

ANNUAL REPORT

Ending March 31, 2014

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

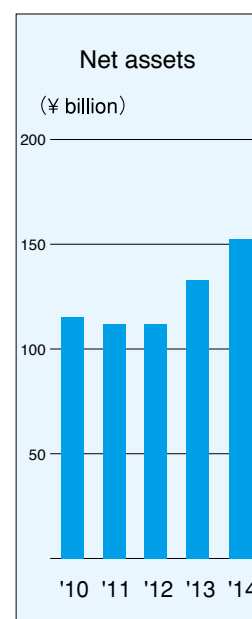
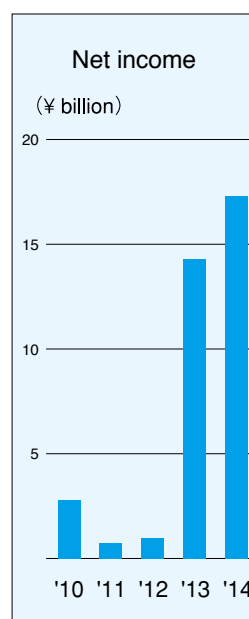
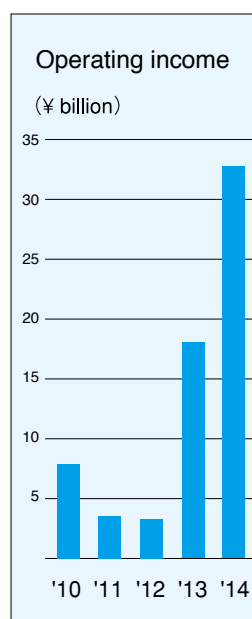
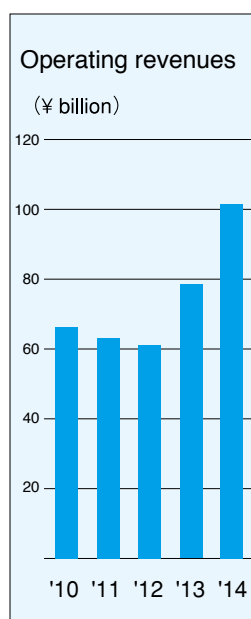
Corporate Profile	1
Consolidated Financial Highlights	2
Management Policy	3
Operating and Financial Review	6
Consolidated Balance Sheets	10
Consolidated Statement of Income	12
Consolidated Statement of Comprehensive Income	13
Consolidated Statement of Changes in Net Assets	14
Consolidated Statement of Cash Flows	17
Notes to Consolidated Financial Statements	19
Independent Auditors' Report	51
Reference Data	
Okasan Securities Co.,Ltd. Non-Consolidated Balance Sheet	53
Non-Consolidated Statement of Income	55
Corporate Data	56

Consolidated Financial Highlights

Okasan Securities Group Inc. and consolidated Subsidiaries Years ended March 31, 2014

	Millions of yen		Thousands of U.S.dollars (note)
	2014 (4/1/13 ~ 3/31/14)	2013 (4/1/12 ~ 3/31/13)	2014 (4/1/13 ~ 3/31/14)
Operating revenues	¥ 101,386	¥ 78,664	\$ 985,095
Operating income	32,730	18,116	318,014
Net income	17,279	14,308	167,888
Total assets	613,135	723,384	5,957,394
Net assets	152,840	133,572	1,485,037
Per share of common stock	Yen		U.S.dollars(note)
Basic net income	¥ 87.24	¥ 72.22	\$ 0.85
Cash dividends applicable to the year	25.00	20.00	0.24

Note: The translation of the yen amount into U.S.dollars is included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2014, which was ¥102.92 to U.S.\$1.



Management Policy

Okasan Securities Group Inc. and Consolidated Subsidiaries

1. Basic management policy for the Company

As a joint-stock company, Okasan Securities Group Inc. implements group management that encompasses its Japanese and overseas subsidiaries, and strives to be a company that enjoys the trust of clients, shareholders and the market via continuing expansion in enterprise value based on the provision of investment services centring on the securities business and asset management.

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

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

3. Important management index

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

4. Medium and long-term management strategy

During last fiscal year, which marked the 90th anniversary of establishment, the company undertook special initiatives such as the construction of the Okasan Securities Group Tsu Building at the location of its first office, as well as the opening of a trading room at the Muromachi head office of Okasan Securities, a key subsidiary. Under the new management team formed when our new CEO took office in April 2014, the company positions the next three years as an important period during which it aims to make significant progress ahead of the 95th and 100th anniversaries of its establishment, and has therefore drawn up a new medium-term business plan. Under the new medium-term business plan, the company aims to increase enterprise value as a body of professional investment advisors to improve management structure in order to ensure stable growth in any environment, by directly leveraging its “Customer First” management philosophy.

Okasan Securities Group medium-term business plan

There will be no change in the management philosophy emphasizing the “Customer First” that the company has followed since it was established. Different customers certainly have different needs, and customer satisfaction means a variety of things, but we see the ultimate prioritization of the customer’s interests by focusing thoroughly on professionalism as our social mission.

To achieve this management philosophy, we train personnel to take “pride” in their work, and to create a group of professionals formed from staff who do have such “pride.”

As a result, we think it will be possible to improve Okasan Securities Group’s enterprise value.

1. Period of plan

Three years starting April 2014 and ending March 2017

2. Management philosophy

Customer First In the role of professional advisors, we respond to a broad range of customer needs, and aim to put customer interests first.

3. Management objectives

[Qualitative objectives]

- (1) Aiming for a professional group of investment advisors.
- (2) Being a company of even greater “pride” by thanks to satisfying work.
- (3) Increase enterprise value as a result of (1) and (2) above, and thereby fulfil our responsibilities as a listed company.

[Quantitative objectives]

Achieve following numerical results as a result of pursuing customers’ interests.

- (1) Consolidated net assets of 200 billion yen (final year)
- (2) Consolidated ROE Of 10% (consistently achieve)

By fully implementing the management philosophy and pursuing the management goals, the company aims to achieve as soon as possible before its 100th anniversary the goals of 1.0 million accounts and assets under custody of ¥10trn.

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. Based on the management philosophy of the “Customer First” the company is implementing its new medium-term business plan, aiming to expand the foundations of the business via the pursuit of clients’ interests, and thereby drive continuing growth in enterprise value.

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 8 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 15

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 “Management Conference” to realize the planning of uniform and flexible management strategies.

(3) Management monitoring structure

As regards the structure of the management monitoring, out of 5 auditors in total that includes 2 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 six 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, 2014

I . Analysis of operating results

During the fiscal year, the Japanese economy enjoyed a steady underlying recovery. Personal consumption and housing investment remained firm, while the employment environment improved, and there was an increasingly clear recovery in capital investment thanks to improvement in corporate earnings. The outlook was more cautious in the second half of the fiscal year, ahead of the rise in the consumption tax, but the increase in the consumer price index (overall index excluding fresh food) has remained firmly above 1% year on year since November, so conditions continued to indicate an end to deflation.

In the forex market, the depreciation of the yen accelerated after the Bank of Japan introduced its quantitative and qualitative easing policy in early April. The dollar/yen rate rose to around ¥105/\$ at year-end, because of the Federal Reserve Board decision to taper its quantitative easing in December. The strength of the US economy has continued to support the US dollar since the beginning of 2014, despite concern regarding developing economies, and the exchange rate ended the fiscal year at ¥103/\$. The euro-yen rate has continued to rise as measures aimed at solving Europe's fiscal problems have come to an end and economies bottomed, and ended the fiscal year at around ¥142/€.

The equity market rose to close to 16,000 on the Nikkei 225 in late May, as it responded positively to yen depreciation, but it subsequently corrected and remained in the 13,000–15,000 range. Towards the end of the year, however, it gradually priced in expectations for recovery in the world economy, rising to a fiscal year high of more than 16,000. Since the beginning of 2014, however, the deteriorating situation in the Ukraine and concern about economic slowdown in Japan following the consumption tax hike have caused another market correction, and the Nikkei 225 ended the fiscal year at 14,827.83, up 19.6% over the year.

In the bond market, yields remained stable at low levels throughout the fiscal year, thanks to support from accommodative monetary policy by the Bank of Japan. Expectations for increase in prices were heightened by the implementation of dramatic monetary easing, and the yield on the 10-year Japanese government bond rose to 1% at one stage in late May, but it declined gradually thereafter, as bond buying by the Bank of Japan ensured a favourable supply-demand environment. The 10-year government bond yield ended the fiscal year at 0.640%.

In this environment, Okasan Securities Co., Ltd., the core company in the group, transferred its Tsu branch to the newly completed Okasan Securities Group Tsu Building in Tsu City, Mie Prefecture, which is where the company was founded, and significantly upgraded branch functions. The establishment of the Muromachi Trading Room at the Muromachi head office (Nihonbashi Muromachi, Chuo-ku, Tokyo) also improved trading functionality. The Company also began broadcasting its own investment information programing live to each of its branches, as it built new information distribution infrastructure.

The group's specialist online brokerage Okasan Online Securities Co., Ltd., undertook a complete renewal of its futures and options trading system, and improved trading functionality for smart phones, as well as leveraging group resources to improve information distribution.

Okasan Asset Management Co., Ltd. implemented flexible management attuned to change in the market, information distribution and product provision, actively supporting the sales efforts of marketing agents, and pursuing growth in assets under management.

As a result of the above, operating revenues grew 28.9% year on year to ¥101,386 million in the fiscal year, with net operating revenues rising 29.6% to ¥99,989 million. SG&A expenses were 14.0% higher year on year at ¥67,259 million, net income was higher by 20.8% at ¥17,279 million.

