

# *ANNUAL REPORT*

---

Ending March 31, 2013

## *Corporate Profile*

Okasan Securities Group is a stand-alone securities company group established in 1923. Headed by the holding company, Okasan Securities Group Inc., it consists of nine domestic companies and one overseas company. Okasan Securities Group is committed to a wide spectrum of securities investment and asset management businesses, through a network of six domestic and overseas securities firms centering on the core firm, Okasan Securities Co., Ltd. It is also involved in asset-management business, such as investment trusts, information-processing/system-development business, as well as office-support business, such as alternate back-office jobs.

Taking advantage of nurtured expertise since its inception, Okasan Securities Group engages in unique and community-based "face to face" securities sales activities, and it also provides a cutting-edge online trading environment. We are always ready to offer optimum performances by way of highly sophisticated and professional investment and asset management services, which include the development of innovative products, extensive and abundant market information, and high quality analyst information.

### *Contents*

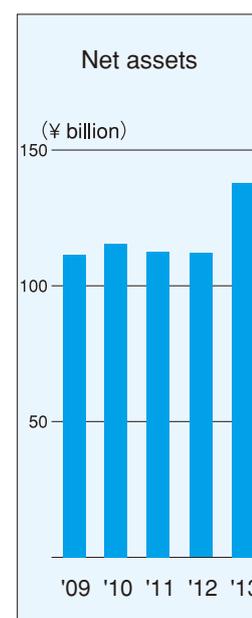
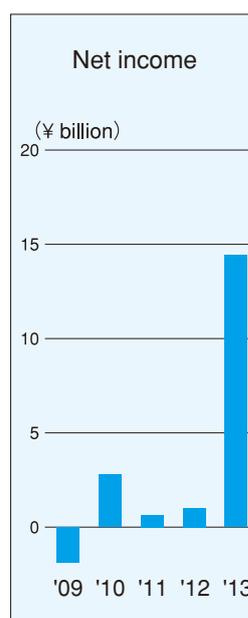
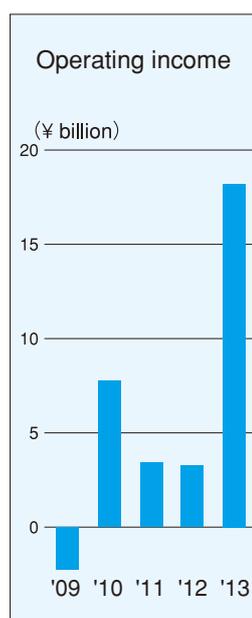
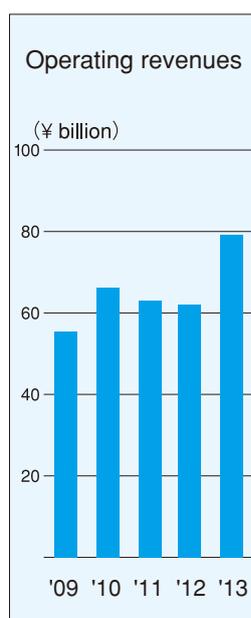
Corporate Profile	1
Consolidated Financial Highlights	2
Management Policy	3
Operating and Financial Review	5
Consolidated Balance Sheet	9
Consolidated Statement of Income	11
Consolidated Statement of Comprehensive Income	12
Consolidated Statement of Changes in Net Assets	13
Consolidated Statement of Cash Flows	16
Notes to Consolidated Financial Statements	17
Independent Auditors' Report	47
Reference Data	
Okasan Securities Co.,Ltd. Non-Consolidated Balance Sheet	49
Non-Consolidated Statement of Income	51
Corporate Data	52

## Consolidated Financial Highlights

### Okasan Securities Group Inc. and consolidated Subsidiaries Years ended March 31, 2013

	Millions of yen		Thousands of U.S.dollars (note)
	2013 (4/1/12 ~ 3/31/13)	2012 (4/1/11 ~ 3/31/12)	2013 (4/1/12 ~ 3/31/13)
Operating revenues .....	¥ 78,664	¥ 61,065	\$ 836,406
Operating income .....	18,116	3,152	192,621
Net income .....	14,308	984	152,132
Total assets .....	723,384	556,389	7,691,483
Net assets .....	133,572	112,016	1,420,223
Per share of common stock	Yen		U.S.dollars (note)
Basic net income .....	¥ 72.22	¥ 4.93	\$ 0.77
Cash dividends applicable to the year .....	20.00	5.00	0.21

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 29, 2013, which was ¥94.05 to U.S. \$1.



## Management Policy

---

### *Okasan Securities Group Inc. and Consolidated Subsidiaries*

#### **1. Basic management policy for the Company**

The Company manages the corporate Group consisting of the Company, which is the holding company, and consolidated subsidiaries in Japan and abroad. Through investment-related services, which have investment banking and asset management at their core, the Company aims to continue to increase corporate value and to become a company that is trusted by customers, shareholders, and the market.

#### **2. Basic policy on the distribution of profits and dividend for the term**

The Company sees shareholder returns as an important management benchmark and would like to distribute the payout in consideration of the trends in earnings, while also taking into account the sustainability and continuity of a stable dividend.

#### **3. Important management index**

In rapidly changing market conditions, it is important to secure stable profits. Based on this understanding, we consider return on equity (ROE) an important management index. We aim to achieve a stable consolidated ROE of 10% as a business objective.

#### **4. Medium and long-term management strategy**

Under the medium-term business plan that ran from April 2010 through March 2013 (FY2010–FY2012), the Company aimed to establish a management structure that would enable it to increase its presence in the markets and achieve sustainable growth by "providing the best quality products, information and service", and "establishing a securities marketing culture rooted in individual regions" under a basic philosophy of acting "in the interests of each and every one of our clients," and with a focus on improving service quality.

In the final year of the medium term plan, Okasan Securities Co., Ltd. pushed forward with efforts to build a structure that would enable the provision of products and information "from a global perspective," by expanding its range of products in investment trusts and foreign bonds, as well as expanding alliances in the Asian region through new tie-ups with Korean and Taiwanese securities companies. In investment research, it also improved its overseas research capabilities and began publishing a new investment research newsletter. Okasan Online Securities Co., Ltd. strived to expand the customer base by completely re-engineering its OTC forex service, as well as starting to provide new tools for automated forex trading, and futures and options trading for smart phones. In IT systems, the new core securities operations system ODIN (Okasan Database Information Node), developed by Okasan Information Systems Co., Ltd., began full operations.

#### **5. Challenges the Company should address**

Given the increasing globalization of the world economy and the development of advanced and diversified financial products, needs for investment advice grew considerably. At the same time, the emergence of specialist internet brokerages and the expansion of the securities businesses of the megabanks caused competition in the securities industry to intensify.

In this environment, the Company believes that the leveraging of each group company's business strengths to establish the infrastructure to rapidly and accurately respond to the increasingly diverse asset management needs of individual investors is an important management issue. To do this, management has further refined the product and information provision capabilities that are the lifeblood of a securities company, and is striving to improve marketing and service infrastructure by hiring and training highly skilled staff. The Company also aims

to become the best advisory partner for its customers via regionally rooted marketing.

In 2013, the Company is celebrating 90 years since foundation, and wants to make this occasion a beachhead for its the future into its centennial. To do so, it is endeavoring to build better relationships with investors and shareholders alike, and expand its business under sound management policy.

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

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

As globalization progresses and a shift in management towards creation of enterprise value accelerates, the importance of corporate governance is increasing. In response to this environmental change, we are committed to high standards of corporate governance as we regard it as one of our management responsibilities. As we face the challenges of a rapidly changing business landscape, we have undertaken to deliver such solutions so as to speed up the decision-making process and to enhance efficiency of the managerial and supervisory systems.

### **(2) Structure of business execution**

With regard to the structure of business execution, the Board of Directors as the supreme decision making organ on management makes a decision on items provided in laws and regulations and articles of incorporation and maps out plans of the management strategy of the Group and supervises them. The President - CEO executes decisions of the Board of Directors and supervises overall management. The Board of Directors consists of 7 directors, which enables it to make a quick decision by being small in number.

We have introduced the operating officer system, clarifying the roles of the Board of Directors, which makes management decisions and supervises management, and executive officers, who are in charge of business execution, to strengthen the business management of the Group. The Board of executive officers consists of 12 such officers and, according to the basic management policies adopted in the Board of Directors, deliberates on laying out specific policies and plans of business execution and other important managerial subjects. In addition, we set up the "Group Strategic Management Meeting" and "Group Administrative Management Meeting" as advisory bodies to the president-director, to realize the planning and decision of uniform and flexible management strategies and the improvement in the administration of each of the Group companies.

### **(3) Management monitoring structure**

As regards the structure of the management monitoring, out of 6 auditors in total that includes 3 statutory auditors, 3 are outside auditors. Auditors constitute an auditors' meeting, decide on auditing policies according to laws and regulations and articles of incorporation based on the rules of auditors' meeting, and make up audit opinions from the reports of auditors. And through attending the Board of Directors and other important meetings etc., hearing the Board of Directors and looking through important approved documents etc., they oversee the process of decision making at the Board of Directors and the state of business execution of directors. In addition, they are trying to implement a proper auditing in cooperation with independent auditors and the divisions in charge of internal auditing.

Okasan Securities Group Inc. entered into an agreement with the 3 outside auditors to limit their liabilities under Article 423, Paragraph 1 of the Companies Act to the amount provided by laws and ordinances.

### **(4) Internal auditing structure**

As part of efforts to contribute to secure appropriate business operations such as reducing management risks and preventing wrongdoings, we set up internally the auditing division and assigned four staff there. The auditing division makes up an audit plan in each fiscal year, periodically implements an on-the-spot audit based on the plan and inspects documents when necessary. The results of auditing are reported to the Board of Directors from the director in charge of auditing, in the form of the audit report.

## Operating and Financial Review

*Okasan Securities Group Inc. and Consolidated Subsidiaries Years ended March 31, 2013*

### I. Analysis of operating results

In the fiscal year ended March 31, 2013 (hereinafter, the fiscal year), considerable uncertainty remained regarding the economy, because of factors such as renewed debt problems in Europe, deterioration in the Japan-China relationship, rises in utilities costs and the increase in the consumption tax planned for April 2014. However, expectations for monetary easing and fiscal stimulus after the change in government caused the yen to weaken and the equity market to recover, and there were signs of recovery in personal consumption backed by expectations for improvement in business sentiment, particularly among exporters.

In the second half of the fiscal year, the yen weakened from excessively high levels, thanks to expectations for dramatic monetary easing by the Bank of Japan (BoJ), the prospect of improvement in the US economy, and the rectification of the previous excessive pessimism regarding the European economy. After spending most of the first half in a narrow range centering on ¥78/\$–¥80/\$, the yen-dollar rate rose above ¥96/\$ at one stage in March 2013 before finishing the fiscal year at ¥94/\$–¥95/\$. Against the euro, the yen weakened to ¥127/€–¥128/€ at one point in February, but subsequent concern regarding the problems of support for Greece and political instability in Italy saw the euro weaken again to ¥120/€–¥121/€.

In the equity market, the Nikkei 225 fell below 10,000 at one point in early April 2012, on concern regarding the European debt crisis, declining to a fiscal-year low of 8,295.63 (closing price) in early June. Subsequently, the market was weighed down by weak corporate earnings in Japan and the yen's strength, trading in a 8,300–9,300 range. However, the announcement of the dissolution of the Lower House of the Diet in mid-November stimulated expectations for policies to end deflation under a new government, and the Japanese equities market entered a sustained rally. The Nikkei 225 recovered to the level of before the 2008 Lehman shock in March 2013, and closed the fiscal year at 12,397.91, marking a gain of 23% over the year.

In the bond market, yields continued to decline over the whole fiscal year, thanks to support from the BoJ's accommodative monetary policy. While the yield on the 10-year Japanese government bond (JGB) rose to more than 1% early in the fiscal year, it began to decline in the first half due to concern regarding slowdown in the global economy. In the second half, the yield on the 10-year JGB fell more quickly, thanks to expectations for dramatic easing in monetary policy, and closed the fiscal year at 0.56%.

In this environment, the core group company Okasan Securities Co., Ltd expanded its lineup of investment trusts and foreign bonds in order to be able to meet increasingly diverse customer needs. It also expanded its information dissemination infrastructure for individual investors, began publishing the investment information newsletter Okasan Global Weekly, formed operational tie-ups with major Korean and Taiwanese securities companies, developed quants indices, and strengthened investment information provision capabilities to respond to change in the investment environment.

