MONEX GROUP

Monex Group, Inc.

# ANNUAL FINANCIAL STATEMENTS 2013

For the year ended March 31, 2013

Monex Group, Inc.

## Contents



# About IFRSs
## (International Financial Reporting Standards)

### Consolidated financial statements for the year ended March 31, 2013 in accordance with IFRSs (International Financial Reporting Standards)

The Group engages in business activities with a focus on the three major locations of Japan, the U.S. and China for the establishment of a global financial group providing an online service based on the medium- to long-term strategy "Global Vision." The Group voluntary adopted IFRSs to improve the international comparability of financial information.

# Comparison of consolidated statement of income under IFRSs with JGAAP for the year ended March 31, 2013

Net income attributable to owners of the Company under IFRSs is ¥1,846 million less than net income under JGAAP for the year ended March 31, 2013.

| | |
|---|---|
| **Net income (JGAAP)** | **¥ 5,747 million** |
| Adjustment of goodwill amortization under IFRS | ¥ 1,324 million |
| Impairment loss on goodwill | ¥ (2,524) million |
| Reversal of financial instruments transactions reserve | ¥ (209) million |
| Other | ¥ (437) million |
| **Net income attributable to owners of the Company (IFRSs)** | **¥ 3,901 million** |

### What is "Net income attributable to owners of the Company?"

"Net income" in the consolidated statement of income under IFRSs includes the portion of the individual net income of consolidated subsidiaries attributable to non-controlling interests (minority interests under JGAAP)
"Net income attributable to owners of the Company" in the consolidated statement of income under IFRSs is equivalent to "Net income" under JGAAP.

#### Example from the Company

The Company's interest to Monex Hambrecht, Inc. is 84%. 100% of the net income of Monex Hambrecht, Inc. is recognized as consolidated net income. Net income after deducting 16% of the net income of Monex Hambrecht, Inc. is "Net income attributable to owners of the Company."

# Comparison of the consolidated statement of financial position under IFRSs with JGAAP for the year ended March 31, 2013

"Total assets" under IFRSs is ¥11,031 million less than "Total assets" under JGAAP as of March 31, 2013.

| | |
|---|---|
| **Total assets (JGAAP)** | **¥ 693,224 million** |
| Offsetting of receivables and payables related to derivative transactions | ¥ (9,880) million |
| Other | ¥ (1,151) million |
| **Total assets (IFRSs)** | **¥ 682,193 million** |

### What is "Consolidated statement of financial position?"

There is no difference between the consolidated statement of financial position under IFRSs and the consolidated balance sheet under JGAAP in that each shows the financial condition at the end of the fiscal period.
Unlike those on the consolidated balance sheet under JGAAP, the account items on the consolidated statement of financial position under IFRSs are not clearly defined and therefore vary from company to company.

# Financial Condition and Performance Results

Masaki Ueda
Executive Officer & CFO
Monex Group, Inc.

## We are working to establish a global financial and accounting control system, and to further strengthen our revenue base.

**During the fiscal year ended March 2013, Monex Group, Inc. achieved an increase in income before income taxes of 162.3% compared to the previous fiscal year, and a significant increase in net income attributable to owners of Monex Group, Inc. of 279.3%. The Company has also further accelerated its efforts aimed at achieving sustainable growth and maximizing Group corporate value, such as the early application of International Financial Reporting Standards (IFRSs) and global diversification of the revenue base through promotion of the Global Vision. The CFO of Monex Group, Inc. spoke about the consolidated financial results and financial outcomes for the fiscal year, as well as about future financial strategies.**