1. Fees and commissions received

Fees and commissions received grew 41.5% year on year to ¥69,991 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 3,459 million shares, up 40.3% year on year, while turnover increased 92.5% to ¥2,887 billion. In this environment, equity brokerage commissions rose 90.6% year on year to ¥27,876 million, thanks to the recovery in the equity market. Bond brokerage commissions were down 23.8% year on year to ¥16 million, while other brokerage commissions declined 11.0% to ¥620 million, and total brokerage commissions grew 85.8% to ¥28,512 million.

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

During the fiscal year under review, the Company successfully increased the number of underwritten deals both for public offerings of already listed stocks and for initial public offerings from the preceding fiscal year, thanks to economic recovery and gains by the equity market. As a result, commissions on equity rose 17.8% year on year to ¥383 million. In bond underwriting, the Company served as administrative managers and/or lead managers for issues of government guaranteed bonds, municipal bonds and corporate bonds, as well as activated the role as a key underwriter of bonds issued under the fiscal investments and loan program, with commissions on bonds rising 57.8% year on year to ¥142 million.

As a result of the above, total underwriting fees and selling concessions, and commissions on the sale of financial instruments to specific investors and other rose 26.5% year on year, to ¥525 million.

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

During the fiscal year, the Company adapted its product strategy to address changes in market conditions resulting from the tapering of quantitative easing in the US as the economy there recovered. It focused on the sale of foreign equity funds, including funds that center on biotechnology and healthcare, which are one long-term market highlight. In light of the equity market correction since the beginning of the calendar year 2014, the Company also worked on marketing funds investing in high-yield European bonds and high-yield short-term US notes.

As a result of the expansion of the product lineup and efforts to increase assets under custody throughout the fiscal year, administrative charges on offering, selling and solicitation for sales of financial instruments to specified investors rose 17.7% year on year to ¥25,431 million. Other fees and commissions received, including trust fees on investment trusts, and commissions on foreign exchange margin trading and insurance products sold, increased 28.4% year on year to ¥15,523 million.

Fees and commissions received (¥ billions)	Fees and commissions received Breakdown by category		
	2014<A> (4/1/13 ~ 3/31/14)	2013 (4/1/12 ~ 3/31/13)	Ratio <A>/
	(Millions of yen except percentage)		
	¥ 28,512	¥ 15,344	185.8
Brokerage commissions			
Equities	27,876	14,626	190.6
Bonds	16	21	76.2
Others	620	697	89.0
Underwriting fees and selling concessions	525	415	126.5
Equities	383	325	117.8
Bonds	142	90	157.8
Placement commissions	25,431	21,607	117.7
Other commissions	15,523	12,090	128.4
Total	¥ 69,991	¥ 49,456	141.5

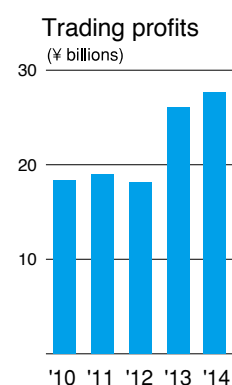
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Breakdown by product	(Millions of yen except percentage)		
	2014<A> (4/1/13 ~ 3/31/14)	2013 (4/1/12 ~ 3/31/13)	Ratio <A>/
Equities	¥ 28,572	¥ 15,221	187.7
Bonds	302	228	132.5
Investment trusts	39,942	32,756	121.9
Others	1,175	1,251	93.9
Total	¥ 69,991	¥ 49,456	141.5

2. Trading profits

Equity markets in Japan, the US and Europe performed strongly during the fiscal year, thanks mainly to monetary easing by the Bank of Japan and economic recovery in the US. US equity brokerage volumes were therefore strong, while Japanese equity trading also contributed, with total profits on equity trading rising 24.2% year on year to ¥15,236 million. Foreign bond trading profits declined in reaction to the strength of the previous fiscal year, and total bond trading profits decreased 11.7% year on year, to ¥12,705 million.

Including the above, and other trading losses of ¥278 million (compared with losses of ¥593 million the previous fiscal year), total trading profits were ¥27,663 million, up 6.2% year on year.



Trading profits	(Millions of yen except percentage)		
	2014<A> (4/1/13 ~ 3/31/14)	2013 (4/1/12 ~ 3/31/13)	Ratio <A>/
Equities	¥ 15,236	¥ 12,264	124.2
Bonds	12,705	14,384	88.3
Others	-278	-593	-
Total	¥ 27,663	¥ 26,055	106.2

3. Net financial income

Financial income grew 33.0% year on year to ¥2,947 million, while financial expenses decreased 8.5% to ¥1,397 million, so net financial income rose 125.0% to ¥1,550 million.

4. Other operating income

Other operating income other than that related to the financial products transaction business and incidental operations declined 16.2% year on year to ¥785 million.

5. Selling, general and administrative expenses

Selling, general and administrative expenses grew 14.0% year on year to ¥67,259 million, mainly because of increase in personnel and transaction related expenses.

6. Other income (expenses)

The Company posted other expenses of ¥1,149 million, compared to other income of ¥1,301 million in the previous fiscal year, due to write-offs/capital losses on intangible fixed assets such as software and transfers to reserves against financial instrument trading.

7. Dividends

The company sees shareholder returns as a critical management issue. Its basic policy is to maintain a stable dividend while distributing profits in line with earnings.

Based on the above policy, the company raised the dividend for the fiscal year by ¥5 to ¥25 per share.

II . Analysis of financial position

1. Assets, liabilities and net assets

Consolidated total assets at the fiscal year-end were ¥613,135 million, down ¥110,249 million year on year. This was mainly due to declines of ¥63,872 million in trading assets, ¥34,878 million in receivables on collateralized securities transactions, and ¥20,237 million in receivables arising from unsettled trades.

Liabilities declined ¥129,517 million year on year to ¥460,295 million. This was mainly due to declines of ¥107,389 million in payables on collateralized securities transactions, ¥17,146 million in short-term borrowings, and ¥14,885 million in trading liabilities.

Net assets grew ¥19,268 million year on year to ¥152,840 million. This was mainly because of increases of ¥13,378 million in retained earnings, ¥2,656 million in unrealized gains on available-for-sale securities, and ¥2,661 million in minority interests.

2. Cash flows

Cash and deposits at the end of the consolidated fiscal year were ¥45,436 million, up ¥5,896 million year on year. Each cash flow item, and factors affecting it, were as follows.

< Cash flows from operating activities >

Cash inflows from operating activities were ¥35,316 million. This was mainly because of ¥75,761 million change in trading assets, cash inflow of ¥31,581 million due to increase in income before income taxes and minority interests, and a cash outflow of ¥72,511 million due to net change in receivables/payables on collateralized securities transactions.

< Cash flows from investing activities >

Cash outflows due to investing activities were ¥4,743 million. The main factors were a cash inflow of ¥5,800 million due to the sale of short-term investments, a cash outflow of ¥4,626 million due to the acquisition of intangible assets, a cash outflow of ¥3,900 million due to the purchase of short-term investments, and a cash outflow of ¥3,034 million due to the acquisition of property and equipment.

< Cash flows from financing activities >

Cash outflow due to financing activities was ¥25,000 million. This was mainly due to ¥18,832 million net change in short-term borrowings, and a cash outflow of ¥3,901 million due to the dividend payment.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Balance Sheet — March 31, 2014

	Millions of yen		Thousands of U.S. dollars (note 3)
	2014	2013	2014
ASSETS			
Current assets:			
Cash on hand and in banks (notes 10 and 21)	¥ 49,467	¥ 44,508	\$ 480,635
Cash segregated as deposits for customers and others	56,744	65,341	551,341
Trading assets (notes 4 and 10)	213,987	277,859	2,079,159
Receivables arising from unsettled trades	-	20,237	-
Receivables on margin transactions (note 5)	61,604	55,335	598,562
Receivables on collateralized securities transactions (note 6)	150,379	185,257	1,461,125
Short-term investments (note 7)	1,100	3,204	10,688
Deferred income taxes (note 11)	1,754	1,765	17,042
Other current assets	8,308	8,531	80,723
Allowance for doubtful accounts	(17)	(15)	(165)
Total current assets	543,326	662,022	5,279,110
Property and equipment, net of accumulated depreciation of ¥11,743 million (\$114,098 thousand) in 2014 and ¥11,718 million in 2013 (note 10)	19,077	16,498	185,358
Intangible assets, net	8,306	7,705	80,703
Investments and other assets:			
Investment securities (notes 7, 8 and 10)	35,702	30,185	346,891
Long-term guarantee deposits	3,103	3,256	30,150
Deferred income taxes (note 11)	1,839	1,901	17,868
Other	3,660	4,220	35,561
Allowance for doubtful accounts	(1,878)	(2,403)	(18,247)
Total investments and other assets	42,426	37,159	412,223
TOTAL	¥ 613,135	¥ 723,384	\$ 5,957,394

See accompanying notes to consolidated financial statements.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Balance Sheet — (Continued) — March 31, 2014