Okasan Online Securities, which specializes in internet trading, improved its service level by expanding the range of trading tools for smart phones, usage of which it expected to grow. It also grew its customer base, and worked to retain existing customers, through promotional campaigns and a positive response to the easing of margin trading regulations.

Okasan Asset Management Co., Ltd. further built the infrastructure to allow for more flexible product provision in reaction to change and to improve asset management capabilities. Its efforts to expand assets under management via carefully tailoring sales support to individual sales agents resulted in growth in the net asset value of investment trusts to an all-time high of ¥1,331.7 billion at the fiscal year-end.

As a result, operating revenues of the Company grew 28.8% year on year to ¥78,664 million in the fiscal year, with net operating revenues also rising 29.7% to ¥77,136 million. As selling, general and administrative expenses rose in a slower rate of 4.8% year on year to ¥59,020 million, net profit surged 1,354.3% year on year, to ¥14,308 million.

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

Fees and commissions received grew 23.8% year on year to ¥49,456 million. The main breakdown was as follows.

### **(1) Brokerage commissions**

Average daily trading volume on the First Section of the Tokyo Stock Exchange (Japanese common shares) was 2,466 million shares, up 16.7% year on year, while turnover in value increased 14.9% to ¥1,499.8 billion. Given the strength of the domestic equities market, equity brokerage commissions grew 66.2% year on year to ¥14,626 million. Bond brokerage commissions were up 15.6% year on year to ¥21 million, while other brokerage commissions declined 34.6% to ¥697 million. As a result, total brokerage commissions grew 55.3% to ¥15,344 million.

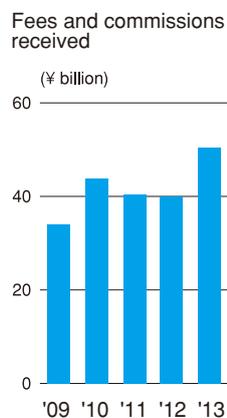
### **(2) Underwriting fees, selling concessions, and commissions on solicitation for sales of financial instruments to specified investors and others**

As the Company was engaged in large initial public offerings and public offerings of already listed stocks, the number and value of underwritten deals advanced this year, with commissions on equity increasing 490.7% year on year to ¥325 million. Commissions on bonds rose 35.9% year on year to ¥90 million, with the Company acting as administrative managers and/or lead managers for issues of government guaranteed bonds, municipal bonds and corporate bonds, as well as a key underwriter of bonds issued under the fiscal investments and loan program. As a result, total underwriting fees and selling concessions, and commissions on the sale of financial instruments to specific investors and others, rose 242.9% year on year, to ¥415 million.

### **(3) Administrative charges on offering, selling and solicitation for sales of financial instruments to specified investors, and other fees and commissions received**

Investment trust funds are the revenue drivers of this category.

The Company implemented a product strategy tailored to market conditions, as market environment dramatically change in the second half of the fiscal year. In the first half, the Company focused on the introduction of diversified funds that are less affected by change in the market, as well as on the sale of existing foreign bond funds. In the second half, the focus shifted to the introduction of Asian high-yield bond funds, as well as the sale of existing funds that invest in J-REITs and equities in a specific ASEAN country. As a result of growth in assets under custody due to the expansion of the product line-up throughout the fiscal year, placement commissions grew 19.3% year on year, to ¥21,607 million. Other commissions edged up 2.2% year on year to ¥12,090 million, thanks to efforts to boost sales of variable pension insurance, business insurance and other insurance products, as well as contribution of investment trust agency commissions.



### Fees and commissions received

#### Breakdown by category

(Millions of yen except percentage)

	2013<A> (4/1/12 ~ 3/31/13)	2012<B> (4/1/11 ~ 3/31/12)	Ratio <A>/<B>
Brokerage commissions	¥ 15,344	¥ 9,881	155.3
Equities	14,626	8,798	166.2
Bonds	21	18	115.6
Others	697	1,065	65.4
Underwriting fees and selling concessions	415	121	342.9
Equities	325	55	590.7
Bonds	90	66	135.9
Placement commissions	21,607	18,110	119.3
Other commissions	12,090	11,835	102.2
<b>Total</b>	<b>¥ 49,456</b>	<b>¥ 39,947</b>	<b>123.8</b>

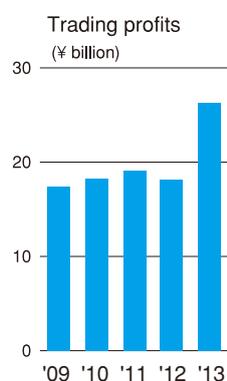
#### Breakdown by product

(Millions of yen except percentage)

	2013<A> (4/1/12 ~ 3/31/13)	2012<B> (4/1/11 ~ 3/31/12)	Ratio <A>/<B>
Equities	¥ 15,221	¥ 9,148	166.4
Bonds	228	203	112.1
Investment trusts	32,756	29,041	112.8
Others	1,251	1,555	80.5
<b>Total</b>	<b>¥ 49,456</b>	<b>¥ 39,947</b>	<b>123.8</b>

## 2. Trading profits

A stronger equity market, coupled with a weakening yen, enabled the Company to dramatically expand broking and dealing of the US equities, while profits from Japanese equities also improved. As a result, profits on equity trading grew 75.9% year on year, to ¥12,264 million. With domestic interest rates remaining low, the Company continued to promote high-yield bonds denominated in emerging market currencies, as well as structured bonds denominated in euro. These activities contributed to a 30.1% year on year rise in bond trading profits, to ¥14,384 million. With other trading losses of ¥593 million, which compared with profits of ¥44 million in the previous fiscal year, the Company earned total trading profits of ¥26,055 million, up 44.2% year on year.



#### Trading profits

(Millions of yen except percentage)

	2013<A> (4/1/12 ~ 3/31/13)	2012<B> (4/1/11 ~ 3/31/12)	Ratio <A>/<B>
Equities	¥ 12,264	¥ 6,971	175.9
Bonds	14,384	11,058	130.1
Others	-593	44	-
<b>Total</b>	<b>¥ 26,055</b>	<b>¥ 18,073</b>	<b>144.2</b>

## 3. Net financial income

Financial income grew 11.5% year on year to ¥2,216 million, while financial expenses fell 4.4% to ¥1,528 million, so net financial income rose 76.8% to ¥688 million.

## 4. Other operating income

Other operating income, excluding that related to the financial products transaction and incidental business,

declined 11.4% year on year to ¥937 million.

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

Selling, general and administrative expenses increased 4.8% year on year to ¥59,020 million, mainly because of increase in personnel and transaction related expenses.

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

Other income grew 64.7% year on year to ¥1,301 million, due mainly to increased gain on sale of investment securities.

## **7. Dividends**

The Company sees shareholder returns as an important management benchmark and would like to distribute the payout in consideration of the trends in earnings, while also taking into account the sustainability and continuity of a stable dividend. Based on this policy, the Company plans to offer a normal dividend of ¥15 per share for the the fiscal year.

Celebrating the 90th anniversary of foundation on April 4, 2013, however, the Company would like to additionally pay a commemorative dividend of ¥5 per share and thank shareholders for their support. Thus, the proposed dividend per share for the year ending March 2013 will amount ¥20, including the normal dividend.

# **II. Analysis of financial position**

## **1. Assets, liabilities and net assets**

Consolidated total assets grew ¥166,995 million year on year to ¥723,384 million at the fiscal year-end. This was due mainly to an increase of ¥92,191 million in trading assets, ¥22,591 million in cash segregated as deposits for customers and others, ¥21,802 million in receivables on margin transactions, and ¥20,237 million in receivables arising from unsettled trades.

Liabilities grew ¥145,439 million year on year to ¥589,812 million at the fiscal year-end. This was mainly due to an increase of ¥70,284 million in payables on collateralized securities transactions, ¥39,856 million in short-term borrowings, ¥11,649 million in deposits received and ¥10,352 million in guarantee deposits received.

Consequently, net assets grew ¥21,556 million year on year to ¥133,572 million at the fiscal year-end. This was mainly due to an increase of ¥13,355 million in retained earnings and ¥5,960 million in unrealized gains on available-for-sale securities.

## **2. Cash flows**

Cash and cash equivalents declined ¥1,482 million to ¥39,540 million at the fiscal year-end. Change in each cash flow item is highlighted as follows.

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

Cash outflows from operating activities were ¥36,185 million. The main factors were a cash inflow of ¥71,113 million due to change in in payables and receivables on collateralized securities transactions, and cash outflows of ¥109,136 million due to change in trading assets/liabilities and ¥19,800 million due to an increase in deposits segregated for customers.

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

Cash outflows from investing activities were ¥3,036 million. The main factors were a cash inflow of ¥3,570 million due to revenue from the sale of short-term investments, and cash outflows of ¥2,997 million due to payment for short-term investments, ¥1,953 million due to acquisition of intangible assets, and ¥1,864 million due to acquisition of shares of affiliates.

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

Cash inflows from financing activities were ¥36,230 million. This was mainly attributed to an inflow of ¥37,972 million due to an increase in short-term borrowings.

**Okasan Securities Group Inc. and Consolidated Subsidiaries**  
**Consolidated Balance Sheet — March 31, 2013**

	Millions of yen		Thousands of U.S. dollars (note 3)
	2013	2012	2013
<b>ASSETS</b>			
Current assets:			
Cash on hand and in banks (notes 10 and 21)	¥ 44,508	¥ 45,898	\$ 473,238
Cash segregated as deposits for customers and others	65,341	42,750	694,747
Trading assets (notes 4 and 10)	277,859	185,668	2,954,375
Receivables arising from unsettled trades	20,237	-	215,173
Receivables on margin transactions (note 5)	55,335	33,533	588,357
Receivables on collateralized securities transactions (note 6)	185,257	186,087	1,969,771
Short-term investments (note 7)	3,204	3,566	34,067
Deferred income taxes (note 11)	1,765	854	18,767
Other current assets	8,531	6,951	90,707
Allowance for doubtful accounts	(15)	(3)	(159)
Total current assets	662,022	505,304	7,039,043
Property and equipment, net of accumulated depreciation of ¥11,718 million (\$124,593 thousand) in 2013 and ¥11,115 million in 2012 (note 10)	16,498	16,305	175,417
Intangible assets, net	7,705	8,400	81,925
Investments and other assets:			
Investment securities (notes 7, 8 and 10)	30,185	18,908	320,946
Long-term guarantee deposits	3,256	3,543	34,620
Deferred income taxes (note 11)	1,901	2,345	20,212
Other	4,220	4,348	44,870
Allowance for doubtful accounts	(2,403)	(2,764)	(25,550)
Total investments and other assets	37,159	26,380	395,098
<b>TOTAL</b>	<b>¥ 723,384</b>	<b>¥ 556,389</b>	<b>\$ 7,691,483</b>

See accompanying notes to consolidated financial statements.

**Okasan Securities Group Inc. and Consolidated Subsidiaries**  
**Consolidated Balance Sheet — (Continued) — March 31, 2013**

	Millions of yen		Thousands of U.S. dollars (note 3)
	2013	2012	2013
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities:			
Trading liabilities (note 4)	¥ 159,573	¥ 152,268	\$ 1,696,683
Payables arising from unsettled trades	-	4,058	-
Payables on margin transactions (notes 5 and 10)	19,339	16,172	205,625
Payables on collateralized securities transactions (note 6)	131,651	61,367	1,399,798
Deposits received	29,987	18,338	318,841
Guarantee deposits received	33,348	22,996	354,577
Short-term borrowings (notes 9 and 10)	176,024	136,168	1,871,600
Income tax payables (note 11)	4,232	961	44,997
Other current liabilities (notes 9,11 and 13)	7,176	5,454	76,300
Total current liabilities	561,330	417,782	5,968,421
Non-current liabilities:			
Long-term borrowings (notes 9 and 10)	11,575	13,478	123,073
Lease liabilities (note 9)	861	696	9,155
Deferred income taxes (note 11)	4,804	1,651	51,079
Retirement and severance benefits (note 12)	7,028	6,515	74,726
Other non-current liabilities (note 13)	2,537	2,860	26,975
Total non-current liabilities	26,805	25,200	285,008
Financial instruments transactions reserve (note 14)	1,677	1,391	17,831
Total liabilities	589,812	444,373	6,271,260
Net assets			
Shareholders' equity (note 15):			
Common stock			
Authorized – 750,000,000 shares in 2013 and 2012			
Issued – 208,214,969 shares in 2013 and 2012	18,590	18,590	197,661
Capital surplus	12,913	12,911	137,299
Retained earnings	77,845	64,490	827,698
Treasury stock, at cost, 10,112,670 shares in 2013 and 9,936,084 shares in 2012	(3,637)	(3,582)	(38,671)
Total shareholders' equity	105,711	92,409	1,123,987
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities (note 7)	6,524	564	69,367
Surplus on land revaluation (note 16)	371	327	3,945
Foreign currency translation adjustments	(442)	(840)	(4,700)
Total accumulated other comprehensive income	6,453	51	68,612
Minority interests	21,408	19,556	227,624
Total net assets	133,572	112,016	1,420,223
Commitments and contingencies (note 22)			
<b>TOTAL</b>	<b>¥ 723,384</b>	<b>¥ 556,389</b>	<b>\$ 7,691,483</b>

See accompanying notes to consolidated financial statements.