### Q1 What is your view of the business environment in the fiscal year ended March 2013?

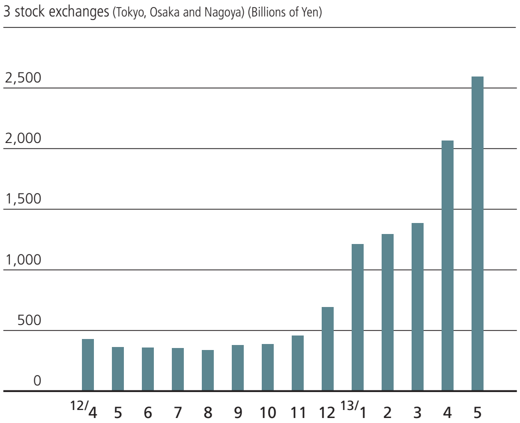
**A1** Since the inauguration of the Abe administration in December 2012, the depreciation of the yen and the rise of stock market prices have occurred in parallel, and the sentiment of individual investors has gradually recovered. During the fiscal year ended March 2013, the average one-day trading value by individual investors on the Tokyo, Osaka and Nagoya stock exchanges increased 38% from the previous fiscal year. Similarly, the volume of FX trading in Japan recorded significant growth of 28%. With respect to business in Japan, it could be said that there was a generally favorable business environment.

On the other hand, in the United States, the NYSE trading value in the fiscal year ended March 2013 decreased 23% compared to the previous period. The average VIX (volatility index) during the same period also fell significantly from the previous fiscal year to 16.62 points. As for the business results for TradeStation Group, Inc., whose major customer base is formed by active traders, because revenue tends to decrease as the VIX declines, our U.S. business found itself navigating through a tough environment.

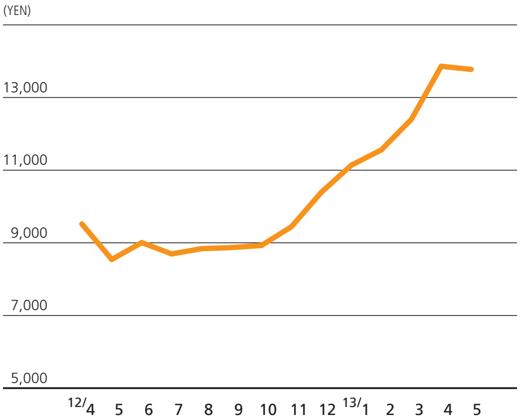
## Data (As of the end of May 2013)

### Market information

#### Retail investor trading value on the 3 stock exchanges




#### Nikkei stock average (closing price at the end of month)



## Q2 Please explain the consolidated financial results for the fiscal year ended March 2013.

**A2** During the fiscal year ended March 2013, commission revenues from shares increased, and so consolidated operating revenues increased 18.1% from the previous fiscal year to ¥36,090 million. Furthermore, with other financial revenue increasing to ¥4,855 million and other revenue, such as the gain on negative goodwill associated with business combinations, increasing to ¥1,759 million, total revenue increased 36.2% from the previous fiscal year to ¥42,740 million. On the other hand, selling, general and administrative expenses also increased 16.5% from the previous fiscal year due to an increase in transaction-related expenses associated with an increase in equity transactions. Coupled with an impairment loss on goodwill recorded at the time of acquiring the U.S. subsidiary, total expenses increased 24.5% from the previous fiscal year to ¥35,742 million. As a result, income before income taxes increased 162.3% from the previous fiscal year to ¥6,998 million, and net income attributable to owners of Monex Group, Inc. less non-controlling interests increased 279.3% from the previous fiscal year to ¥3,901 million.

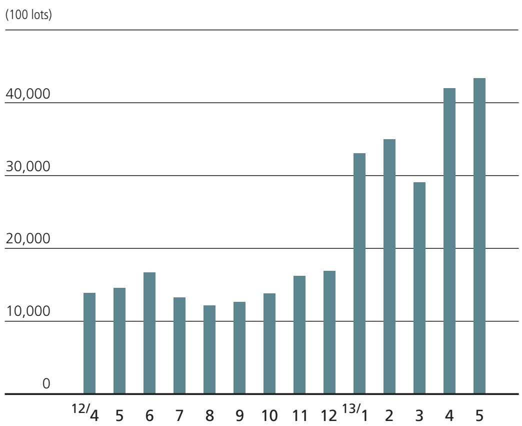
Previously, Monex Group, Inc. had built a structure, mainly through the reduction of costs, whereby it could ensure a high level of profit even if the market environment was sluggish. As a result of the success of these efforts, and boosted by the tailwind of the market, our business results improved in a flash. However, the results by geographic segment show that, whereas the Japan segment achieved dramatic increases in income before income taxes, the U.S. segment (including Europe and Australia) recorded a segment loss (loss before income taxes) of ¥5,775 million, and the China segment recorded a segment loss (loss before income taxes) of ¥107 million. We recognize that increasing and stabilizing profits will be a future issue for the strategic U.S. and China segments.