	Millions of yen		Thousands of U.S. dollars (note 3)
	2014	2013	2014
LIABILITIES AND NET ASSETS			
Current liabilities:			
Trading liabilities (note 4)	¥ 144,688	¥ 159,573	\$ 1,405,830
Payables arising from unsettled trades	6,536	-	63,506
Payables on margin transactions (notes 5 and 10)	14,954	19,339	145,297
Payables on collateralized securities transactions (note 6)	24,262	131,651	235,736
Deposits received	29,187	29,987	283,589
Guarantee deposits received	35,804	33,348	347,882
Short-term borrowings (notes 9 and 10)	158,878	176,024	1,543,704
Income tax payables (note 11)	9,452	4,232	91,838
Other current liabilities (notes 9,11 and 13)	7,705	7,176	74,864
Total current liabilities	431,466	561,330	4,192,246
Non-current liabilities:			
Long-term borrowings (notes 9 and 10)	8,415	11,575	81,763
Lease liabilities (note 9)	1,441	861	14,001
Deferred income taxes (note 11)	6,931	4,804	67,343
Liabilities for retirement benefits (note 12)	6,630	7,028	64,419
Other non-current liabilities (note 13)	3,085	2,537	29,975
Total non-current liabilities	26,502	26,805	257,501
Financial instruments transactions reserve (note 14)	2,327	1,677	22,610
Total liabilities	460,295	589,812	4,472,357
Net assets			
Shareholders' equity (note 15):			
Common stock			
Authorized — 750,000,000 shares in 2014 and 2013			
Issued — 208,214,969 shares in 2014 and 2013	18,590	18,590	180,626
Capital surplus	12,913	12,913	125,466
Retained earnings	91,223	77,845	886,349
Treasury stock, at cost, 10,178,729 shares in 2014 and 10,112,670 shares in 2013	(3,701)	(3,637)	(35,960)
Total shareholders' equity	119,025	105,711	1,156,481
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities (note 7)	9,180	6,524	89,195
Surplus on land revaluation (note 16)	371	371	3,605
Foreign currency translation adjustments	(144)	(442)	(1,399)
Remeasurements of defined benefit plans	339	-	3,294
Total accumulated other comprehensive income	9,746	6,453	94,695
Minority interests	24,069	21,408	233,861
Total net assets	152,840	133,572	1,485,037
Commitments and contingencies (note 22)			
TOTAL	¥ 613,135	¥ 723,384	\$ 5,957,394

See accompanying notes to consolidated financial statements.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Statement of Income — Year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (note 3)
	2014	2013	2014
Operating revenues:			
Commissions	¥ 69,991	¥ 49,456	\$ 680,052
Net gain on trading	27,663	26,055	268,782
Interest and dividend income	2,947	2,216	28,634
Service fee and other revenues	785	937	7,627
	<u>101,386</u>	<u>78,664</u>	<u>985,095</u>
Interest expense	<u>1,397</u>	<u>1,528</u>	<u>13,573</u>
Net operating revenues	<u>99,989</u>	<u>77,136</u>	<u>971,522</u>
Selling, general and administrative expenses (note 18)	<u>67,259</u>	<u>59,020</u>	<u>653,508</u>
Operating income	<u>32,730</u>	<u>18,116</u>	<u>318,014</u>
Other income (expenses):			
Dividend income	708	576	6,879
Reversal of allowance for doubtful accounts	449	29	4,363
Gain on sale of investment securities	100	741	972
Negative goodwill	-	396	-
Interest expense	(96)	(91)	(933)
Impairment loss	(146)	-	(1,419)
Loss on sale and disposal of property and equipment and intangible assets	(1,837)	(304)	(17,849)
Loss on devaluation of investment securities	(242)	(5)	(2,351)
Provision for financial instruments transactions reserve	(650)	(285)	(6,316)
Other, net	565	244	5,490
	<u>(1,149)</u>	<u>1,301</u>	<u>(11,164)</u>
Income before income taxes and minority interests	<u>31,581</u>	<u>19,417</u>	<u>306,850</u>
Income taxes (note 11):			
Current	12,267	5,405	119,189
Deferred	107	(1,394)	1,040
	<u>12,374</u>	<u>4,011</u>	<u>120,229</u>
Income before minority interests	<u>19,207</u>	<u>15,406</u>	<u>186,621</u>
Minority interests	<u>1,928</u>	<u>1,098</u>	<u>18,733</u>
Net income	<u>¥ 17,279</u>	<u>¥ 14,308</u>	<u>\$ 167,888</u>

See accompanying notes to consolidated financial statements.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Statement of Comprehensive Income — Year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (note 3)
	2014	2013	2014
Income before minority interests	¥ 19,207	¥ 15,406	\$ 186,621
Other comprehensive income (note 19):			
Unrealized gain on available-for-sale securities	3,440	7,475	33,424
Foreign currency translation adjustments	298	398	2,895
Total other comprehensive income	3,738	7,873	36,319
Comprehensive income	¥ 22,945	¥ 23,279	\$ 222,940
Comprehensive income attributable to:			
Owners of parent	¥ 20,233	¥ 20,666	\$ 196,590
Minority interests	2,712	2,613	26,350

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, 2014

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
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
Changes arising during the year:					
Cash dividends			(3,901)		(3,901)
Net income			17,279		17,279
Purchase of treasury stock				(65)	(65)
Disposition of treasury stock		0	(0)	1	1
Net changes other than shareholders' equity					
Total changes during the year	-	0	13,378	(64)	13,314
Balances at March 31, 2014	¥ 18,590	¥ 12,913	¥ 91,223	¥ (3,701)	¥ 119,025

	Millions of yen						
	Accumulated other comprehensive income (loss)						
	Unrealized gain on available-for- -sale securities	Surplus on land revaluation	Foreign currency translation adjustments	Remeasure- ments of defined benefit plans	Total accumulated other comprehensive income (loss)	Minority interests	Total net assets
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
Changes arising during the year:							
Cash dividends							(3,901)
Net income							17,279
Purchase of treasury stock							(65)
Disposition of treasury stock							1
Net changes other than shareholders' equity	2,656		298	339	3,293	2,661	5,954
Total changes during the year	2,656	-	298	339	3,293	2,661	19,268
Balances at March 31, 2014	¥ 9,180	¥ 371	¥ (144)	¥ 339	¥ 9,746	¥ 24,069	¥ 152,840

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, 2013	\$ 180,626	\$ 125,466	\$ 756,364	\$ (35,338)	\$ 1,027,118
Changes arising during the year:					
Cash dividends			(37,903)		(37,903)
Net income			167,888		167,888
Purchase of treasury stock				(632)	(632)
Disposition of treasury stock		0	(0)	10	10
Net changes other than shareholders' equity					
Total changes during the year	-	0	129,985	(622)	129,363
Balances at March 31, 2014	<u>\$ 180,626</u>	<u>\$ 125,466</u>	<u>\$ 886,349</u>	<u>\$ (35,960)</u>	<u>\$ 1,156,481</u>

Thousands of U.S. dollars (note 3)							
Accumulated other comprehensive income (loss)							
	Unrealized gain on available-for- -sale securities	Surplus on land revaluation	Foreign currency translation adjustments	Remeasure- ments of defined benefit plans	Total accumulated other comprehensive income (loss)	Minority interests	Total net assets
Balances at March 31, 2013	\$ 63,389	\$ 3,605	\$ (4,295)	\$ -	\$ 62,699	\$ 208,006	\$ 1,297,823
Changes arising during the year:							
Cash dividends							(37,903)
Net income							167,888
Purchase of treasury stock							(632)
Disposition of treasury stock							10
Net changes other than shareholders' equity	25,806		2,896	3,294	31,996	25,855	57,851
Total changes during the year	<u>25,806</u>	<u>-</u>	<u>2,896</u>	<u>3,294</u>	<u>31,996</u>	<u>25,855</u>	<u>187,214</u>
Balances at March 31, 2014	<u>\$ 89,195</u>	<u>\$ 3,605</u>	<u>\$ (1,399)</u>	<u>\$ 3,294</u>	<u>\$ 94,695</u>	<u>\$ 233,861</u>	<u>\$ 1,485,037</u>

See accompanying notes to consolidated financial statements.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Statement of Cash Flows — Year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (note 3)
	2014	2013	2014
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 31,581	¥ 19,417	\$ 306,850
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	4,044	3,964	39,293
Impairment loss	146	-	1,419
Interest and dividend income	(3,660)	(2,798)	(35,562)
Interest expense	1,494	1,619	14,516
Loss on sale and disposal of intangible assets	1,592	24	15,468
Gain on sale of investment securities	(67)	(725)	(651)
Loss on devaluation of investment securities	242	5	2,351
Negative goodwill incurred	-	(396)	-
Decrease (increase) in deposits segregated for customer	8,560	(19,800)	83,171
Decrease (increase) in trading assets and increase (decrease) in trading liabilities	75,761	(109,136)	736,115
Decrease (increase) in receivables on margin transactions and increase (decrease) in payables on margin transactions	(10,625)	(18,598)	(103,236)
Decrease (increase) in receivables on collateralized securities transactions and increase (decrease) in payables on collateralized securities transactions	(72,511)	71,113	(704,538)
Increase (decrease) in deposits received	(1,028)	10,751	(9,988)
Decrease (increase) in short-term guarantee deposits	668	(548)	6,491
Increase (decrease) in guarantee deposits received	2,456	10,317	23,863
Increase (decrease) in allowance for doubtful accounts	(524)	(355)	(5,091)
Increase (decrease) in liabilities for retirement benefits	(398)	512	(3,867)
Increase (decrease) in financial instruments transactions reserve	650	285	6,316
Other, net	1,994	(803)	19,374
Sub-total	40,375	(35,152)	392,294
Interest and dividend received	3,473	2,829	33,745
Interest paid	(1,508)	(1,613)	(14,652)
Income taxes paid	(7,024)	(2,249)	(68,247)
Net cash provided by (used in) operating activities	35,316	(36,185)	343,140
Cash flows from investing activities:			
Payment for short-term investments	(3,900)	(2,997)	(37,893)
Proceeds from sale of short-term investments	5,800	3,570	56,354
Payment for purchase of property and equipment	(3,034)	(731)	(29,479)
Payment for intangible assets	(4,626)	(1,953)	(44,948)
Payment for investment securities	(688)	(951)	(6,685)
Proceeds from sale of investment securities	565	1,668	5,490
Payment for investments in affiliates	-	(1,864)	-
Other, net	1,140	222	11,077
Net cash used in investing activities	(4,743)	(3,036)	(46,084)

Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	(18,832)	37,972	(182,977)
Proceeds from long-term borrowings	-	825	-
Payments on long-term borrowings	(1,502)	(1,001)	(14,594)
Proceeds from sale of treasury stock	1	-	10
Purchase of treasury stock	(65)	(14)	(632)
Dividends paid to shareholders	(3,901)	(975)	(37,903)
Dividends paid to minority shareholders of subsidiaries	(49)	(36)	(476)
Other, net	(652)	(541)	(6,335)
Net cash provided by (used in) financing activities	(25,000)	36,230	(242,907)
Effect of exchange rate changes on cash and cash equivalents	323	404	3,138
Net increase (decrease) in cash and cash equivalents	5,896	(2,587)	57,287
Cash and cash equivalents, beginning of year	39,540	41,022	384,182
Increase in cash and cash equivalents from merger	-	1,105	-
Cash and cash equivalents, end of year (note 21)	¥ 45,436	¥ 39,540	\$ 441,469

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Okasan Securities Group Inc. and Consolidated Subsidiaries — Year ended March 31, 2014

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, 2014.