**Okasan Securities Group Inc. and Consolidated Subsidiaries**  
**Consolidated Statement of Income — Year ended March 31, 2013**

	Millions of yen		Thousands of U.S. dollars (note 3)
	2013	2012	2013
Operating revenues:			
Commissions	¥ 49,456	¥ 39,947	\$ 525,848
Net gain on trading	26,055	18,073	277,033
Interest and dividend income	2,216	1,988	23,562
Service fee and other revenues	937	1,057	9,963
	<u>78,664</u>	<u>61,065</u>	<u>836,406</u>
Interest expense	<u>1,528</u>	<u>1,598</u>	<u>16,247</u>
Net operating revenues	<u>77,136</u>	<u>59,467</u>	<u>820,159</u>
Selling, general and administrative expenses (note18)	<u>59,020</u>	<u>56,315</u>	<u>627,538</u>
Operating income	<u>18,116</u>	<u>3,152</u>	<u>192,621</u>
Other income (expenses):			
Dividend income	576	509	6,124
Gain on sale of investment securities	741	208	7,879
Negative goodwill	396	279	4,211
Interest expense	(91)	(96)	(968)
Loss on devaluation of investment securities	(5)	(120)	(53)
Provision for financial instruments transactions reserve	(285)	(179)	(3,030)
Other, net	(31)	189	(330)
	<u>1,301</u>	<u>790</u>	<u>13,833</u>
Income before income taxes and minority interests	<u>19,417</u>	<u>3,942</u>	<u>206,454</u>
Income taxes (note 11):			
Current	5,405	2,165	57,470
Deferred	(1,394)	209	(14,822)
	<u>4,011</u>	<u>2,374</u>	<u>42,648</u>
Income before minority interests	<u>15,406</u>	<u>1,568</u>	<u>163,806</u>
Minority interests	<u>1,098</u>	<u>584</u>	<u>11,674</u>
Net income	<u>¥ 14,308</u>	<u>¥ 984</u>	<u>\$ 152,132</u>

See accompanying notes to consolidated financial statements.

**Okasan Securities Group Inc. and Consolidated Subsidiaries**  
**Consolidated Statement of Comprehensive Income — Year ended March 31, 2013**

	Millions of yen		Thousands of U.S. dollars (note 3)
	2013	2012	2013
Income before minority interests	¥ 15,406	¥ 1,568	\$ 163,806
Other comprehensive income (loss) (note 19):			
Unrealized gain on available-for-sale securities	7,475	4	79,479
Surplus on land revaluation	-	229	-
Foreign currency translation adjustments	398	(30)	4,232
Total other comprehensive income	<u>7,873</u>	<u>203</u>	<u>83,711</u>
Comprehensive income	<u>¥ 23,279</u>	<u>¥ 1,771</u>	<u>\$ 247,517</u>
Comprehensive income attributable to:			
Owners of parent	¥ 20,666	¥ 990	\$ 219,734
Minority interests	2,613	781	27,783

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, 2013**

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balances at March 31, 2011	¥ 18,590	¥ 12,911	¥ 64,496	¥ (2,850)	¥ 93,147
Changes arising during the year:					
Increase of capital surplus resulting from changes in interest in consolidated subsidiaries		1			1
Cash dividends			(989)		(989)
Net income			984		984
Purchase of treasury stock				(707)	(707)
Disposition of treasury stock		(1)	(1)	4	2
Increase of treasury stock resulting from changes in interest in consolidated subsidiaries				(29)	(29)
Net changes other than shareholders' equity					
Total changes during the year	-	(0)	(6)	(732)	(738)
Balances at March 31, 2012	18,590	12,911	64,490	(3,582)	92,409
Changes arising during the year:					
Increase of capital surplus resulting from changes in interest in consolidated subsidiaries		2			2
Cash dividends			(975)		(975)
Net income			14,308		14,308
Reversal of surplus on land revaluation			22		22
Purchase of treasury stock				(14)	(14)
Increase of treasury stock resulting from changes in interest in consolidated subsidiaries				(41)	(41)
Net changes other than shareholders' equity					
Total changes during the year	-	2	13,355	(55)	13,302
Balances at March 31, 2013	¥ 18,590	¥ 12,913	¥ 77,845	¥ (3,637)	¥ 105,711

	Millions of yen						
	Accumulated other comprehensive income (loss)				Minority interests	Total net assets	
	Unrealized gain on available-for-sale securities	Surplus on land revaluation	Foreign currency translation adjustments	Total accumulated other comprehensive income (loss)			
Balances at March 31, 2011	¥ 586	¥ 270	¥ (811)	¥ 45	¥ 19,431	¥ 112,623	
Changes arising during the year:							
Increase of capital surplus resulting from changes in interest in consolidated subsidiaries						1	
Cash dividends						(989)	
Net income						984	
Purchase of treasury stock						(707)	
Disposition of treasury stock						2	
Increase of treasury stock resulting from changes in interest in consolidated subsidiaries						(29)	
Net changes other than shareholders' equity	(22)	57	(29)	6	125	131	
Total changes during the year	(22)	57	(29)	6	125	(607)	
Balances at March 31, 2012	564	327	(840)	51	19,556	112,016	
Changes arising during the year:							
Increase of capital surplus resulting from changes in interest in consolidated subsidiaries						2	
Cash dividends						(975)	
Net income						14,308	
Reversal of surplus on land revaluation						22	
Purchase of treasury stock						(14)	
Increase of treasury stock resulting from changes in interest in consolidated subsidiaries						(41)	
Net changes other than shareholders' equity	5,960	44	398	6,402	1,852	8,254	
Total changes during the year	5,960	44	398	6,402	1,852	21,556	
Balances at March 31, 2013	¥ 6,524	¥ 371	¥ (442)	¥ 6,453	¥ 21,408	¥ 133,572	

	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, 2012	\$ 197,661	\$ 137,278	\$ 685,699	\$ (38,086)	\$ 982,552
Changes arising during the year:					
Increase of capital surplus resulting from changes in interest in consolidated subsidiaries		21			21
Cash dividends			(10,367)		(10,367)
Net income			152,132		152,132
Reversal of surplus on land revaluation			234		234
Purchase of treasury stock				(149)	(149)
Increase of treasury stock resulting from changes in interest in consolidated subsidiaries				(436)	(436)
Net changes other than shareholders' equity					
Total changes during the year	-	21	141,999	(585)	141,435
Balances at March 31, 2013	\$ 197,661	\$ 137,299	\$ 827,698	\$ (38,671)	\$ 1,123,987

	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	Total accumulated other comprehensive income (loss)	Minority interests	Total net assets
Balances at March 31, 2012	\$ 5,997	\$ 3,477	\$ (8,932)	\$ 542	\$ 207,932	\$ 1,191,026
Changes arising during the year:						
Increase of capital surplus resulting from changes in interest in consolidated subsidiaries						21
Cash dividends						(10,367)
Net income						152,132
Reversal of surplus on land revaluation						234
Purchase of treasury stock						(149)
Increase of treasury stock resulting from changes in interest in consolidated subsidiaries						(436)
Net changes other than shareholders' equity	63,370	468	4,232	68,070	19,692	87,762
Total changes during the year	63,370	468	4,232	68,070	19,692	229,197
Balances at March 31, 2013	\$ 69,367	\$ 3,945	\$ (4,700)	\$ 68,612	\$ 227,624	\$ 1,420,223

See accompanying notes to consolidated financial statements.

**Okasan Securities Group Inc. and Consolidated Subsidiaries**  
**Consolidated Statement of Cash Flows — Year ended March 31, 2013**

	Millions of yen				Thousands of U.S. dollars (note 3)
	2013	2012	2013		
Cash flows from operating activities:					
Income before income taxes and minority interests	¥ 19,417	¥ 3,942	\$ 206,454		
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:					
Depreciation and amortization	3,964	3,939	42,148		
Interest and dividend income	(2,798)	(2,503)	(29,750)		
Interest expense	1,619	1,694	17,214		
Gain on sale of investment securities	(725)	(174)	(7,709)		
Loss on devaluation of investment securities	5	120	53		
Negative goodwill incurred	(396)	(279)	(4,210)		
Decrease (increase) in deposits segregated for customer	(19,800)	5,200	(210,526)		
Decrease (increase) in trading assets and increase (decrease) in trading liabilities	(109,136)	264	(1,160,404)		
Decrease (increase) in receivables on margin transactions and increase (decrease) in payables on margin transactions	(18,598)	(538)	(197,746)		
Decrease (increase) in receivables on collateralized securities transactions and increase (decrease) in payables on collateralized securities transactions	71,113	13,777	756,119		
Increase (decrease) in deposits received	10,751	(1,830)	114,312		
Decrease (increase) in short-term guarantee deposits	(548)	(52)	(5,827)		
Increase (decrease) in guarantee deposits received	10,317	(4,391)	109,697		
Increase (decrease) in allowance for doubtful accounts	(355)	(657)	(3,775)		
Increase (decrease) in retirement and severance benefits	512	254	5,444		
Increase (decrease) in financial instruments transactions reserve	285	179	3,030		
Other, net	(779)	823	(8,283)		
Sub-total	(35,152)	19,768	(373,759)		
Interest and dividend received	2,829	2,404	30,080		
Interest paid	(1,613)	(1,680)	(17,150)		
Income taxes paid	(2,249)	(2,249)	(23,913)		
Net cash provided by (used in) operating activities	(36,185)	18,243	(384,742)		
Cash flows from investing activities:					
Payment for short-term investments	(2,997)	(3,896)	(31,866)		
Proceeds from sale of short-term investments	3,570	3,900	37,959		
Payment for purchase of property and equipment	(731)	(474)	(7,772)		
Payment for intangible assets	(1,953)	(960)	(20,766)		
Payment for investment securities	(951)	(617)	(10,112)		
Proceeds from sale of investment securities	1,668	904	17,735		
Payment for investments in affiliates	(1,864)	(368)	(19,819)		
Other, net	222	108	2,360		
Net cash used in investing activities	(3,036)	(1,403)	(32,281)		
Cash flows from financing activities:					
Increase (decrease) in short-term borrowings	37,972	(9,741)	403,743		
Proceeds from long-term borrowings	825	70	8,772		
Payments on long-term borrowings	(1,001)	(2,307)	(10,643)		
Purchase of treasury stock	(14)	(707)	(149)		
Dividends paid to shareholders	(975)	(989)	(10,367)		
Dividends paid to minority shareholders of subsidiaries	(36)	(38)	(383)		
Other, net	(541)	(420)	(5,752)		
Net cash provided by (used in) financing activities	36,230	(14,132)	385,221		
Effect of exchange rate changes on cash and cash equivalents	404	(26)	4,296		
Net increase (decrease) in cash and cash equivalents	(2,587)	2,682	(27,506)		
Cash and cash equivalents, beginning of year	41,022	38,340	436,172		
Increase in cash and cash equivalents from merger	1,105	-	11,749		
Cash and cash equivalents, end of year (note 21)	¥ 39,540	¥ 41,022	\$ 420,415		

See accompanying notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

*Okasan Securities Group Inc. and Consolidated Subsidiaries — Year ended March 31, 2013*

### 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements include the accounts of Okasan Securities Group Inc. (the "Company") and its subsidiaries.

The Company and its domestic subsidiaries maintain their books of account and prepare their financial statements in conformity with financial accounting standards of Japan, and its foreign subsidiary in conformity with those of the country of its domicile.