## Q3 Apart from an improvement in business results, were there any other financial outcomes worth highlighting during the fiscal year ended March 2013?

**A3** The first finance-related outcome is our credit rating. In December 2012, the Japan Credit Rating Agency, Ltd. (JCR), one of Japan's leading rating agencies, announced a rating affirmation of BBB, which is indicative of investment grade. Although our performance at this time was sluggish in response to the stagnant conditions of the Japanese market, I perceive this rating as high acclaim of the Group's enhanced capital strength and good financial condition.

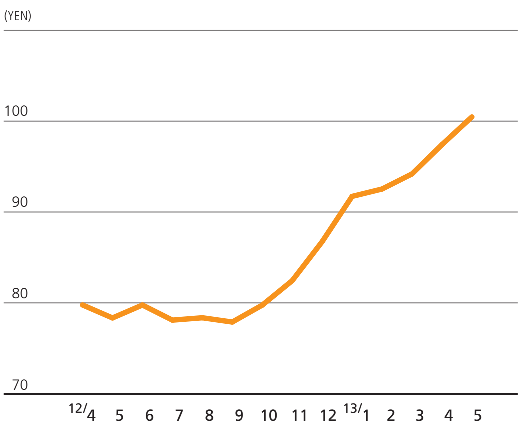
The second outcome is a reduction in assets. In March and April 2013, with the aim of increasing management efficiency and utilizing our asset holding effectively, we sold listed securities and

### Monthly OTC FX




Source: The Financial Futures Association of Japan

### Dollar-yen exchange rate



recorded gains on their sale of about ¥4.6 billion and ¥2.3 billion, respectively. The Group is currently pushing ahead with the in-house development of systems based on the Global Vision. In-house development requires the purchase of hardware and so on, and because our non-current assets may possibly increase in the future, we have been endeavoring to reduce our assets ahead of time.

The third outcome is our voluntary adoption of International Financial Reporting Standards (IFRSs).

## Q4 What were the reasons behind the decision to adopt IFRSs?

**A4** The Group conducts business on a global scale, primarily in Japan, the U.S. and China (Hong Kong). We believed that adopting IFRSs was absolutely vital for us to continue evolving as a global enterprise and wanted to adopt it as soon as practicable. To be exact, TradeStation Group, Inc. in the U.S. became a wholly owned subsidiary of Monex Group, Inc. in June 2011, and we determined that it would be a good idea to improve the international comparability of our financial information by applying IFRSs from the time we made this large acquisition. I believe that the effects of applying IFRSs will especially come to the fore in the future in conducting M&A of overseas enterprises and when communicating with overseas investors.

## Q5 Is it true that cost-cutting efforts will be further accelerated?

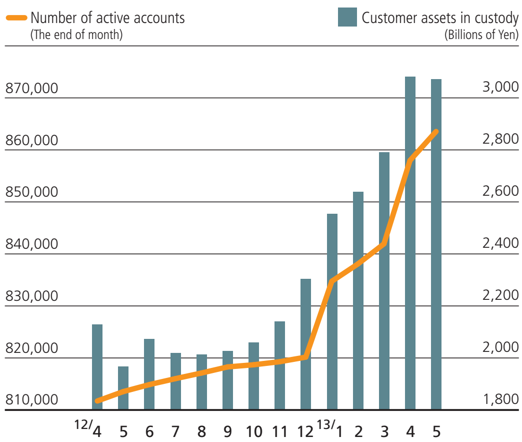
**A5** The Group is currently rolling out its "Global Vision" medium- to long-term management strategy. One of the central measures for realizing our vision is the in-house development of systems, and by developing our own global platform drawing on the technological capabilities of TradeStation, our aim will be to enhance the competitiveness of our products and services and expand our new customers and customer assets in custody.

Developing systems in-house will also contribute greatly to reducing costs. Although there is a temporary increase in expenses during this transition phase as both the current system and the new system are operated concurrently, over the five years up to the fiscal year ending March 2018 our plan is to reduce fixed costs by ¥2.3 billion annually compared to the fiscal year ended March 2013.