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.

The range of useful lives is principally from 3 to 50 years for buildings and from 3 to 15 years for equipment.

i. Intangible assets – Intangible assets are carried at cost less amortization. Software for internal use is amortized under straight-line method based on internally estimated useful life (5 years). Amortization of other intangible assets is calculated by the straight-line method at rates based on the estimated useful lives of respective assets.

j. Retirement and severance benefits – Liabilities for retirement benefits are provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet dates, as adjusted for the unrecognized actuarial gain or loss and unrecognized prior service benefit or cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of services of the eligible employees. Actuarial gain or loss is amortized in the subsequent year that it occurs by the straight-line method within the average remaining years of service of the employees. Prior service benefit or cost is amortized beginning the year it is incurred by the straight-line method within the average remaining years of service of the employees.

The Company applied “Accounting Standard for Retirement Benefits” (ASBJ Standard No. 26 on May 17, 2012) and “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No.25 on May 17, 2012) from this current fiscal year, except for the provisions as described in paragraph 35 of “Accounting Standard for Retirement Benefits” and paragraph 67 of “Guidance on Accounting Standard for Retirement Benefits”. The Company has recorded the amount of retirement benefit obligations after deducting pension plan assets as liabilities for retirement benefits, and unrecognized actuarial differences are recorded as liabilities for retirement benefits.

Concerning the application of the Accounting Standard for Retirement Benefit, based on the provisional treatment set out Section 37 of the accounting standards, the effects of such changes at March 31, 2014 have been adjusted in remeasurements of defined benefit plans through accumulated other comprehensive income.

As a result, the Company recorded liabilities for retirement benefits of ¥5,190 million (\$50,428 thousand) at March 31, 2014. And accumulated other comprehensive income increased by ¥338 million (\$3,284 thousand) and minority interests decreased by ¥2 million (\$19 thousand). And the net income per share is increased by ¥1.71 (\$0.02).

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, 2014.
- 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 and the other related guidance.

The Company expects to apply the revised accounting standard regarding the amendment of the calculation method for present value of defined benefit obligations and current service costs from the beginning of the fiscal year ending March 31, 2015. Because the provisional treatment is set out in the accounting standard, it is not required to be adopted retroactively.

The effect of adoption of this revised accounting standard is now under assessment at the time of preparation of the accompanying consolidated financial statements.

3. BASIS OF FINANCIAL STATEMENT TRANSLATION

The translations of the yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2014, which was ¥102.92 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, 2014 and 2013 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Trading assets:			
Equity securities and warrants	¥ 1,946	¥ 2,204	\$ 18,908
Government, corporate and other bonds	212,022	275,582	2,060,066
Derivatives	19	73	185
	<u>¥ 213,987</u>	<u>¥ 277,859</u>	<u>\$ 2,079,159</u>
Trading liabilities:			
Equity securities and warrants	¥ 690	¥ 937	\$ 6,704
Government, corporate and other bonds	143,946	158,617	1,398,621
Derivatives	52	19	505
	<u>¥ 144,688</u>	<u>¥ 159,573</u>	<u>\$ 1,405,830</u>

5. MARGIN TRANSACTIONS

Margin transactions at March 31, 2014 and 2013 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Assets:			
Loans receivable from customers	¥ 58,968	¥ 49,854	\$ 572,950
Cash deposits as collateral for securities borrowed from securities finance companies	2,636	5,481	25,612
	<u>¥ 61,604</u>	<u>¥ 55,335</u>	<u>\$ 598,562</u>
Liabilities:			
Borrowings from securities finance companies	¥ 9,314	¥ 9,276	\$ 90,497
Proceeds from securities sold for customers' accounts	5,640	10,063	54,800
	<u>¥ 14,954</u>	<u>¥ 19,339</u>	<u>\$ 145,297</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, 2014 and 2013 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Assets:			
Cash collateral for securities borrowed	¥ 150,379	¥ 185,257	\$ 1,461,125
Liabilities:			
Cash collateral for securities loaned	¥ 24,262	¥ 126,651	\$ 235,736
Sell Gensaki transactions	-	5,000	-
	<u>¥ 24,262</u>	<u>¥ 131,651</u>	<u>\$ 235,736</u>

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, 2014 and 2013 is summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
At March 31, 2014				
Current:				
Government, corporate and other bonds	¥ 1,100	¥ 0	¥ (0)	¥ 1,100
Other	-	-	-	-
	¥ 1,100	¥ 0	¥ (0)	¥ 1,100
Non-current:				
Equity securities	¥ 12,513	¥ 18,374	¥ (225)	¥ 30,662
Government, corporate and other bonds	322	8	-	330
Other	1,140	59	(62)	1,137
	¥ 13,975	¥ 18,441	¥ (287)	¥ 32,129
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

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
At March 31, 2014				
Current:				
Government, corporate and other bonds	\$ 10,688	\$ 0	\$ (0)	\$ 10,688
Other	-	-	-	-
	\$ 10,688	\$ 0	\$ (0)	\$ 10,688
Non-current:				
Equity securities	\$ 121,580	\$ 178,527	\$ (2,186)	\$ 297,921
Government, corporate and other bonds	3,128	78	-	3,206
Other	11,077	573	(602)	11,048
	\$ 135,785	\$ 179,178	\$ (2,788)	\$ 312,175

Securities classified as available-for-sale securities for which fair value is not available are unlisted equity securities amounting to ¥3,544 million (\$34,435 thousand) and ¥3,504 million, and investments in limited partnership and similar partnership amounting to ¥30 million (\$291 thousand) and ¥136 million at March 31, 2014 and 2013, respectively.

For the years ended March 31, 2014 and 2013, 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, 2014			
Equity securities	¥ 126	¥ 51	¥ (0)
Government, corporate and other bonds	5,800	-	-
Other	439	63	(47)
	¥ 6,365	¥ 114	¥ (47)
March 31, 2013			
Equity securities	¥ 1,042	¥ 697	¥ -
Government, corporate and other bonds	3,300	-	-
Other	896	63	(34)
	¥ 5,238	¥ 760	¥ (34)

	Thousands of U.S. dollars		
	Proceeds from sales of available-for-sale securities	Gross realized gains	Gross realized losses
March 31, 2014			
Equity securities	\$ 1,224	\$ 496	\$ (0)
Government, corporate and other bonds	56,355	-	-
Other	4,265	612	(457)
	\$ 61,844	\$ 1,108	\$ (457)

8. INVESTMENTS IN AN AFFILIATE

The aggregate carrying amount of investments in an affiliate at March 31, 2014 and 2013 are ¥47 million (\$457 thousand) and ¥22 million, respectively.

9. BORROWINGS

The weighted-average interest rates applicable to the short-term borrowings are 0.50% and 0.51% at March 31, 2014 and 2013, respectively.

Long-term borrowings at March 31, 2014 and 2013 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Borrowings, maturing in installments through 2017; bearing weighted average interest of 2.36% at March 31, 2014	¥ 13,735	¥ -	\$ 133,453
Borrowings, maturing in installments through 2016; bearing weighted average interest of 2.61% at March 31, 2013	-	15,238	-
Less current installments	5,320	3,663	51,690
	¥ 8,415	¥ 11,575	\$ 81,763

Lease liabilities at March 31, 2014 and 2013 consist of the following:

	Millions of yen		Thousands of
	2014	2013	U.S. dollars
			2014
Lease liabilities maturing in installments through 2021; bearing weighted average interest of 3.17% at March 31, 2014	¥ 1,988	¥ -	\$ 19,316
Lease liabilities maturing in installments through 2019; bearing weighted average interest of 3.04% at March 31, 2013	-	1,309	-
Less current installments	547	448	5,315
	¥ 1,441	¥ 861	\$ 14,001

- (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
	2014	2013	U.S. dollars
			2014
Long-term borrowings	¥ 2,775	¥ 6,725	\$ 26,963
Current installments of long-term borrowings	3,950	1,175	38,379

Annual maturities of borrowings after March 31, 2015, are as follows:

Year ending March 31	Millions of	Thousands of
	yen	U.S. dollars
2016	¥ 6,255	\$ 60,775
2017	-	-
2018	2,160	20,987
2019	-	-

Annual maturities of lease liabilities after March 31, 2015, are as follows:

Year ending March 31	Millions of	Thousands of
	yen	U.S. dollars
2016	¥ 498	\$ 4,839
2017	452	4,392
2018	335	3,255
2019	143	1,389