"Practical Solution on unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force (PITF) No. 18, May 17, 2006) requires that for the preparation of consolidated financial statements, the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should be unified, in principle, and financial statements prepared by foreign subsidiaries in accordance with IFRSs or the generally accepted accounting principles in the United States (U.S. GAAP) tentatively may be used for the consolidation process, however, the items listed in the PITF should be adjusted in the consolidation process so that net income is accounted for in accordance with Japan GAAP unless they are not material. The Company made necessary modification to the consolidated financial statements according to the PITF.

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan and applicable to Japanese securities companies.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the financial statements issued domestically in Japan in order to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Consolidation** – The consolidated financial statements include the accounts of the Company and its 10 subsidiaries. There are no affiliates accounted for by equity method at March 31, 2013. During the year ended March 31, 2013, Shinwa Securities Co., Ltd. which had been accounted for by equity method was extinguished through a merger with Marufuku Securities Co., Ltd. (See note 27. BUSINESS COMBINATIONS)

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. The difference between the cost and the underlying net assets at the date of investments in subsidiaries or affiliates is allocated to identifiable assets and liabilities based on fair market value at the date of investments. The unallocated portion of the difference is recognized as goodwill or negative goodwill. Goodwill is amortized over its estimated period of benefit on a straight-line basis and negative goodwill is amortized over the appropriate period to reflect the investments, while immaterial goodwill or negative goodwill is charged to income when

incurred.

All significant intercompany balances and transactions have been eliminated in consolidation.

- b. Cash and cash equivalents** – For the purposes of the statement of cash flows, the Company considers all highly liquid investments with insignificant risk of changes in value which have maturities of generally three months or less when purchased to be cash equivalents.
- c. Trading assets and liabilities** – Trading assets and liabilities, including securities and financial derivatives for trading purposes are recorded on a trade date basis at fair value. Revenues and expenses related to trading securities transactions are recorded on a trade date basis. Changes in the fair values are reflected in "net gain on trading" in the accompanying consolidated statement of income. Gains and losses arose from derivatives held or issued for trading purposes are also reported as "net gain on trading" in the accompanying consolidated statement of income, which includes realized gains and losses as well as changes in the fair values of such instruments. Securities owned for non-trading purposes, shown in the accompanying consolidated balance sheet as "Short-term investments" and "Investment securities" are discussed below.
- d. Securities** – The Company examines the intent of holding securities for non-trading purposes, and classifies those securities as (a) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (b) equity securities issued by an affiliated company and (c) all other securities not classified in any of the above categories ("available-for-sale securities").  
Held-to-maturity debt securities are stated at amortized cost. Available-for-sale securities with market value are stated at market, based on quoted market prices. Realized gains and losses on sale of such securities are computed using the gross-average cost. Unrealized gains or losses on such securities, net of related taxes, are recorded in other accumulated comprehensive income. Debt securities classified as "available-for-sale securities" for which fair value is not available are stated at the amortized cost. Equity securities classified as "available-for-sale securities" for which market value is not available are stated at the gross-average cost.
- e. Hedging transactions** – The Company states derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes. Valuation gains or losses on hedging instruments are mainly deferred as assets or liabilities until the gains or losses on underlying hedged instruments are realized. The Company and certain subsidiaries have entered into interest rate swap agreements for hedging interest rate exposures. The difference in amounts to be paid or received on interest rate swap agreements is recognized over the life of the agreement as an adjustment to interest expense.
- f. Collateralized securities transactions** – Collateralized securities transactions consist of securities borrowed and loaned transactions and Gensaki 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 ("Sell Gensaki")/purchasing ("Buy Gensaki") 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 after April 1, 1998. And in an overseas subsidiary, depreciation is computed by the straight-line method.
- In accordance with the amendment of the Corporation Tax Act, effective from the year ended March 31, 2013, the Company and its domestic consolidated subsidiaries have changed their depreciation method for property and equipment acquired on or after April 1, 2012. This change has no material impact on income.
- 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** – The Company and its domestic consolidated subsidiaries have contributory and noncontributory pension plans, and unfunded retirement and severance plans to provide retirement and severance benefits to substantially all employees.
- Under the "Accounting Standards for Retirement Benefits", provisions for defined benefit retirement and pension plans have been made in the accompanying consolidated financial statements based on the present value of the projected future retirement and severance benefits attributable to employee services rendered by the end of the year, less amounts funded under contributory and noncontributory pension plans.
- The Company and its domestic consolidated subsidiaries have unfunded defined benefit pension plans for directors and corporate auditors. 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. Regarding finance leases transactions without title transfer for which the starting date for the lease transactions is prior to March 31, 2008, the Company and its domestic consolidated subsidiaries have continued recognize lease payments as expenses.
- l. Income taxes** – Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporate tax, inhabitant tax and business tax.
- The "Accounting Standards for Income Taxes" require that deferred income taxes be accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included on the financial statements or tax return. Under this method, deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary difference are expected to be recovered or settled, and the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.
- The Company has filed consolidated tax returns in Japan.
- m. Foreign currency transactions** – Under the "Accounting Standards for Foreign Currency Transactions," receivables and payables denominated in foreign currencies are translated into yen at the rate of exchange as of 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 as of the balance sheet dates,

a comprehensive adjustment resulting from translation is presented as "Foreign currency translation adjustments" in a component of net assets.

- n. Asset retirement obligations* – The Company recognizes an asset retirement obligation which is a statutory or similar obligation with regard to the removal of assets as a liability. An asset retirement obligation is recognized as a liability at the time that the asset is incurred by its acquisition, construction, development or ordinary use. When an asset retirement obligation is recognized as a liability, the asset retirement cost corresponding to it is included in the cost of the relevant asset by the same amount.
- o. Reclassifications* – Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the presentation used in consolidated statements as of and for the year ended March 31, 2013.
- p. New accounting pronouncements not yet adopted* – On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25 "Guidance on Accounting Standard for Retirement Benefits," which replaced the "Accounting Standard for Retirement Benefits" that had been issued by the Business Accounting Council in 1998.

Major changes are as follows:

(a) Treatment in the balance sheet

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability or asset.

(b) Treatment in the statement of income and the statement of comprehensive income

Actuarial gains and losses and past service costs that arose in the current period and yet to be recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

The Company expects to apply the revised accounting standard from the year beginning on April 1, 2013 and is in the process of measuring the effects of applying the revised accounting standard.

### 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 29, 2013, which was ¥94.05 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, 2013 and 2012 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
<b>Trading assets:</b>			
Equity securities and warrants	¥ 2,204	¥ 1,327	\$ 23,434
Government, corporate and other bonds	275,582	180,313	2,930,165
Commercial paper and certificates of deposit	-	3,998	-
Derivatives	73	30	776
	<u>¥ 277,859</u>	<u>¥ 185,668</u>	<u>\$ 2,954,375</u>
<b>Trading liabilities:</b>			
Equity securities and warrants	¥ 937	¥ 940	\$ 9,963
Government, corporate and other bonds	158,617	147,312	1,686,518
Commercial paper and certificates of deposit	-	3,999	-
Derivatives	19	17	202
	<u>¥ 159,573</u>	<u>¥ 152,268</u>	<u>\$ 1,696,683</u>

#### 5. MARGIN TRANSACTIONS

Margin transactions at March 31, 2013 and 2012 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
<b>Assets:</b>			
Loans receivable from customers	¥ 49,854	¥ 26,164	\$ 530,080
Cash deposits as collateral for securities borrowed from securities finance companies	5,481	7,369	58,277
	<u>¥ 55,335</u>	<u>¥ 33,533</u>	<u>\$ 588,357</u>
<b>Liabilities:</b>			
Borrowings from securities finance companies	¥ 9,276	¥ 4,300	\$ 98,629
Proceeds from securities sold for customers' accounts	10,063	11,872	106,996
	<u>¥ 19,339</u>	<u>¥ 16,172</u>	<u>\$ 205,625</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, 2013 and 2012 consist of the following:

	Millions of yen		Thousands of
	2013	2012	U.S. dollars
<b>Assets:</b>			2013
Cash collateral for securities borrowed	¥ 185,257	¥ 186,087	\$ 1,969,771
<b>Liabilities:</b>			
Cash collateral for securities loaned	¥ 126,651	¥ 61,367	\$ 1,346,635
Sell Gensaki transactions	5,000	-	53,163
	¥ 131,651	¥ 61,367	\$ 1,399,798

## 7. SECURITIES FOR NON-TRADING PURPOSES

Acquisition cost, balance sheet amount, gross unrealized gain and gross unrealized loss of available-for-sale securities with fair value at March 31, 2013 and 2012 is summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
At March 31, 2013				
Current:				
Government, corporate and other bonds	¥ 2,999	¥ -	¥ -	¥ 2,999
Other	200	28	(27)	201
	¥ 3,199	¥ 28	¥ (27)	¥ 3,200
Non-current:				
Equity securities	¥ 12,687	¥ 13,215	¥ (441)	¥ 25,461
Government, corporate and other bonds	299	13	-	312
Other	759	40	(24)	775
	¥ 13,745	¥ 13,268	¥ (465)	¥ 26,548
At March 31, 2012				
Current:				
Government, corporate and other bonds	¥ 3,298	¥ -	¥ -	¥ 3,298
Other	270	-	(2)	268
	¥ 3,568	¥ -	¥ (2)	¥ 3,566
Non-current:				
Equity securities	¥ 11,581	¥ 3,571	¥ (2,285)	¥ 12,867
Government, corporate and other bonds	298	16	-	314
Other	759	13	(29)	743
	¥ 12,638	¥ 3,600	¥ (2,314)	¥ 13,924

## Thousands of U.S. dollars

	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
At March 31, 2013				
Current:				
Government, corporate and other bonds	\$ 31,887	\$ -	\$ -	\$ 31,887
Other	2,127	297	(287)	2,137
	<u>\$ 34,014</u>	<u>\$ 297</u>	<u>\$ (287)</u>	<u>\$ 34,024</u>
Non-current:				
Equity securities	\$ 134,896	\$ 140,511	\$ (4,689)	\$ 270,718
Government, corporate and other bonds	3,179	138	-	3,317
Other	8,070	425	(255)	8,240
	<u>\$ 146,145</u>	<u>\$ 141,074</u>	<u>\$ (4,944)</u>	<u>\$ 282,275</u>

Securities classified as available-for-sale securities for which fair value is not available are unlisted equity securities amounting to ¥3,504 million (\$37,257 thousand) and ¥4,813 million, and investments in limited partnership and similar partnership amounting to ¥136 million (\$1,446 thousand) and ¥171 million at March 31, 2013 and 2012, respectively.

For the years ended March 31, 2013 and 2012, 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, 2013			
Equity securities	¥ 1,042	¥ 697	¥ -
Government, corporate and other bonds	3,300	-	-
Other	896	63	(34)
	<u>¥ 5,238</u>	<u>¥ 760</u>	<u>¥ (34)</u>
March 31, 2012			
Equity securities	¥ 60	¥ 54	¥ (2)
Government, corporate and other bonds	3,900	-	-
Other	844	154	(32)
	<u>¥ 4,804</u>	<u>¥ 208</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, 2013			
Equity securities	\$ 11,079	\$ 7,411	\$ -
Government, corporate and other bonds	35,088	-	-
Other	9,527	670	(362)
	<u>\$ 55,694</u>	<u>\$ 8,081</u>	<u>\$ (362)</u>

## 8. INVESTMENTS IN AN AFFILIATE

The aggregate carrying amount of investments in an affiliate at March 31, 2013 and 2012 are ¥22 million (\$234 thousand) and ¥22 million, respectively.

## 9. BORROWINGS

The weighted-average interest rates applicable to the short-term borrowings are 0.51% and 0.61% at March 31, 2013 and 2012, respectively.

