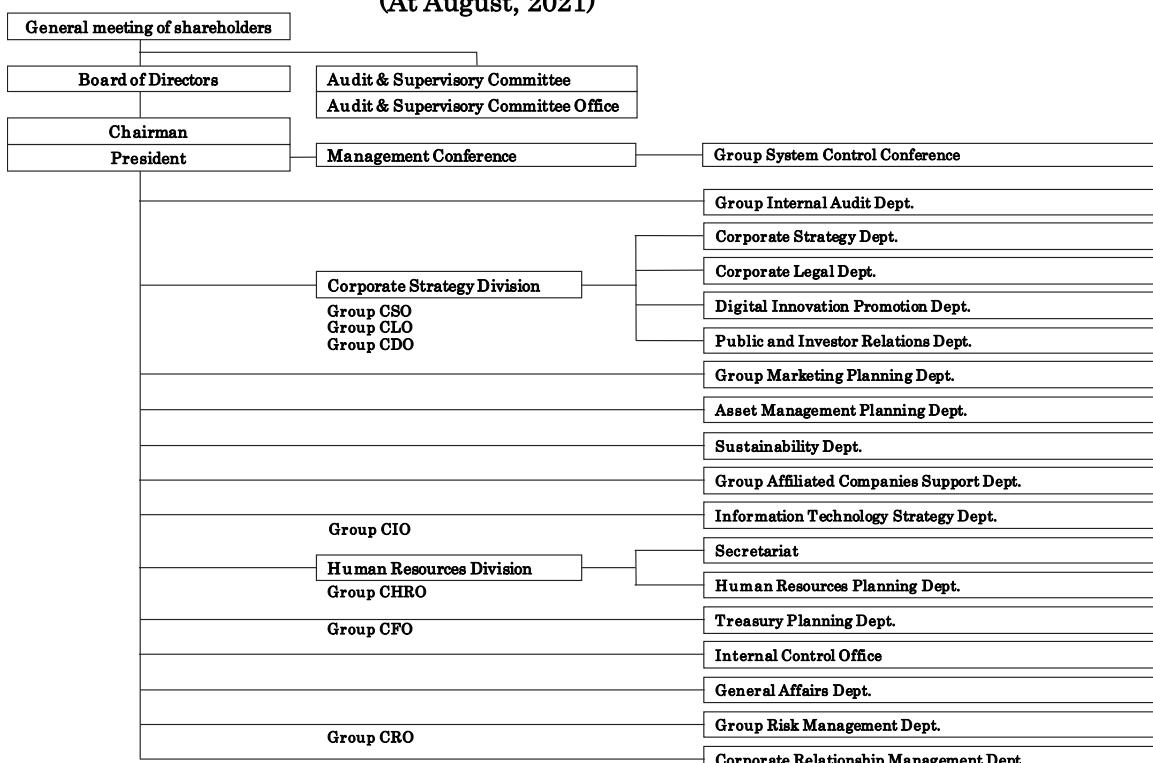
NAGAI Mikito

**Outside Director**

UJIHARA Kiyoshi

## **ORGANIZATIONAL CHART**

(At August, 2021)





OKASAN SECURITIES GROUP INC.

[www.okasan.jp](http://www.okasan.jp)