To meet its liquidity needs stably and expeditiously and to strengthen financial operations, the Company established a commitment line of ¥21,000 million (\$204,042 thousand) with 7 financial institutions at both March 31, 2014 and 2013, 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, 2014 and 2013, the carrying value of assets pledged is as follows:

	Millions of Yen		Thousands of U.S. dollars
	2014	2013	2014
Cash in banks	¥ 2,115	¥ 3,761	\$ 20,550
Trading assets	52,779	57,215	512,816
Property and equipment	8,060	8,616	78,313
Investment securities	19,709	18,537	191,498
	¥ 82,663	¥ 88,129	\$ 803,177

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Short-term borrowings	¥ 61,409	¥ 68,759	\$ 596,667
Borrowings from securities finance companies	1,802	1,154	17,509
Long-term borrowings	5,640	4,850	54,800
	¥ 68,851	¥ 74,763	\$ 668,976

In addition to above, at March 31, 2014, trading assets, etc. amounting to ¥65,015 million (\$631,704 thousand) and investments securities amounting to ¥45 million (\$437 thousand) are deposited as guarantee for settlement of trading accounts and securities borrowed, respectively. At March 31, 2013, trading assets, etc. amounting to ¥63,732 million and investments securities amounting to ¥469 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, 2014 and 2013, except for those disclosed in the above table, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Securities loaned on margin transactions	¥ 5,945	¥ 10,957	\$ 57,763
Securities pledged for borrowings on margin transactions	9,773	8,487	94,957
Securities loaned	24,246	126,488	235,581
Other	24,504	28,411	238,088
	¥ 64,468	¥ 174,343	\$ 626,389

The fair value of the securities received as collateral at March 31, 2014 and 2013 are as follows:

	Millions of Yen		Thousands of U.S. dollars
	2014	2013	2014
Securities received on margin transactions	¥ 52,732	¥ 57,016	\$ 512,359
Securities borrowed	155,112	190,130	1,507,112
Securities pledged as collateral	58,018	45,674	563,720
Other	3,536	5,479	34,357
	¥ 269,398	¥ 298,299	\$ 2,617,548

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% in 2014 and 2013.

Following the promulgation of the law “Partial Amendment of the Income Tax Act, etc.” (Act No.10 of 2014) on March 31, 2014, special reconstruction corporation tax will not be imposed from the consolidated fiscal years beginning on or after April 1, 2014. And following the promulgation of the law “Local Corporation Tax” (Act No.11 of 2014) on March 31, 2014, local corporation tax will be imposed from the consolidated fiscal years beginning on or after October 1, 2014.

As a result, the amount of deferred tax assets (the amount after offsetting deferred tax liabilities) decreased by ¥192 million (\$1,866 thousand) and income taxes-deferred for the current year increased by ¥192 million (\$1,866 thousand) and unrealized gain on available-for-sale securities increased by ¥0 million (\$0 thousand).

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and deferred tax liabilities at March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of
	2014	2013	U.S. dollars
Deferred tax assets:			2014
Tax loss carryforwards	¥ 4,237	¥ 4,480	\$ 41,168
Liabilities for retirement benefits (employees)	1,843	2,046	17,907
Financial instruments transactions reserve	827	596	8,035
Accrued bonuses	772	823	7,501
Accrued business tax	714	541	6,937
Allowance for doubtful accounts	606	790	5,888
Liabilities for retirement benefits (directors and corporate auditors)	511	487	4,965
Impairment loss	416	366	4,042
Asset retirement obligations	354	330	3,440
Loss on devaluation of investment securities	300	216	2,915
Depreciation and amortization	137	137	1,331
Loss on devaluation of golf memberships	135	144	1,312
Other	477	494	4,635
	<u>11,329</u>	<u>11,450</u>	<u>110,076</u>
Valuation allowance	(6,418)	(6,301)	(62,359)
Total	<u>4,911</u>	<u>5,149</u>	<u>47,717</u>
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(6,390)	(4,480)	(62,087)
Land revaluation excess	(1,605)	(1,605)	(15,595)
Other	(254)	(202)	(2,468)
Total	<u>(8,249)</u>	<u>(6,287)</u>	<u>(80,150)</u>
Net deferred tax liabilities	<u>¥ (3,338)</u>	<u>¥ (1,138)</u>	<u>\$ (32,433)</u>

Net deferred tax assets at March 31, 2014 and 2013 are reflected in the accompanying consolidated balance sheet under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Current assets – Deferred income taxes	¥ 1,754	¥ 1,765	\$ 17,042
Investments and other assets – Deferred income taxes	1,839	1,901	17,868
Non-current liabilities – Deferred income taxes	(6,931)	(4,804)	(67,343)
	¥ (3,338)	¥ (1,138)	\$ (32,433)

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 year ended March 31, 2013 was as follows:

	2013
Statutory tax rate	38.0%
Expenses not deductible for tax purposes	0.8
Income not credited for tax purposes	(0.8)
Per capita tax	0.4
Valuation allowance	4.8
Loss on devaluation of investments in affiliates	(20.8)
Other	(1.7)
Effective tax rate	20.7%

The reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2014 is not subject to disclosure because the difference between the rates does not exceed 5% of the statutory tax rate.

12. RETIREMENT AND PENSION PLANS

March 31, 2014

The Company and its domestic consolidated subsidiaries have a defined contribution retirement and pension plan (Securities Omnibus DC Okasan Plan), a corporate defined benefit pension plan and an unfunded retirement and severance plan that provide for lump-sum payment of benefits.

Followings are the information of defined benefit plans at March 31, 2014 and for the year then ended.

(1) Reconciliation of changes in retirement benefit obligation

	Millions of yen	Thousands of U.S. dollars
Retirement benefit obligation at beginning of year	¥ 13,539	\$ 131,549
Service cost	654	6,355
Interest cost	126	1,224
Actuarial gain and loss	20	194
Benefits paid	(745)	(7,239)
Retirement benefit obligation at end of year	¥ 13,594	\$ 132,083

Note: 1. Certain consolidated subsidiaries adopt the simplified method for calculation of retirement benefit obligation

2. Retirement benefit expenses of the consolidated subsidiaries adopted the simplified method are included in above service cost.

(2) Reconciliation of changes in plan assets

	Millions of yen	Thousands of U.S. dollars
Plan assets at beginning of year	¥ 7,676	\$ 74,582
Expected return on plan assets	36	350
Actuarial gain and loss	527	5,121
Employer contributions	553	5,373
Benefits paid	(388)	(3,770)
Plan assets at end of year	<u>¥ 8,404</u>	<u>\$ 81,656</u>

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

	Millions of yen	Thousands of U.S. dollars
Funded retirement benefit obligation	¥ 8,444	\$ 82,044
Plan assets	<u>(8,404)</u>	<u>(81,655)</u>
	40	389
Unfunded retirement benefit obligation	<u>5,150</u>	<u>50,039</u>
Net of liabilities and assets for retirement benefits	<u>¥ 5,190</u>	<u>\$ 50,428</u>
Liabilities for retirement benefits	¥ 5,190	\$ 50,428
Net of liabilities and assets for retirement benefits	<u>¥ 5,190</u>	<u>\$ 50,428</u>

(4) The components of retirement benefit expenses

	Millions of yen	Thousands of U.S. dollars
Service cost	¥ 654	\$ 6,355
Interest cost	126	1,224
Expected return on plan assets	(37)	(360)
Amortization of actuarial loss	173	1,681
Retirement benefit expenses	<u>¥ 916</u>	<u>\$ 8,900</u>

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

	Millions of yen	Thousands of U.S. dollars
Unrecognized actuarial loss	¥ 521	\$ 5,062
Retirement benefit obligation at end of year	<u>¥ 521</u>	<u>\$ 5,062</u>

(6) Plan assets

(a) Percentage by major category of plan assets

Equity securities	40 %
General account	37
Debt securities	20
Other	3
Total	<u>100 %</u>

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

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

(6) Basis for calculation of actuarial assumptions

The assumptions used in accounting for the above plans at March 31, 2014 are as follows:

- (a) Discount rate 0.64%
(b) Long-term expected rate of return 0.50%

The amount to be paid by the Company and consolidated subsidiaries to the defined contribution plans was ¥190 million (\$1,846 thousand) for the year ended March 31, 2014.

March 31, 2013

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 consisted of the followings:

	Millions of yen
Projected benefit obligations	¥ (13,539)
Fair value of plan assets	7,676
Unrecognized actuarial gain	159
Amount recognized in the consolidated balance sheet	<u>¥ (5,704)</u>

The components of retirement benefit expenses for the year ended March 2013 were as follows:

	Millions of yen
Service cost	¥ 750
Interest cost	127
Expected return on plan assets	(33)
Amortization of actuarial loss	481
	<u>1,325</u>
Contributions to the defined contribution plan	184
Retirement benefit expenses	<u>¥ 1,509</u>

Assumptions used for the year ended March 31, 2013 were set forth as follows:

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

Retirement benefits for directors and corporate auditors

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 liabilities for retirement and severance benefits related to these plans was ¥1,440 million (\$13,991 thousand) and ¥1,323 million at March 31, 2014 and 2013, 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 1 to 58 years and discounted rate of 0.035% to 2.33%.

The following table provides the Company's total asset retirement obligation for the years ended March 31, 2014 and 2013:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Balance, beginning of year	¥ 600	¥ 580	\$ 5,830
Liabilities incurred by asset acquisition	108	21	1,049
Accretion expenses	12	11	116
Liabilities settled	(101)	(5)	(981)
Other increase (decrease)	14	(7)	136
Balance, end of year	¥ 633	¥ 600	\$ 6,150

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, 2014 and 2013 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, 2013 which was approved by the General Meeting of Shareholders held on June 28, 2012 are as follows:

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

Cash dividends for treasury stock held by subsidiaries of ¥25 million were excluded from the above table.