Long-term borrowings at March 31, 2013 and 2012 consist of the following:

	Millions of yen		Thousands of
	2013	2012	U.S. dollars
			2013
Borrowings, maturing in installments through 2016; bearing weighted average interest of 2.61% at March 31, 2013	¥ 15,238	¥ -	\$ 162,020
Borrowings, maturing in installments through 2016; bearing weighted average interest of 2.64% at March 31, 2012	-	15,413	-
Less current installments	3,663	1,935	38,947
	<u>¥ 11,575</u>	<u>¥ 13,478</u>	<u>\$ 123,073</u>

Lease liabilities at March 31, 2013 and 2012 consist of the following:

	Millions of yen		Thousands of
	2013	2012	U.S. dollars
			2013
Lease liabilities maturing in installments through 2019; bearing weighted average interest of 3.04% at March 31, 2013	¥ 1,309	¥ -	\$ 13,918
Lease liabilities maturing in installments through 2017; bearing weighted average interest of 3.38% at March 31, 2012	-	1,141	-
Less current installments	448	445	4,763
	<u>¥ 861</u>	<u>¥ 696</u>	<u>\$ 9,155</u>

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

	Millions of Yen		Thousands of
	2013	2012	U.S. dollars
			2013
Long-term borrowings	¥ 6,725	¥ 7,900	\$ 71,505
Current installments of long-term borrowings	1,175	-	12,493

Annual maturities of borrowings after March 31, 2014, are as follows:

Year ending March 31	Millions of	Thousands of
	yen	U.S. dollars
2015	¥ 5,320	\$ 56,566
2016	6,255	66,507
2017	-	-
2018	-	-

Annual maturities of lease liabilities after March 31, 2014, are as follows:

Year ending March 31	Millions of yen		Thousands of U.S. dollars	
	¥		\$	
2015	¥	326	\$	3,466
2016		277		2,945
2017		193		2,052
2018		60		638

To meet its liquidity needs stably and expeditiously and to strengthen financial operations, the Company established a commitment line of ¥21,000 million (\$223,285 thousand) with 7 financial institutions and ¥22,000 million with 8 financial institutions at March 31, 2013 and 2012, respectively.

As is customary in Japan, both short-term and long-term bank borrowings are made under general agreements which provide that security and guarantees for present and future indebtedness will be given upon request of the bank, and that the bank shall have the right to offset cash deposits against obligations that have become due or, in the event of default, against all obligations due the bank.

## 10. PLEDGED ASSETS

At March 31, 2013 and 2012, the carrying value of assets pledged is as follows:

	Millions of Yen		Thousands of U.S. dollars	
	2013	2012	2013	
Cash in banks	¥ 3,761	¥ 3,873	\$	39,989
Trading assets	57,215	25,033		608,347
Property and equipment	8,616	9,475		91,611
Investment securities	18,537	11,413		197,097
	¥ 88,129	¥ 49,794	\$	937,044

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

	Millions of yen		Thousands of U.S. dollars	
	2013	2012	2013	
Short-term borrowings	¥ 68,759	¥ 34,750	\$	731,090
Borrowings from securities finance companies	1,154	325		12,270
Long-term borrowings	4,850	5,578		51,568
	¥ 74,763	¥ 40,653	\$	794,928

In addition to above, at March 31, 2013, trading assets, etc. amounting to ¥63,732 million (\$677,640 thousand) and investments securities amounting to ¥469 million (\$4,987 thousand) are deposited as guarantee for settlement of trading accounts and securities borrowed, respectively. At March 31, 2012, trading assets, etc. amounting to ¥59,551 million and investments securities amounting to ¥167 million are deposited as guarantee for settlement of trading accounts and securities borrowed, respectively.

The fair value of the securities pledged as collateral at March 31, 2013 and 2012, except for those disclosed in the above table, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Securities loaned on margin transactions	¥ 10,957	¥ 12,585	\$ 116,502
Securities pledged for borrowings on margin transactions	8,487	4,382	90,239
Securities loaned	126,488	61,247	1,344,902
Other	28,411	41,021	302,084
	¥ 174,343	¥ 119,235	\$ 1,853,727

The fair value of the securities received as collateral at March 31, 2013 and 2012 are as follows:

	Millions of Yen		Thousands of U.S. dollars
	2013	2012	2013
Securities received on margin transactions	¥ 57,016	¥ 25,343	\$ 606,231
Securities borrowed	190,130	191,039	2,021,584
Securities pledged as collateral	45,674	29,218	485,636
Other	5,479	7,530	58,256
	¥ 298,299	¥ 253,130	\$ 3,171,707

## 11. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese corporate, inhabitant and business taxes based on income which, in the aggregate, resulted in a statutory tax rate of approximately 38.0% and 40.5% in 2013 and 2012, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and deferred tax liabilities at March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets:			
Tax loss carryforwards	¥ 4,480	¥ 3,162	\$ 47,634
Retirement and severance benefits (employees)	2,046	1,887	21,754
Accrued bonuses	823	601	8,751
Allowance for doubtful accounts	790	889	8,400
Financial instruments transactions reserve	596	494	6,337
Accrued business tax	541	116	5,752
Retirement and severance benefits (directors and corporate auditors)	487	456	5,178
Impairment loss	366	363	3,892
Asset retirement obligations	330	324	3,509
Loss on devaluation of investment securities	216	244	2,297
Loss on devaluation of golf memberships	144	142	1,531
Depreciation and amortization	137	142	1,457
Other	494	299	5,252
	11,450	9,119	121,744
Valuation allowance	(6,301)	(5,343)	(66,996)
Total	5,149	3,776	54,748
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(4,480)	(448)	(47,634)
Land revaluation excess	(1,605)	(1,650)	(17,066)
Other	(202)	(181)	(2,148)
Total	(6,287)	(2,279)	(66,848)
Net deferred tax assets (liabilities)	¥ (1,138)	¥ 1,497	\$ (12,100)

Net deferred tax assets at March 31, 2013 and 2012 are reflected in the accompanying consolidated balance sheet under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Current assets – Deferred income taxes	¥ 1,765	¥ 854	\$ 18,767
Investments and other assets – Deferred income taxes	1,901	2,345	20,212
Current liabilities – Other current liabilities	-	(51)	-
Non-current liabilities – Deferred income taxes	(4,804)	(1,651)	(51,079)
	¥ (1,138)	¥ 1,497	\$ (12,100)

A reconciliation of the statutory tax rate and the effective tax rate as a percentage of income before income taxes and minority interests for the years ended March 31, 2013 and 2012 is as follows:

	2013	2012
Statutory tax rate	38.0%	40.5%
Expenses not deductible for tax purposes	0.8	4.0
Income not credited for tax purposes	(0.8)	(1.6)
Per capita tax	0.4	2.1
Valuation allowance	4.8	8.0
Loss on devaluation of investments in affiliates	(20.8)	-
Decrease of deferred tax assets due to change in statutory tax rate	-	9.8
Other	(1.7)	(2.5)
Effective tax rate	20.7%	60.3%

## 12. RETIREMENT AND PENSION PLANS

The Company and its domestic consolidated subsidiaries have defined benefit retirement and pension plans, which consist of 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.

The funded status of retirement and pension plans at March 31, 2013 and 2012 consist of the followings:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Projected benefit obligations	¥ (13,539)	¥ (13,719)	\$ (143,955)
Fair value of plan assets	7,676	6,897	81,616
Unrecognized actuarial gain	159	1,547	1,690
Amount recognized in the consolidated balance sheet	¥ 5,704	¥ (5,275)	\$ 60,649

The components of net periodic benefit cost for the years ended March 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Service cost	¥ 750	¥ 560	\$ 7,975
Interest cost	127	238	1,350
Expected return on plan assets	(33)	(32)	(351)
Recognized actuarial loss	481	221	5,114
	1,325	987	14,088
Contributions to the defined contribution plan	184	181	1,957
Net periodic benefit cost	¥ 1,509	¥ 1,168	\$ 16,045

Assumptions used for the years ended March 31, 2013 and 2012 are set forth as follows:

	2013	2012
Periodic allocation method for projected benefit	Straight-line	Straight-line
Discount rate	0.99%	0.99%
Expected rate of return on plan assets	0.5%	0.5%
Recognition period of actuarial gain / loss	5 years	5 years

Directors and corporate auditors are not covered by the plans described above. For such persons, the Company and certain consolidated subsidiaries have unfunded defined benefit pension plans. Under the plans, directors and corporate auditors are entitled to lump-sum payments based on the current rate of pay and length of service when they leave the Company. The Company and certain domestic consolidated subsidiaries provide for the amount of vested benefits to which directors and corporate auditors are entitled if they were to retire or sever immediately at the balance sheet date. The liability for retirement and severance benefits related to these plans was ¥1,323 million (\$14,067 thousand) and ¥1,240 million at March 31, 2013 and 2012, 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 2 to 58 years and discounted rate of 0.155% to 2.33%.

The following table provides the Company's total asset retirement obligation for the years ended March 31, 2013 and 2012:

	Millions of yen		Thousands of
	2013	2012	U.S. dollars
Balance, beginning of year	¥ 580	¥ 532	\$ 6,167
Liabilities incurred by asset acquisition	21	37	223
Accretion expenses	11	11	117
Liabilities settled	(5)	-	(53)
Other decrease	(7)	-	(74)
Balance, end of year	¥ 600	¥ 580	\$ 6,380

### 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, 2013 and 2012 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, 2012 which was approved by the General Meeting of Shareholders held on June 29, 2011 are as follows:

(a) Total dividends	¥989 million
(b) Cash dividends per common share	¥5
(c) Record date	March 31, 2011
(d) Effective date	June 30, 2011

Dividends paid during the year ended March 31, 2013 which was approved by the General Meeting of Shareholders held on June 28, 2012 are as follows:

(a) Total dividends	¥975 million (\$10,367 thousand)
(b) Cash dividends per common share	¥5 (\$0.05)
(c) Record date	March 31, 2012
(d) Effective date	June 29, 2012

Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2013 which was approved by the General Meeting of Shareholders held on June 27, 2013 are as follows:

(a) Total dividends	¥3,999 million (\$42,520 thousand)
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥20 (\$0.21)
(d) Record date	March 31, 2013
(e) Effective date	June 28, 2013

## 16. 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 minority interests, are reported as "Surplus on land revaluation" in a component of net assets and the related deferred tax liabilities are included in non-current deferred income taxes. Fair values of the land are determined based on the values specified in Article 2-1, 2-3 and 2-5 of the Enforcement Ordinance of the Law concerning Land Revaluation. The value of the land at March 31, 2013 decreased by ¥902 million (\$9,591 thousand) in comparison with the book value of the land after the revaluation.

## 17. CAPITAL ADEQUACY REQUIREMENTS

In Japan, securities companies are subjected to risk-based capital adequacy rules established and administered by the Financial Services Agency. Securities subsidiaries report their capital adequacy ratio as defined pursuant to these rules. The authorities will take certain administrative measures if such ratio declines below 140%. Capital adequacy ratios of Okasan Securities Co., Ltd. are 359.7% and 355.6% at March 31, 2013 and 2012, respectively.

## 18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major elements of selling, general and administrative expenses for the years ended March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Commissions and brokerage	¥ 10,967	¥ 10,304	\$ 116,608
Employees' compensation and benefits	30,042	27,643	319,426
Occupancy and rental	5,801	6,037	61,680
Data processing and office supplies	5,148	5,306	54,737
Depreciation and amortization	3,964	3,939	42,147
Taxes other than income taxes	620	537	6,592
Provision for doubtful accounts	38	(6)	404
Other	2,440	2,555	25,944
	<u>¥ 59,020</u>	<u>¥ 56,315</u>	<u>\$ 627,538</u>

## 19. OTHER COMPREHENSIVE INCOME

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Net unrealized holding gain on other securities:			
Arising during the year	¥ 11,843	¥ (35)	\$ 125,922
Reclassification adjustment	(343)	(21)	(3,647)
Before tax amount	11,500	(56)	122,275
Tax benefit (expense)	(4,025)	60	(42,796)
Net-of-tax amount	7,475	4	79,479
Surplus on land revaluation:			
Tax benefit	-	229	-
Foreign currency translation adjustments:			
Arising during the year	398	(30)	4,232
Total other comprehensive income	<u>¥ 7,873</u>	<u>¥ 203</u>	<u>\$ 83,711</u>

## 20. PER SHARE INFORMATION

### (a) Net Income per Share

Basic net income per share, and reconciliation of the numbers and the amounts used in the basic net income per share computations for the years ended March 31, 2013 and 2012 are as follows:

	Yen		U.S. dollars
	2013	2012	2013
Basic net income per share	¥ 72.22	¥ 4.93	\$ 0.77

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Net income	¥ 14,308	¥ 984	\$ 152,132
Net income not applicable to common shareholders	-	-	-
Net income applicable to common shareholders	<u>¥ 14,308</u>	<u>¥ 984</u>	<u>\$ 152,132</u>

	Number of shares (Thousand)	
	2013	2012
Weighted average number of shares outstanding on which basic net income per share is calculated	198,120	199,569

**(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, 2013 and 2012 are as follows:

	Yen		U.S. dollars
	2013	2012	2013
Net assets per share	¥ 566.19	¥ 466.31	\$ 6.02

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Total net assets	¥ 133,572	¥ 112,016	\$ 1,420,223
Amount deducted from total net assets:			
Minority interests	21,408	19,556	227,624
Net assets applicable to common stockholders	¥ 112,164	¥ 92,460	\$ 1,192,599

	Number of shares (Thousand)	
	2013	2012
Number of shares outstanding at the end of year on which net assets per share is calculated	198,102	198,278

**21. SUPPLEMENTARY CASH FLOW INFORMATION**

(a) 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, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Cash on hand and in banks	¥ 44,508	¥ 45,898	\$ 473,238
Time deposits that have maturities of over three months when acquired	(4,968)	(4,876)	(52,823)
Cash and cash equivalents	¥ 39,540	¥ 41,022	\$ 42,0415

(b) Assets and liabilities of Shinwa Securities Co., Ltd. which was merged with the consolidated subsidiary, Marufuku Securities Co., Ltd. are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 2,905	\$ 30,888
Non-current assets	209	2,222
Total assets	¥ 3,114	33,110
Current liabilities	¥ 1,349	14,343
Non-current liabilities	15	160
Total liabilities	¥ 1,364	\$ 14,503

## 22.COMMITMENTS AND CONTINGENCIES

At March 31, 2013 and 2012, the Company and certain subsidiaries have guaranteed approximately ¥87 million (\$925 thousand) and ¥108 million of employee mortgage loans to financial institutions, respectively. If an employee defaults on his/her loan payments, the Company and/or certain subsidiaries are required to perform under the guarantee.

## 23.LEASES

### (a) Finance Lease

Acquisition cost, accumulated depreciation and net carrying amount of leased assets, if they had been capitalized at March 31, 2013 and 2012 are as follows, which would have been reflected in the consolidated balance sheet if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen					
	2013			2012		
	Furniture and Fixtures	Software	Total	Furniture and Fixtures	Software	Total
Acquisition cost	¥ 227	¥ -	¥ 227	¥ 564	¥ 360	¥ 924
Accumulated depreciation	220	-	220	489	344	833
Net carrying amount	¥ 7	¥ -	¥ 7	¥ 75	¥ 16	¥ 91

	Thousands of U.S. dollars		
	2013		
	Furniture and Fixtures	Software	Total
Acquisition cost	\$ 2,413	\$ -	\$ 2,413
Accumulated depreciation	2,339	-	2,339
Net carrying amount	\$ 74	\$ -	\$ 74

\* Furniture and fixtures is classified as a property and equipment and software is classified as an intangible asset in the accompanying consolidated balance sheet.

Future minimum payments required under finance leases at March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
	Due within one year	¥ 8	¥ 94
Due after one year	-	8	-
	¥ 8	¥ 102	\$ 85

Lease payments, depreciation equivalents and interest expense equivalents for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
	Lease payments	¥ 89	¥ 241
Depreciation equivalents	77	215	819
Interest expense equivalents	2	9	21

Depreciation equivalents and interest expense equivalents are computed by the straight-line method and the interest method, respectively.

**(b) Operating Lease**

Future minimum lease payments required under noncancellable operating leases as of March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Within one year	¥ 788	¥ 556	\$ 8,378
Over one year	2,138	2,043	22,733
	¥ 2,926	¥ 2,599	\$ 31,111

**24. FINANCIAL INSTRUMENTS**

**Conditions of Financial instruments**

(1) Management policy

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

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

Regarding the trading business, the Group works to do brokerage for trading in securities smoothly and contribute to a sound market system in an Exchange transaction, and works to make fair prices and transact smoothly in a Non-Exchange transaction.

Regarding the derivative financial instruments, the Group uses interest rate swaps to hedge future fluctuations of interest rates and does not enter into interest rate swaps for trading or speculative purposes.

(2) Financial instruments and risks

The main financial assets of the Group consist of cash on hand and in banks, cash segregated as deposits for customers and others, trading assets, receivables on margin transactions, receivables on collateralized securities transactions and investment securities.

The cash in banks are exposed to credit risk of banks. Most of cash segregated as deposits for customers and others are cash segregated as deposits for customers, and are segregated from the Group own assets and trusted to banks in accordance with the Japanese Financial Instruments and Exchange Law. The trusted funds are secured by the Trust Act.

Trading position is made for meeting customers' various needs, complementing the market and hedging the position. Such trading involves market and counterparty risks which possibly effect on the financial position of the Group. Market risk is the risk arising from future changes in the market values of securities, interest rates and foreign currency exchange rates, and counterparty risk is the risk arising from default by the counterparty.

Receivables on margin transactions consist of loans receivable from customers and cash deposits as collateral for securities borrowed from securities finance companies, and are exposed to credit risk of counterparties. Receivables on collateralized securities transactions consist of cash collateral for securities borrowed, and are exposed to counterparty risk. Investment securities are exposed to issuer's credit risk and market risk.

The main financial liabilities of the Group consist of trading liabilities, payables on margin transactions, payables on collateralized securities transactions, deposits received, guarantee deposits received and borrowings.

Payables on margin transactions consist of borrowings from securities finance companies and proceeds from securities sold for customers' accounts. Payables on collateralized securities transactions consist of cash collateral for securities loaned and are received as collateral for a loan of bonds such as government bonds. Deposit received is temporary unsettled amount arising from transaction with customers.

Guarantee deposits received is deposit received for margin transactions from customers. Part of financial liabilities, such as borrowings, are exposed to liquidity risk that is the risk for the Group not to

make a payment on due date. The borrowings with variable interest rate are exposed to interest rate fluctuation risk.

The Group uses derivative financial instruments as part of asset and liability management. For trading purpose, the Group uses derivatives listed on exchange such as stock index futures and bond futures, as well as over-the-counter derivatives such as forward foreign exchange transactions. For non-trading purpose, the Group uses interest rate swaps. Interest rate swaps are used to hedge future cash flow fluctuation arising from interest rate fluctuations on the borrowings. The difference in amounts to be paid or received on interest rate swaps is recognized over the life of the agreements as an adjustment to interest expense, if the agreements meet certain hedging criteria ("exceptional accounting method"). Interest rate swaps are exposed to interest rate fluctuation risk, however, counterparties are limited to the lender.

(3) Financial instruments risk management

The Group maintains appropriate risk management and control measures in order to maintain the Group financial stability and to effectively use the Group business resources.

The Company controls its purchases, sales and market risk of investment securities in accordance with investment securities management rules.

Okasan Securities Co., Ltd., our core firm, controls market fluctuation risk principally through position limits, and counterparty risk principally through credit limits by each financial instrument. Primarily, trading department checks the position and the gain or loss. Secondly, risk control department ascertains the position and the assessed risks reported by the trading department, and supervise the position.

Proprietary position at every month end is stress tested based on the scenario of 10% decrease in stocks and 100 basis points increase in interest rates for bonds, and effect of an expected loss on capital adequacy ratio is reported to Financial Service Agency. The stress test indicates that the expected loss is ¥1,145 million (\$12,174 thousand) as of March 31, 2013.

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 as of March 31, 2013 and 2012 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					
	2013			2012		
	Carrying value	Fair value	Differences	Carrying value	Fair value	Differences
<b>Assets:</b>						
Cash on hand and in banks	¥ 44,508	¥ 44,508	¥ -	¥ 45,898	¥ 45,898	¥ -
Cash segregated as deposits for customers and others	65,341	65,341	-	42,750	42,750	-
Trading assets, short-term investments and investment securities						
Trading securities	277,786	277,786	-	185,638	185,638	-
Available-for-sale securities	29,749	29,749	-	17,490	17,490	-
Receivables arising from unsettled trades	20,237	20,237	-	-	-	-
Receivables on margin transactions	55,335	55,335	-	33,533	33,533	-
Receivables on collateralized securities transactions	185,257	185,257	-	186,087	186,087	-
Short-term guarantee deposits	4,203	4,203	-	3,475	3,475	-
<b>Total</b>	<b>¥ 682,416</b>	<b>¥ 682,416</b>	<b>¥ -</b>	<b>¥ 514,871</b>	<b>¥ 514,871</b>	<b>¥ -</b>
<b>Liabilities:</b>						
<b>Trading liabilities</b>						
Trading securities	¥ 159,553	¥ 159,553	¥ -	¥ 152,251	¥ 152,251	¥ -
Payables arising from unsettled trades	-	-	-	4,058	4,058	-
Payables on margin transactions	19,339	19,339	-	16,172	16,172	-
Payables on collateralized securities transactions	131,651	131,651	-	61,367	61,367	-
Deposits received	29,987	29,987	-	18,338	18,338	-
Guarantee deposits received	33,348	33,348	-	22,996	22,996	-
Short-term borrowings	176,024	176,036	12	136,168	136,194	26
Long-term borrowings	11,575	11,683	108	13,478	13,640	162
<b>Total</b>	<b>¥ 561,477</b>	<b>¥ 561,597</b>	<b>¥ 120</b>	<b>¥ 424,828</b>	<b>¥ 425,016</b>	<b>¥ 188</b>
Derivative transactions	¥ 54	¥ 54	¥ -	¥ 13	¥ 13	¥ -

	Thousands of U.S. dollars		
	2013		
	Carrying value	Fair value	Differences
<b>Assets:</b>			
Cash on hand and in banks	\$ 473,238	\$ 473,238	\$ -
Cash segregated as deposits for customers and others	694,747	694,747	-
Trading assets, short-term investments and investment securities			
Trading securities	2,953,599	2,953,599	-
Available-for-sale securities	316,311	316,311	-
Receivables arising from unsettled trades	215,173	215,173	-
Receivables on margin transactions	588,357	588,357	-
Receivables on collateralized securities transactions	1,969,771	1,969,771	-
Short-term guarantee deposits	44,689	44,689	-
<b>Total</b>	<b>\$ 7,255,885</b>	<b>\$ 7,255,885</b>	<b>\$ -</b>
<b>Liabilities:</b>			
Trading liabilities			
Trading securities	\$ 1,696,470	\$ 1,696,470	\$ -
Payables arising from unsettled trades	205,625	205,625	-
Payables on margin transactions	1,399,798	1,399,798	-
Payables on collateralized securities transactions	-	-	-
Deposits received	318,841	318,841	-
Guarantee deposits received	354,577	354,577	-
Short-term borrowings	1,871,600	1,871,728	128
Long-term borrowings	123,073	124,221	1,148
<b>Total</b>	<b>\$ 5,969,984</b>	<b>\$ 5,971,260</b>	<b>\$ 1,276</b>
Derivative transactions	\$ 574	\$ 574	\$ -

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

(1) Fair value measurement of financial instruments

Assets:

Cash on hand and in banks, Cash segregated as deposits for customers and others, Receivables arising from unsettled trades, Receivables on margin transactions, Receivables on collateralized securities transactions and Short-term guarantee deposits

The carrying amount approximates fair value because of the short maturity of these instruments.

Trading assets, short-term investments and investment securities

The carrying amount approximates fair value because the carrying amount of equity securities, debt securities and beneficiary certificates is calculated by quoted market price. Please see note 4. TRADING ASSETS AND LIABILITIES and see note 7. SECURITIES FOR NON-TRADING PURPOSES for information by category.

Liabilities:

Trading liabilities

The carrying amount approximates fair value because the carrying amount of equity securities, debt securities and beneficiary certificates is calculated by quoted market price. Please see note 4. TRADING ASSETS AND LIABILITIES for information by category.

Payables on margin transactions, Payables on collateralized securities transactions, Deposits received, Guarantee deposits received and Short-term borrowings

The carrying amount approximates fair value because of the short maturity of these instruments. Fair value of current installments of long-term borrowings included in short-term borrowings is calculated as below. (See Long-term borrowings.)

Long-term borrowings

The carrying amount of long-term borrowings with variable interest rate approximates fair value because the fair value is reflected the fluctuation of interest market in a short period and credit status of the Company does not change so much from when the Company borrowed. Fair value of long-term borrowings with fixed interest rate is based on the present value of future cash flows of interest and principal payments discounted using the current borrowing rate for similar borrowings of a comparable maturity. Fair value of certain long-term borrowings with interest rate swaps for which exceptional accounting method applied are based on the present value of future cash flows of interest and principal payments discounted using the current borrowing rate for similar borrowings of a comparable maturity.