Dividends paid during the year ended March 31, 2014 which was approved by the General Meeting of Shareholders held on June 27, 2013 are as follows:

(a) Total dividends	¥3,901 million (\$37,903 thousand)
(b) Cash dividends per common share	¥20 (\$0.19)
(c) Record date	March 31, 2013
(d) Effective date	June 28, 2013

Cash dividends for treasury stock held by subsidiaries of ¥98 million (\$952 thousand) were excluded from the above table.

Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2014 which was approved by the General Meeting of Shareholders held on June 27, 2014 are as follows:

(a) Total dividends	¥4,997million (\$48,552 thousand)
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥25 (\$0.24)
(d) Record date	March 31, 2014
(e) Effective date	June 30, 2014

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, 2014 decreased by ¥901 million (\$8,754 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 394.8% and 359.7% at March 31, 2014 and 2013, respectively.

18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major elements of selling, general and administrative expenses for the years ended March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of
	2014	2013	U.S. dollars
Commissions and brokerage	¥ 13,327	¥ 10,967	\$ 129,489
Employees' compensation and benefits	34,840	30,042	338,516
Occupancy and rental	6,154	5,801	59,794
Data processing and office supplies	4,951	5,148	48,105
Depreciation and amortization	4,044	3,964	39,293
Taxes other than income taxes	727	620	7,064
Provision for doubtful accounts	(1)	38	(10)
Other	3,217	2,440	31,257
	¥ 67,259	¥ 59,020	\$ 653,508

19. OTHER COMPREHENSIVE INCOME

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive income for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of
	2014	2013	U.S. dollars
Net unrealized holding gain on other securities:			2014
Arising during the year	¥ 5,164	¥ 11,843	\$ 50,175
Reclassification adjustment	185	(343)	1,797
Before tax amount	5,349	11,500	51,972
Tax benefit (expense)	(1,909)	(4,025)	(18,548)
Net-of-tax amount	3,440	7,475	33,424
Foreign currency translation adjustments:			
Arising during the year	298	398	2,895
Total other comprehensive income	¥ 3,738	¥ 7,873	\$ 36,319

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, 2014 and 2013 are as follows:

	Yen		U.S. dollars
	2014	2013	2014
Basic net income per share	¥ 87.24	¥ 72.22	\$ 0.85

	Millions of yen		Thousands of
	2014	2013	U.S. dollars
Net income	¥ 17,279	¥ 14,308	\$ 167,888
Net income not applicable to common shareholders	-	-	-
Net income applicable to common shareholders	¥ 17,279	¥ 14,308	\$ 167,888

	Number of shares (Thousand)	
	2014	2013
Weighted average number of shares outstanding on which basic net income per share is calculated	198,058	198,120

(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, 2014 and 2013 are as follows:

	Yen		U.S. dollars
	2014	2013	2014
Net assets per share	¥ 650.24	¥ 566.19	\$ 6.32
	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Total net assets	¥ 152,840	¥ 133,572	\$ 1,485,037
Amount deducted from total net assets:			
Minority interests	24,069	21,408	233,861
Net assets applicable to common stockholders	¥ 128,771	¥ 112,164	\$ 1,251,176
	Number of shares (Thousand)		
	2014	2013	
Number of shares outstanding at the end of year on which net assets per share is calculated	198,036	198,102	

21. SUPPLEMENTARY CASH FLOW INFORMATION

Reconciliation between “Cash on hand and in banks” in the accompanying consolidated balance sheet and “Cash and cash equivalents” in the accompanying consolidated statement of cash flows at March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Cash on hand and in banks	¥ 49,467	¥ 44,508	\$ 480,635
Time deposits that have maturities of over three months when acquired	(4,031)	(4,968)	(39,166)
Cash and cash equivalents	¥ 45,436	¥ 39,540	\$ 441,469

22. COMMITMENTS AND CONTINGENCIES

At March 31, 2014 and 2013, the Company and certain subsidiaries have guaranteed approximately ¥24 million (\$233 thousand) and ¥87 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, 2014 and 2013 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					
	2014			2013		
	Furniture and Fixtures	Software	Total	Furniture and Fixtures	Software	Total
Acquisition cost	¥ -	¥ -	¥ -	¥ 227	¥ -	¥ 227
Accumulated depreciation	-	-	-	220	-	220
Net carrying amount	¥ -	¥ -	¥ -	¥ 7	¥ -	¥ 7

	Thousands of U.S. dollars		
	2014		
	Furniture and Fixtures	Software	Total
Acquisition cost	\$ -	\$ -	\$ -
Accumulated depreciation	-	-	-
Net carrying amount	\$ -	\$ -	\$ -

* 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, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
	Due within one year	¥ -	¥ 8
Due after one year	-	-	-
	¥ -	¥ 8	\$ -

Lease payments, depreciation equivalents and interest expense equivalents for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
	Lease payments	¥ 8	¥ 89
Depreciation equivalents	7	77	68
Interest expense equivalents	0	2	0

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, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Within one year	¥ 855	¥ 788	\$ 8,307
Over one year	1,291	2,138	12,544
	¥ 2,146	¥ 2,926	\$ 20,851

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 ¥136 million (\$1,321 thousand) as of March 31, 2014.

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, 2014 and 2013 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					
	2014			2013		
	Carrying value	Fair value	Differences	Carrying value	Fair value	Differences
Assets:						
Cash on hand and in banks	¥ 49,467	¥ 49,467	¥ -	¥ 44,508	¥ 44,508	¥ -
Cash segregated as deposits for customers and others	56,744	56,744	-	65,341	65,341	-
Trading assets, short-term investments and investment securities						
Trading securities	213,968	213,968	-	277,786	277,786	-
Available-for-sale securities	33,228	33,228	-	29,749	29,749	-
Receivables arising from unsettled trades	-	-	-	20,237	20,237	-
Receivables on margin transactions	61,604	61,604	-	55,335	55,335	-
Receivables on collateralized securities transactions	150,379	150,379	-	185,257	185,257	-
Short-term guarantee deposits	3,536	3,536	-	4,203	4,203	-
Total	¥ 568,926	¥ 568,926	¥ -	¥ 682,416	¥ 682,416	¥ -
Liabilities:						
Trading liabilities						
Trading securities	¥ 144,636	¥ 144,636	¥ -	¥ 159,553	¥ 159,553	¥ -
Payables arising from unsettled trades	6,536	6,536	-	-	-	-
Payables on margin transactions	14,954	14,954	-	19,339	19,339	-
Payables on collateralized securities transactions	24,262	24,262	-	131,651	131,651	-
Deposits received	29,187	29,187	-	29,987	29,987	-
Guarantee deposits received	35,804	35,804	-	33,348	33,348	-
Short-term borrowings	158,878	158,886	8	176,024	176,036	12
Long-term borrowings	8,415	8,473	58	11,575	11,683	108
Total	¥ 422,672	¥ 422,738	¥ 66	¥ 561,477	¥ 561,597	¥ 120
Derivative transactions	¥ (32)	¥ (32)	¥ -	¥ 54	¥ 54	¥ -

	Thousands of U.S. dollars		
	2014		
	Carrying	Fair value	Differences
	value		
Assets:			
Cash on hand and in banks	\$ 480,635	\$ 480,635	\$ -
Cash segregated as deposits for customers and others	551,341	551,341	-
Trading assets, short-term investments and investment securities			
Trading securities	2,078,974	2,078,974	-
Available-for-sale securities	322,853	322,853	-
Receivables arising from unsettled trades	-	-	-
Receivables on margin transactions	598,562	598,562	-
Receivables on collateralized securities transactions	1,461,125	1,461,125	-
Short-term guarantee deposits	34,357	34,357	-
Total	\$ 5,527,847	\$ 5,527,847	\$ -
Liabilities:			
Trading liabilities			
Trading securities	\$ 1,405,324	\$ 1,405,324	\$ -
Payables arising from unsettled trades	63,506	63,506	-
Payables on margin transactions	145,297	145,297	-
Payables on collateralized securities transactions	235,736	235,736	-
Deposits received	283,589	283,589	-
Guarantee deposits received	347,882	347,882	-
Short-term borrowings	1,543,704	1,543,782	78
Long-term borrowings	81,763	82,326	563
Total	\$ 4,106,801	\$ 4,107,442	\$ 641
Derivative transactions	\$ (311)	\$ (311)	\$ -

* 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 arising from unsettled trades, 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
	2014	2013	U.S. dollars
Unlisted equity securities	¥ 3,544	¥ 3,504	\$ 34,435
Investments in limited partnership and similar partnership	30	136	291
Total	¥ 3,574	¥ 3,640	\$ 34,726

(3) Projected future redemption of monetary claim and securities with maturities
March 31, 2014

	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	¥ 49,467	¥ -	¥ -	¥ -
Cash segregated as deposits for customers and others	56,744	-	-	-
Trading assets, short-term investments and investment securities:				
Available-for-sale securities with maturities:				
Debt securities:				
Government bonds	1,100	300	23	-
Other	-	566	405	-
Receivables on margin transactions	61,604	-	-	-
Receivables on collateralized securities transactions	150,379	-	-	-
Short-term guarantee deposits	3,536	-	-	-
	¥ 322,830	¥ 866	¥ 428	¥ -

	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	\$ 480,635	\$ -	\$ -	\$ -
Cash segregated as deposits for customers and others	551,341	-	-	-
Trading assets, short-term investments and investment securities:				
Available-for-sale securities with maturities:				
Debt securities:				
Government bonds	10,688	2,915	223	-
Other	-	5,499	3,935	-
Receivables on margin transactions	598,562	-	-	-
Receivables on collateralized securities transactions	1,461,125	-	-	-
Short-term guarantee deposits	34,357	-	-	-
	\$ 3,136,708	\$ 8,414	\$ 4,158	\$ -