Derivative Transactions:

Please see note 25. DERIVATIVES.

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

	Millions of yen		Thousands of
	2013	2012	U.S. dollars
Unlisted equity securities	¥ 3,504	¥ 4,813	\$ 37,257
Investments in limited partnership and similar partnership	136	171	1,446
Total	¥ 3,640	¥ 4,984	\$ 38,703

(3) Projected future redemption of monetary claim and securities with maturities

March 31, 2013

	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	¥ 44,508	¥ -	¥ -	¥ -
Cash segregated as deposits for customers and others	65,341	-	-	-
Trading assets, short-term investments and investment securities:				
Available-for-sale securities with maturities:				
Debt securities:				
Government bonds	3,000	300	-	-
Other	201	569	5	-
Receivables on margin transactions	55,335	-	-	-
Receivables on collateralized securities transactions	185,257	-	-	-
Short-term guarantee deposits	4,203	-	-	-
	¥ 357,845	¥ 869	¥ 5	¥ -

	Thousands of U.S. dollars			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash on hand and in banks	\$ 473,238	\$ -	\$ -	\$ -
Cash segregated as deposits for customers and others	694,747	-	-	-
Trading assets, short-term investments and investment securities:				
Available-for-sale securities with maturities:				
Debt securities:				
Government bonds	31,898	3,190	-	-
Other	2,138	6,050	53	-
Receivables on margin transactions	588,357	-	-	-
Receivables on collateralized securities transactions	1,969,771	-	-	-
Short-term guarantee deposits	44,689	-	-	-
	<u>\$ 3,804,838</u>	<u>\$ 9,240</u>	<u>\$ 53</u>	<u>¥ -</u>

March 31, 2012

	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	¥ 45,898	¥ -	¥ -	¥ -
Cash segregated as deposits for customers and others	42,750	-	-	-
Trading assets, short-term investments and investment securities:				
Available-for-sale securities with maturities:				
Debt securities:				
Government bonds	3,300	300	-	-
Other	268	398	61	-
Receivables on margin transactions	33,533	-	-	-
Receivables on collateralized securities transactions	186,087	-	-	-
Short-term guarantee deposits	3,476	-	-	-
	<u>¥ 315,312</u>	<u>¥ 698</u>	<u>¥ 61</u>	<u>¥ -</u>

(4) The annual maturities of the long-term debt and other interest-bearing debt  
March 31, 2013

	Millions of yen					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term borrowings	¥ 172,362	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term borrowings	3,663	5,320	6,255	-	-	-
Lease liabilities	448	326	277	193	60	4
Borrowings from securities finance companies	9,276	-	-	-	-	-
Total	¥ 185,749	¥ 5,646	¥ 6,532	¥ 193	¥ 60	¥ 4

	Thousands of U.S. dollars					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term borrowings	\$ 1,832,664	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term borrowings	38,947	56,566	66,507	-	-	-
Lease liabilities	4,763	3,466	2,945	2,052	638	43
Borrowings from securities finance companies	98,629	-	-	-	-	-
Total	\$ 1,975,003	\$ 60,032	\$ 69,452	\$ 2,052	\$ 638	\$ 43

March 31, 2012

	Millions of yen					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term borrowings	¥ 134,233	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term borrowings	1,935	3,622	4,151	5,705	-	-
Lease liabilities	445	311	186	136	52	11
Borrowings from securities finance companies	4,300	-	-	-	-	-
Total	¥ 140,913	¥ 3,933	¥ 4,337	¥ 5,841	¥ 52	¥ 11

\* 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, 2013 and 2012 are summarized as follows:

#### (1) Stocks

	Millions of yen					
	2013			2012		
	Contract or notional amounts	Fair value	Valuation gain (loss)	Contract or notional amounts	Fair value	Valuation gain (loss)
Stock index futures:						
Written	¥ 3,191	¥ (2)	¥ (2)	¥ 3,163	¥ (4)	¥ (4)
Purchased	2,131	1	1	3,166	(11)	(11)
Stock index options:						
Written	9	9	(0)	-	-	-
Purchased	8	8	0	-	-	-
Over-the-counter stock options:						
Written	3	4	(1)	3	2	1
Purchased	2	4	2	1	2	1
			<u>¥ (0)</u>			<u>¥ (13)</u>

	Thousands of U.S. dollars		
	2013		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Stock index futures:			
Written	\$ 33,929	\$ (21)	\$ (21)
Purchased	22,658	11	11
Stock index options:			
Written	96	96	(0)
Purchased	85	85	0
Over-the-counter stock options:			
Written	31	42	(11)
Purchased	21	42	21
			<u>\$ (0)</u>

The fair value of stock index futures and stock index options is computed using prices on the market. The fair value of over-the-counter stock options is a reasonable and fair price which is computed based on fair value of underlying securities, volatility and interest.

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

## (2) Bond

	Millions of yen					
	2013			2012		
	Contract or notional amounts	Fair value	Valuation gain (loss)	Contract or notional amounts	Fair value	Valuation gain (loss)
Bond futures:						
Written	¥ 1,310	¥ 1	¥ 1	¥ -	¥ -	¥ -
Purchased	5,095	(4)	(4)	8,654	8	8
			<u>¥ (3)</u>			<u>¥ 8</u>

	Thousands of U.S. dollars		
	2013		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Bond futures:			
Written	\$ 13,929	\$ 11	\$ 11
Purchased	54,173	(43)	(43)
			<u>\$ (32)</u>

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

## (3) Foreign exchange

	Millions of yen					
	2013			2012		
	Contract or notional amounts	Fair value	Valuation gain (loss)	Contract or notional amounts	Fair value	Valuation gain (loss)
Foreign exchange margin trading:						
Written:	¥ 312	¥ (0)	¥ (0)	¥ -	¥ -	¥ -
Forward foreign exchange:						
Written:						
Australian dollar	2,121	17	17	379	4	4
South Africa Rand	1,033	14	14	512	11	11
Mexican Peso	997	8	8	162	2	2
Russian ruble	876	14	14	-	-	-
Turkish lira	523	3	3	-	-	-
U.S. dollar	238	3	3	141	1	1
Other	226	2	2	116	1	1
			<u>¥ 61</u>			<u>¥ 18</u>

	Thousands of U.S. dollars		
	2013		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Foreign exchange margin trading:			
Written:	\$ 3,317	\$ (0)	\$ (0)
Forward foreign exchange:			
Written:			
Australian dollar	22,552	181	181
South Africa Rand	10,984	149	149
Mexican Peso	10,601	85	85
Russian ruble	9,314	149	149
Turkish lira	5,561	32	32
U.S. dollar	2,531	32	32
Other	2,403	21	21
			<u>\$ 649</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, 2013 and 2012 are summarized as follows:

Nature of transaction	Hedged items	Contract or notional amounts		
		Millions of yen		Thousands of U.S. dollars
		2013	2012	2013
Interest rate swaps:				
Variable rate received for fixed rate	Long-term borrowings	¥ 7,500	¥ 7,500	\$ 79,745

\*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

"Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Statement No. 20, November 28, 2008) and its "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Guidance No. 23, November 28, 2008) require to disclose fair value of investment and rental property in the notes to financial statements.

The Company and certain consolidated subsidiaries own their rental office buildings, land etc (hereafter "rental property"). Income from the rental property is ¥155 million (\$1,648 thousand) and ¥171 million for the years ended March 31, 2013 and 2012, respectively.

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

	Millions of yen		Thousands of
	2013	2012	U.S. dollars
			2013
Consolidated balance sheet amount:			
Balance at beginning of the year	¥ 5,859	¥ 5,953	\$ 62,297
Increase/(decrease)	(321)	(94)	(3,413)
Balance at end of the year	¥ 5,538	¥ 5,859	\$ 58,884
Fair value	¥ 5,420	¥ 5,422	\$ 57,629

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

## 27. BUSINESS COMBINATIONS

Marufuku Securities Co., Ltd. ("Marufuku Securities") acquired 3,056 thousand shares (82.1% of issued shares) of Shinwa Securities Co., Ltd. ("Shinwa Securities") in July 2012. From that time, both companies harmonized their investment information and merchandises and organized joint lecture meetings and joint internal training sessions, and implemented measures for customer service improvement.

Marufuku Securities has branch offices around Niigata prefecture mainly in Nagaoka City. Shinwa Securities does business and has a firm establishment in Niigata City. Through the merger of two companies, both companies can operate more effectively and provide more high quality services to customers.

Business combination date was January 1, 2013 and under this business combination, Marufuku Securities was the succeeding company and Shinwa Securities was the absorbed company. This business combination was accounted for as a "transaction under common control" in accordance with the "Accounting Standards for Business Combinations" (ASBJ Statement No. 21, December 26, 2008) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestures" (ASBJ Guidance No. 10, December 26, 2008).

## 28. BALANCES AND TRANSACTIONS WITH RELATED PARTY

The Company' officer and the close relatives have a majority equity ownership in Santo Co., Ltd. at March 31, 2013 and 2012.

Transactions between the Company and Santo Co., Ltd. for the years ended March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of
	2013	2012	U.S. dollars
			2013
Transactions:			
Purchases of shares of associated company	¥ 257	¥ 166	\$ 2,733

Transactions between the consolidated subsidiary of the Company and Santo Co., Ltd. for the year ended March 31, 2012 are summarized as follows:

	Millions of yen
Transactions:	
Loan of securities	¥ 558

## 29.SEGMENT INFORMATION

"The Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No.17, March 27, 2009) and "the Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No.20, March 21, 2008) adopt the management approach. Disclosures about segments of an enterprise and related information should provide proper information on the nature of various business activities in which it engages and the economic environments in which it operates.

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, 2013 and 2012 are summarized as follows:

	Millions of yen					
	2013					
	Reported segments			Total	Adjustments	Consolidated
Securities	Asset management	Support				
Operating revenues:						
Revenues from third parties	¥ 68,050	¥ 9,565	¥ 1,041	¥ 78,656	¥ 8	¥ 78,664
Intersegment revenues	4,821	-	9,106	13,927	(13,927)	-
Total	<u>¥ 72,871</u>	<u>¥ 9,565</u>	<u>¥ 10,147</u>	<u>¥ 92,583</u>	<u>¥ (13,919)</u>	<u>¥ 78,664</u>
Segment income	<u>¥ 15,230</u>	<u>¥ 569</u>	<u>¥ 1,243</u>	<u>¥ 17,042</u>	<u>¥ 1,074</u>	<u>¥ 18,116</u>
Segment assets	<u>¥ 701,058</u>	<u>¥ 13,713</u>	<u>¥ 26,244</u>	<u>¥ 741,015</u>	<u>¥ (17,631)</u>	<u>¥ 723,384</u>
Segment liabilities	<u>¥ 614,574</u>	<u>¥ 1,595</u>	<u>¥ 15,019</u>	<u>¥ 631,188</u>	<u>¥ (41,376)</u>	<u>¥ 589,812</u>
Others:						
Depreciation	¥ 1,166	¥ 36	¥ 2,692	¥ 3,894	¥ 70	¥ 3,964
Financial income	2,633	-	5	2,638	(422)	2,216
Financial expenses	1,858	-	-	1,858	(330)	1,528
Increase in property and equipment and intangible assets	443	5	2,529	2,977	513	3,490

	Millions of yen					
	2012					
	Reported segments					
	Securities	Asset management	Support	Total	Adjustments	Consolidated
Operating revenues:						
Revenues from third parties	¥ 50,461	¥ 9,441	¥ 1,155	¥ 61,057	¥ 8	¥ 61,065
Intersegment revenues	4,872	-	8,590	13,462	(13,462)	-
Total	<u>¥ 55,333</u>	<u>¥ 9,441</u>	<u>¥ 9,745</u>	<u>¥ 74,519</u>	<u>¥ (13,454)</u>	<u>¥ 61,065</u>
Segment income	<u>¥ 873</u>	<u>¥ 412</u>	<u>¥ 1,063</u>	<u>¥ 2,348</u>	<u>¥ 804</u>	<u>¥ 3,152</u>
Segment assets	<u>¥ 526,059</u>	<u>¥ 12,088</u>	<u>¥ 24,901</u>	<u>¥ 563,048</u>	<u>¥ (6,659)</u>	<u>¥ 556,389</u>
Segment liabilities	<u>¥ 450,840</u>	<u>¥ 1,056</u>	<u>¥ 14,944</u>	<u>¥ 466,840</u>	<u>¥ (22,467)</u>	<u>¥ 444,373</u>
Others:						
Depreciation	¥ 1,281	¥ 44	¥ 2,508	¥ 3,833	¥ 106	¥ 3,939
Financial income	2,450	-	-	2,450	(462)	1,988
Financial expenses	1,967	-	-	1,967	(369)	1,598
Increase in property and equipment and intangible assets	600	87	1,698	2,385	88	2,473