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	¥ -

(4) The annual maturities of the long-term debt and other interest-bearing debt
March 31, 2014

	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	¥ 153,558	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term borrowings	5,320	6,255	-	2,160	-	-
Borrowings from securities finance companies	9,314	-	-	-	-	-
Total	¥ 168,192	¥ 6,255	¥ -	¥ 2,160	¥ -	¥ -

	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	\$ 1,492,013	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term borrowings	51,691	60,775	-	20,987	-	-
Borrowings from securities finance companies	90,497	-	-	-	-	-
Total	\$ 1,634,201	\$ 60,775	\$ -	\$ 20,987	\$ -	\$ -

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	-	-	-
Borrowings from securities finance companies	9,276	-	-	-	-	-
Total	¥ 185,301	¥ 5,320	¥ 6,255	¥ -	¥ -	¥ -

* 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, 2014 and 2013 are summarized as follows:

(1) Stocks

	Millions of yen					
	2014			2013		
	Contract or notional amounts	Fair value	Valuation gain (loss)	Contract or notional amounts	Fair value	Valuation gain (loss)
Stock index futures:						
Written	¥ 945	¥ (5)	¥ (5)	¥ 3,191	¥ (2)	¥ (2)
Purchased	586	1	1	2,131	1	1
Stock index options:						
Written	-	-	-	9	9	(0)
Purchased	6	2	(4)	8	8	0
Over-the-counter stock options:						
Written	12	16	(4)	3	4	(1)
Purchased	5	16	11	2	4	2
			¥ (1)			¥ (0)

	Thousands of U.S. dollars		
	2014		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Stock index futures:			
Written	\$ 9,182	\$ (49)	\$ (49)
Purchased	5,694	10	10
Stock index options:			
Written	-	-	-
Purchased	58	19	(39)
Over-the-counter stock options:			
Written	117	156	(39)
Purchased	49	156	107
			\$ (10)

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					
	2014			2013		
	Contract or notional amounts	Fair value	Valuation gain (loss)	Contract or notional amounts	Fair value	Valuation gain (loss)
Bond futures:						
Written	¥ 1,301	¥ (0)	¥ (0)	¥ 1,310	¥ 1	¥ 1
Purchased	11,283	(2)	(2)	5,095	(4)	(4)
			<u>¥ (2)</u>			<u>¥ (3)</u>
	Thousands of U.S. dollars					
	2014					
	Contract or notional amounts	Fair value	Valuation gain (loss)			
Bond futures:						
Written	\$ 12,641	\$ (0)	\$ (0)			
Purchased	109,629	(19)	(19)			
			<u>\$ (19)</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					
	2014			2013		
	Contract or notional amounts	Fair value	Valuation gain (loss)	Contract or notional amounts	Fair value	Valuation gain (loss)
Foreign exchange margin trading:						
Written:	¥ 155	¥ 0	¥ 0	¥ 312	¥ (0)	¥ (0)
Forward foreign exchange:						
Written:						
Australian dollar	897	(7)	(7)	2,121	17	17
Mexican Peso	467	(6)	(6)	997	8	8
South Africa Rand	247	(6)	(6)	1,033	14	14
Russian ruble	230	(0)	(0)	876	14	14
Turkish lira	138	(4)	(4)	523	3	3
Brazilian real	110	(4)	(4)	-	-	-
Other	220	(2)	(2)	464	5	5
			<u>¥ (29)</u>			<u>¥ 61</u>

Thousands of U.S. dollars			
2014			
	Contract or notional amounts		Valuation gain (loss)
	Fair value		
Foreign exchange margin trading:			
Written:	\$ 1,506	\$ 0	\$ 0
Forward foreign exchange:			
Written:			
Australian dollar	8,716	(68)	(68)
Mexican Peso	4,538	(58)	(58)
South Africa Rand	2,400	(58)	(58)
Russian ruble	2,235	(0)	(0)
Turkish lira	1,341	(39)	(39)
Brazilian real	1,069	(39)	(39)
Other	2,138	(20)	(20)
			<u>\$ (282)</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, 2014 and 2013 are summarized as follows:

Nature of transaction	Hedged items	Contract or notional amounts		
		Millions of yen		Thousands of U.S. dollars
		2014	2013	2014
Interest rate swaps:				
Variable rate received for fixed rate	Long-term borrowings	¥ 4,965	¥ 7,500	\$ 48,241

*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 ¥163 million (\$1,584 thousand) and ¥155 million for the years ended March 31, 2014 and 2013, 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
	2014	2013	U.S. dollars
Consolidated balance sheet amount:			2014
Balance at beginning of the year	¥ 5,538	¥ 5,859	\$ 53,809
Increase/(decrease)	(205)	(321)	(1,992)
Balance at end of the year	¥ 5,333	¥ 5,538	\$ 51,817
Fair value	¥ 5,367	¥ 5,420	\$ 52,147

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

27. BALANCES AND TRANSACTIONS WITH RELATED PARTY

The Company's officer and the close relatives had a majority equity ownership in Tosei Co., Ltd. at March 31, 2013.

Transactions between the Company and Tosei Co., Ltd. for the year ended March 31, 2013 were summarized as follows:

	Millions of yen	
Transactions:		
Purchases of shares of associated company	¥	257

There are no related party transactions for the year ended March 31, 2014.

28. 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, 2014 and 2013 are summarized as follows:

	Millions of yen						
	2014						
	Reported segments				Adjustments	Consolidated	
Securities	Asset management	Support	Total				
Operating revenues:							
Revenues from third parties	¥ 88,125	¥ 12,348	¥ 905	¥ 101,378	¥ 8	¥ 101,386	
Intersegment revenues	5,747	-	10,466	16,213	(16,213)	-	
Total	<u>¥ 93,872</u>	<u>¥ 12,348</u>	<u>¥ 11,371</u>	<u>¥ 117,591</u>	<u>¥ (16,205)</u>	<u>¥ 101,386</u>	
Segment income	<u>¥ 30,630</u>	<u>¥ 1,327</u>	<u>¥ 963</u>	<u>¥ 32,920</u>	<u>¥ (190)</u>	<u>¥ 32,730</u>	
Segment assets	<u>¥ 574,242</u>	<u>¥ 15,108</u>	<u>¥ 28,720</u>	<u>¥ 618,070</u>	<u>¥ (4,935)</u>	<u>¥ 613,135</u>	
Segment liabilities	<u>¥ 470,454</u>	<u>¥ 2,075</u>	<u>¥ 17,969</u>	<u>¥ 490,498</u>	<u>¥ (30,203)</u>	<u>¥ 460,295</u>	
Others:							
Depreciation	¥ 794	¥ 30	¥ 2,964	¥ 3,788	¥ 256	¥ 4,044	
Interest and dividend income	3,473	-	16	3,489	(542)	2,947	
Interest expense	1,861	-	-	1,861	(464)	1,397	
Increase in property and equipment and intangible assets	2,074	15	5,684	7,773	1,350	9,123	
	Millions of yen						
	2013						
	Reported segments				Adjustments	Consolidated	
Securities	Asset management	Support	Total				
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	
Interest and dividend income	2,633	-	5	2,638	(422)	2,216	
Interest expense	1,858	-	-	1,858	(330)	1,528	
Increase in property and equipment and intangible assets	443	5	2,529	2,977	513	3,490	

	Thousands of U.S. dollars					
	2014					
	Reported segments				Adjustments	Consolidated
Securities	Asset management	Support	Total			
Operating revenues:						
Revenues from third parties	\$ 856,248	\$ 119,977	\$ 8,793	\$ 985,018	\$ 77	\$ 985,095
Intersegment revenues	55,839	-	101,691	157,530	(157,530)	-
Total	<u>912,087</u>	<u>119,977</u>	<u>110,484</u>	<u>1,142,548</u>	<u>(157,453)</u>	<u>985,095</u>
Segment income	<u>\$ 297,610</u>	<u>\$ 12,893</u>	<u>\$ 9,357</u>	<u>\$ 319,860</u>	<u>\$ (1,846)</u>	<u>\$ 318,014</u>
Segment assets	<u>\$ 5,579,499</u>	<u>\$ 146,793</u>	<u>\$ 279,052</u>	<u>\$ 6,005,344</u>	<u>\$ (47,950)</u>	<u>\$ 5,957,394</u>
Segment liabilities	<u>\$ 4,571,065</u>	<u>\$ 20,161</u>	<u>\$ 174,592</u>	<u>\$ 4,765,818</u>	<u>\$ (293,461)</u>	<u>\$ 4,472,357</u>
Others:						
Depreciation	\$ 7,715	\$ 291	\$ 28,799	\$ 36,805	\$ 2,488	\$ 39,293
Interest and dividend income	33,745	-	155	33,900	(5,266)	28,634
Interest expense	18,082	-	-	18,082	(4,509)	13,573
Increase in property and equipment and intangible assets	20,152	146	55,227	75,525	13,117	88,642

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Elimination of intersegment transactions	¥ 2,786	¥ 3,401	\$ 27,070
Unallocated company-wide expenses	(2,976)	(2,327)	(28,916)
	<u>¥ (190)</u>	<u>¥ 1,074</u>	<u>\$ (1,846)</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
	2014	2013	2014
Elimination of intersegment balances	¥ (59,416)	¥ (64,092)	\$ (577,303)
Unallocated company-wide assets	54,481	46,461	529,353
	<u>¥ (4,935)</u>	<u>¥ (17,631)</u>	<u>\$ (47,950)</u>

Company-wide assets are holding company’s assets.