	Thousands of U.S. dollars					
	2013					
	Reported segments					
	Securities	Asset management	Support	Total	Adjustments	Consolidated
Operating revenues:						
Revenues from third parties	\$ 723,551	\$ 101,701	\$ 11,069	\$ 836,321	\$ 85	\$ 836,406
Intersegment revenues	51,260	-	96,821	148,081	(148,081)	-
Total	<u>774,811</u>	<u>101,701</u>	<u>107,890</u>	<u>984,402</u>	<u>(147,996)</u>	<u>836,406</u>
Segment income	<u>\$ 161,935</u>	<u>\$ 6,050</u>	<u>\$ 13,217</u>	<u>\$ 181,202</u>	<u>\$ 11,419</u>	<u>\$ 192,621</u>
Segment assets	<u>\$ 7,454,099</u>	<u>\$ 145,805</u>	<u>\$ 279,043</u>	<u>\$ 7,878,947</u>	<u>\$ (187,464)</u>	<u>\$ 7,691,483</u>
Segment liabilities	<u>\$ 6,534,545</u>	<u>\$ 16,959</u>	<u>\$ 159,692</u>	<u>\$ 6,711,196</u>	<u>\$ (439,936)</u>	<u>\$ 6,271,260</u>
Others:						
Depreciation	\$ 12,398	\$ 383	\$ 28,623	\$ 41,404	\$ 744	\$ 42,148
Financial income	27,996	-	53	28,049	(4,487)	23,562
Financial expenses	19,755	-	-	19,755	(3,508)	16,247
Increase in property and equipment and intangible assets	4,710	53	26,890	31,653	5,455	37,108

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

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Elimination of intersegment transactions	¥ 3,401	¥ 3,002	\$ 36,161
Unallocated company-wide expenses	(2,327)	(2,198)	(24,742)
	<u>¥ 1,074</u>	<u>¥ 804</u>	<u>\$ 11,419</u>

Company-wide expenses are holding company's expenses.

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

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Elimination of intersegment balances	¥ (64,092)	¥ (38,633)	\$ (681,467)
Unallocated company-wide assets	46,461	31,974	494,003
	¥ (17,631)	¥ (6,659)	\$ (187,464)

Company-wide assets are holding company's assets.

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

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Elimination of intersegment balances	¥ (57,468)	¥ (38,174)	\$ (611,037)
Unallocated company-wide liabilities	16,092	15,707	171,101
	¥ (41,376)	¥ (22,467)	\$ (439,936)

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 operating revenues from third parties of a single product and service are over 90% of operating revenues in the consolidated statement of income.

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

Not applicable

#### Negative goodwill incurred by reported segments

Negative goodwill of ¥396 million (\$4,211 thousand) and ¥279 million which are not allocated to each reported segments are reported for the years ended March 31, 2013 and 2012, respectively. The negative goodwill occurred when the Company acquired additional shares of its subsidiary.

## Independent Auditors' Report

To the Board of Directors of  
Okasan Securities Group Inc.

We have audited the accompanying consolidated financial statements of Okasan Securities Group Inc., which comprise the consolidated balance sheet as of March 31, 2013, and the consolidated statement of income, comprehensive income, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Okasan Securities Group Inc. as of March 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### Convenience Translation

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



BDO Toyo & Co.  
Tokyo, Japan  
June 28, 2013

BDO Toyo & Co., a Japanese Audit Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.  
BDO is the brand name for the BDO network and for each of the BDO member firms.

REFERENCE DATA

## Okasan Securities Co., Ltd.

### Balance Sheet — March 31, 2013

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
<b>ASSETS</b>			
Current assets:			
Cash on hand and in banks	¥ 11,928	¥ 14,159	\$ 126,826
Cash segregated as deposits for customers and others	29,363	16,062	312,206
Trading assets	277,375	185,657	2,949,229
Receivables arising from unsettled trades	19,275	-	204,944
Receivables on margin transactions	50,160	31,109	533,333
Receivables on collateralized securities transactions	185,257	186,087	1,969,772
Short-term guarantee deposits	3,281	2,973	34,886
Deferred income taxes	1,405	642	14,939
Other current assets	2,780	2,494	29,559
Allowance for doubtful accounts	(14)	(3)	(149)
Total current assets	580,810	439,180	6,175,545
Property and equipment, net of accumulated depreciation	1,944	2,149	20,670
Intangible assets, net	365	417	3,881
Investments and other assets:			
Investment securities	411	447	4,370
Securities in associated companies	211	211	2,243
Long-term guarantee deposits	3,058	3,539	32,515
Deferred income taxes	1,780	1,678	18,926
Other	1,285	1,479	13,663
Allowance for doubtful accounts	(926)	(1,071)	(9,846)
Total investments and other assets	5,819	6,283	61,871
TOTAL	¥ 588,938	¥ 448,029	\$ 6,261,967

## Okasan Securities Co., Ltd.

### Balance Sheet — (Continued) — March 31, 2013

	Millions of yen		Thousands of U.S. dollar
	2013	2012	2013
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities:			
Trading liabilities	¥ 159,485	¥ 152,258	\$ 1,695,747
Payables arising from unsettled trades	-	4,803	-
Payables on margin transactions	18,022	15,146	191,621
Payables on collateralized securities transactions	131,650	61,367	1,399,787
Deposits received	19,417	11,829	206,454
Guarantee deposits received	14,441	6,870	153,546
Short-term borrowings	158,940	123,465	1,689,952
Income tax payables	2,048	319	21,776
Other current liabilities	10,076	4,928	107,135
Total current liabilities	514,079	380,985	5,466,018
Non-current liabilities:			
Long-term borrowings	7,725	7,900	82,137
Retirement and severance benefits	5,160	4,845	54,865
Other non-current liabilities	1,012	1,139	10,760
Total non-current liabilities	13,897	13,884	147,762
Financial instruments transactions reserve	914	809	9,718
Total liabilities	528,890	395,678	5,623,498
Net assets			
Shareholder's equity:			
Common stock			
Authorized – 240,000 shares			
Issued – 100,000 shares in 2013 and 2012	5,000	5,000	53,163
Capital surplus	29,200	29,200	310,473
Retained earnings	25,852	18,159	274,875
Total shareholder's equity	60,052	52,359	638,511
Accumulated other comprehensive income (loss):			
Unrealized gain (loss) on available-for-sale securities	(4)	(8)	(42)
Total net assets	60,048	52,351	638,469
TOTAL	¥ 588,938	¥ 448,029	\$ 6,261,967

## Okasan Securities Co., Ltd.

### Statement of Income — Year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollar
	2013	2012	2013
Operating revenues:			
Commissions	¥ 37,541	¥ 29,234	\$ 399,160
Net gain on trading	23,865	16,784	253,748
Interest and dividend income	1,673	1,537	17,788
	<u>63,079</u>	<u>47,555</u>	<u>670,696</u>
Interest expense	1,396	1,440	14,843
Net operating revenues	61,683	46,115	655,853
Selling, general and administrative expenses	47,434	44,749	504,349
Operating income	<u>14,249</u>	<u>1,366</u>	<u>151,504</u>
Other income (expenses):			
Gain on sale of investment securities	60	102	638
Provision for financial instruments transactions reserve	(104)	(41)	(1,106)
Other, net	325	210	3,456
	<u>281</u>	<u>271</u>	<u>2,988</u>
Income before income taxes	14,530	1,637	154,492
Income taxes:			
Current	6,704	1,034	71,281
Deferred	(867)	65	(9,219)
	<u>5,837</u>	<u>1,099</u>	<u>62,062</u>
Net income	<u>¥ 8,693</u>	<u>¥ 538</u>	<u>\$ 92,430</u>

## CORPORATE DATA

(At July, 2013)

**Company Name**  
OKASAN SECURITIES GROUP INC.

**Date of Establishment**  
August 25, 1944

**Head Office**  
1-17-6 Nihonbashi, Chuo-ku,  
Tokyo 103-8268, Japan

**Muromachi Head Office**  
2-2-1 Nihonbashi Muromachi, Chuo-ku,  
Tokyo 103-0022, Japan

**Phone Number**  
+81-3-3272-2222

**Paid-in Capital**  
18,590 Million Yen

**Subsidiaries**  
10 companies

**Listed Stock Exchanges**  
Tokyo Stock Exchange  
Nagoya Stock Exchange

## BOARD OF DIRECTORS

(At July, 2013)

**Chairman**  
Seiichi Kato

**President**  
Tetsuo Kato

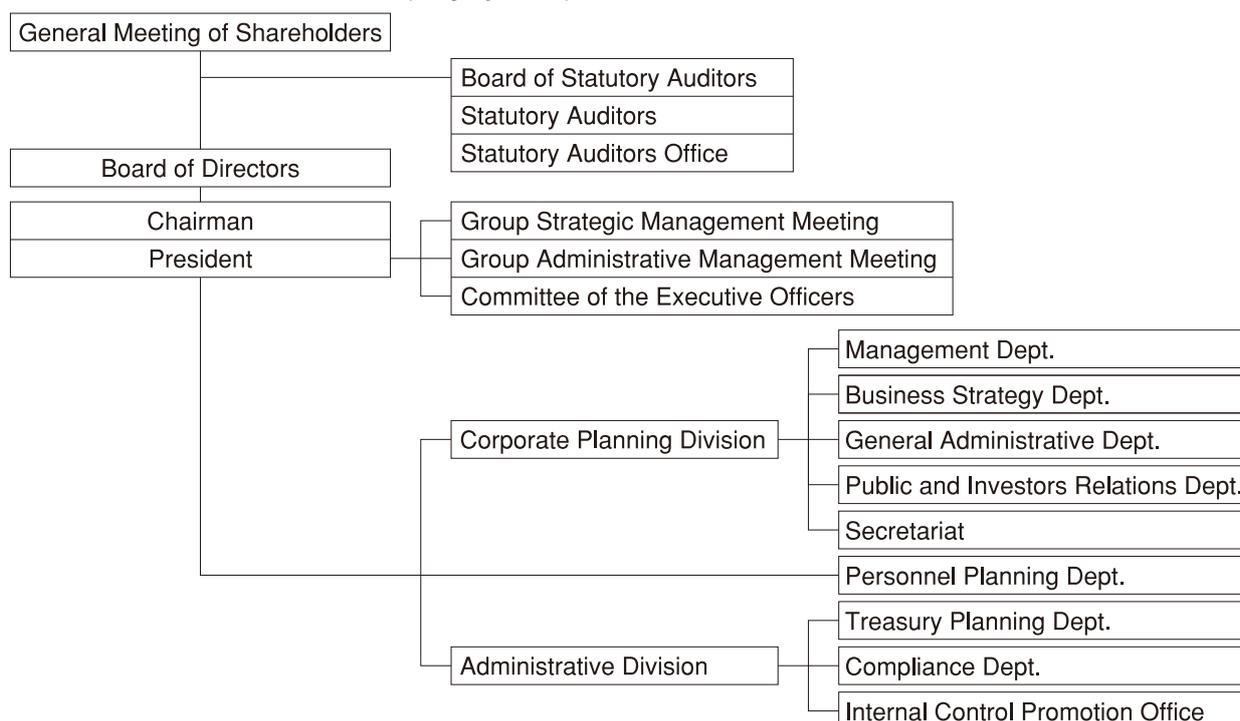
**Senior Managing Director**  
Hiroyuki Shinshiba  
Kazuhiko Nonaka

**Director**  
Kenichi Tanaka  
Masanori Kanai  
Hiroyuki Shindo

**Statutory Auditors**  
Tetsumi Iwaki  
Koichi Saku  
Hirosuke Minami  
Tokio Hiraragi  
Yukihiro Asano  
Takao Saga

## ORGANIZATION CHART

(At July, 2013)



OKASAN SECURITIES GROUP INC.

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