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Elimination of intersegment balances	¥ (53,034)	¥ (57,468)	\$ (515,293)
Unallocated company-wide liabilities	22,831	16,092	221,832
	<u>¥ (30,203)</u>	<u>¥ (41,376)</u>	<u>\$ (293,461)</u>

Company-wide liabilities are holding company’s liabilities.

2. Segment income is adjusted with operating income in the consolidated statement of income.

Related information

1. Information by products and services

Disclosures are omitted because 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

		Millions of yen						
		2014						
		Reported segments						
		Asset						
	Securities	management	Support	Total	Adjustments	Consolidated		
Impairment loss	¥ -	¥ -	¥ 52	¥ 52	¥ 94	¥ 146		

		Thousands of U.S. dollars						
		2014						
		Reported segments						
		Asset						
	Securities	management	Support	Total	Adjustments	Consolidated		
Impairment loss	\$ -	\$ -	\$ 505	\$ 505	\$ 914	\$ 1,419		

Adjustments are holding company's impairment loss.

Not applicable for the year ended March 31, 2013

Negative goodwill incurred by reported segments

Negative goodwill of ¥396 million which are not allocated to each reported segments were reported for the year ended March 31, 2013. The negative goodwill occurred when the Company acquired additional shares of its subsidiary. No negative goodwill has occurred for the year ended March 31, 2014.

Independent Auditor's Report

To the Board of Directors of
Okasan Securities Group Inc.

We have audited the accompanying consolidated financial statements of Okasan Securities Group Inc., which comprise the consolidated balance sheet as of March 31, 2014, 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, 2014, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

BDO Toyo & Co.

BDO Toyo & Co.
Tokyo, Japan
June 30, 2014

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REFERENCE DATA

Okasan Securities Co., Ltd.

Balance Sheet — March 31, 2014

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
ASSETS			
Current assets:			
Cash on hand and in banks	¥ 13,781	¥ 11,928	\$ 133,900
Cash segregated as deposits for customers and others	20,384	29,363	198,057
Trading assets	213,775	277,375	2,077,099
Receivables arising from unsettled trades	-	19,275	-
Receivables on margin transactions	55,629	50,160	540,507
Receivables on collateralized securities transactions	150,379	185,257	1,461,125
Short-term guarantee deposits	2,767	3,281	26,885
Deferred income taxes	1,381	1,405	13,418
Other current assets	2,899	2,780	28,167
Allowance for doubtful accounts	(17)	(14)	(165)
Total current assets	460,978	580,810	4,478,993
Property and equipment, net of accumulated depreciation	2,361	1,944	22,940
Intangible assets, net	341	365	3,313
Investments and other assets:			
Investment securities	420	411	4,081
Securities in associated companies	211	211	2,050
Long-term guarantee deposits	3,000	3,058	29,149
Deferred income taxes	1,716	1,780	16,673
Other	1,295	1,285	12,583
Allowance for doubtful accounts	(923)	(926)	(8,968)
Total investments and other assets	5,719	5,819	55,568
TOTAL	¥ 469,399	¥ 588,938	\$ 4,560,814

Okasan Securities Co., Ltd.

Balance Sheet — (Continued) — March 31, 2014

	Millions of yen		Thousands of U.S. dollar
	2014	2013	2014
LIABILITIES AND NET ASSETS			
Current liabilities:			
Trading liabilities	¥ 144,678	¥ 159,485	\$ 1,405,733
Payables arising from unsettled trades	7,147	-	69,442
Payables on margin transactions	13,787	18,022	133,958
Payables on collateralized securities transactions	24,262	131,650	235,736
Deposits received	19,715	19,417	191,557
Guarantee deposits received	9,418	14,441	91,508
Short-term borrowings	151,215	158,940	1,469,248
Income tax payables	2,553	2,048	24,806
Other current liabilities	12,648	10,076	122,892
Total current liabilities	385,423	514,079	3,744,880
Non-current liabilities:			
Long-term borrowings	2,775	7,725	26,963
Liabilities for retirement benefits	5,052	5,160	49,086
Other non-current liabilities	1,114	1,012	10,824
Total non-current liabilities	8,941	13,897	86,873
Financial instruments transactions reserve	1,281	914	12,446
Total liabilities	395,645	528,890	3,844,199
Net assets			
Shareholder's equity:			
Common stock			
Authorized—240,000 shares			
Issued—100,000 shares in 2014 and 2013	5,000	5,000	48,581
Capital surplus	29,200	29,200	283,716
Retained earnings	39,551	25,852	384,289
Total shareholder's equity	73,751	60,052	716,586
Accumulated other comprehensive income (loss):			
Unrealized gain (loss) on available-for-sale securities	3	(4)	29
Total net assets	73,754	60,048	716,615
TOTAL	¥ 469,399	¥ 588,938	\$ 4,560,814

Okasan Securities Co., Ltd.

Statement of Income — Year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollar
	2014	2013	2014
Operating revenues:			
Commissions	¥ 53,193	¥ 37,541	\$ 516,839
Net gain on trading	24,943	23,865	242,353
Interest and dividend income	2,104	1,673	20,443
	<u>80,240</u>	<u>63,079</u>	<u>779,635</u>
Interest expense	<u>1,371</u>	<u>1,396</u>	<u>13,321</u>
Net operating revenues	<u>78,869</u>	<u>61,683</u>	<u>766,314</u>
Selling, general and administrative expenses	<u>51,507</u>	<u>47,434</u>	<u>500,457</u>
Operating income	<u>27,362</u>	<u>14,249</u>	<u>265,857</u>
Other income (expenses):			
Gain on sale of investment securities	-	60	-
Provision for financial instruments transactions reserve	(367)	(104)	(3,566)
Other, net	179	325	1,739
	<u>(188)</u>	<u>281</u>	<u>(1,827)</u>
Income before income taxes	27,174	14,530	264,030
Income taxes:			
Current	10,392	6,704	100,972
Deferred	83	(867)	806
	<u>10,475</u>	<u>5,837</u>	<u>101,778</u>
Net income	<u>¥ 16,699</u>	<u>¥ 8,693</u>	<u>\$ 162,252</u>

CORPORATE DATA

(At July, 2014)

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, 2014)

Chairman

Seiichi Kato

Vice Chairman

Tetsuo Kato

President

Hiroyuki Shinshiba

Senior Managing Director

Kazuhiko Nonaka

Director

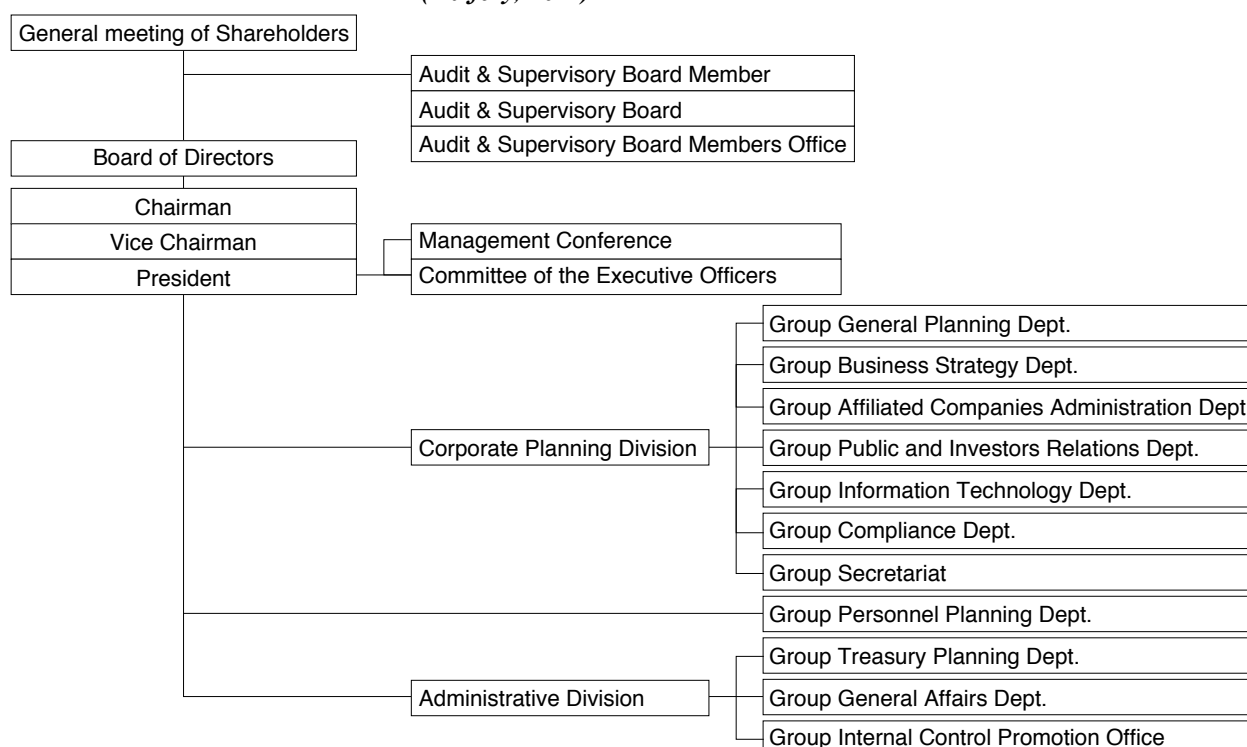
Hiroyuki Shindo
Mitsuru Tanaka
Hiroyuki Murai
Masahiro Hayakawa

Audit & Supervisory Board Member

Tetsumi Iwaki
Nobuyuki Natsume
Tetsuo Narukawa
Seishi Higo
Hirokazu Kono

ORGANIZATION CHART

(At July, 2014)



OKASAN SECURITIES GROUP INC.

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