Account administration for Monex, Inc. had previously been outsourced, but by bringing it back in-house, we reduced data processing and office supplies expenses (Japan segment) for the fiscal year ended March 2013 by 2.6%. In order to establish a corporate structure that can turn a sound profit even if the business environment deteriorates, reducing fixed costs is an extremely important activity. Going forward, we will maintain a policy of continuously striving to keep costs in check.

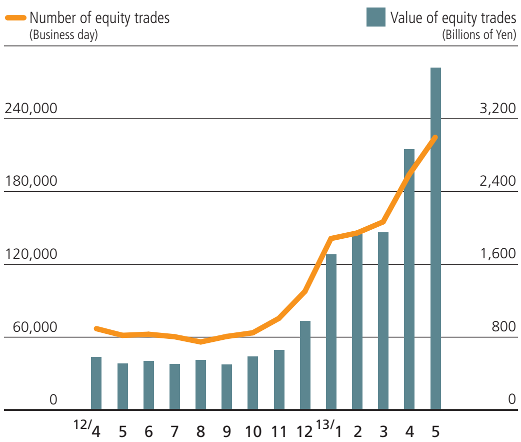
## Monex, Inc.

### Number of active accounts*/ Customer assets in custody




*Active accounts are the accounts with balance or the accounts which have traded more than once (including withdrawal) in the past 1 year.

### Number of equity trades / Monthly value of equity trades



## Q6 Please explain about the financial indicators you emphasize and about your future financial strategies.

**A6** I attach great importance to return on equity (ROE) as an indicator of how efficiently profit has been generated from the amount invested by shareholders. In addition to building a business model in which we do not hold excessive net assets (capital), we have been working to improve ROE by acquiring and retiring treasury stock as circumstances demand. As a result of having recorded an increase in profit for the fiscal year ended March 2013, in May 2013, we acquired and retired 120,000 shares of treasury stock. As a consequence of the retirement, the Company's total number of issued shares stands at approximately 2,880,000.

In terms of revenues, we are working hard for the diversification of the business and geographic composition of our revenue base through steady progress of the Global Vision. In business segments, we will focus on expanding our FX and mutual fund businesses, nurturing them into key sources of revenue, second only to equities. The importance of mutual funds in particular stands out, in the sense that they give stability to income because commission revenue is earned against the balance of the fund. In regional segments, the U.S. is showing signs of recovery in operating revenues, and so we will further expand business here, linking it to profit contribution. At the same time, we plan to push forward with expansion into the Chinese market.

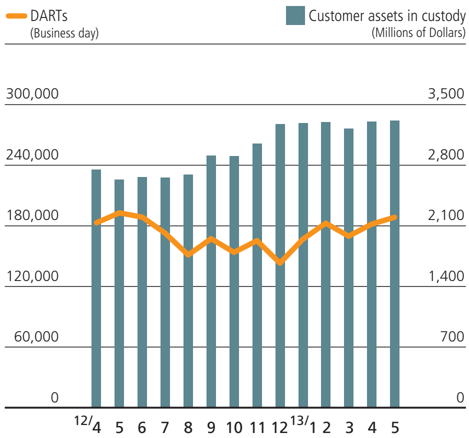
## Q7 To conclude, can you please tell us about your policy on returning profits to shareholders?

**A7** The Group seeks to enhance shareholder return by paying dividends based on business performance while reserving adequate capital for a growing company. Specifically, dividend amounts are determined according to a dividend payout ratio equal to 50% of net income attributable to owners of Monex Group, Inc. or a dividend on equity (DOE) ratio of 1%, whichever is higher. In the fiscal year ended March 2013, the dividend payout ratio against net income had been set at 30%, but this was changed to 50% starting with the fiscal year ending March 2014. With regard to share buybacks, as usual, we will conduct these flexibly, bearing in mind the trend of our financial results and financial position.

Regarding the business environment for the fiscal year ending March 2014, while many elements remain unclear, such as the wild fluctuations of the Nikkei average, our view is that it will stay generally favorable. Within the Group, stock brokerage commissions and the number of people opening new accounts are steadily increasing. Based on our Global Vision, we remain determined to realize sustainable improvements in shareholder value by endeavoring to strengthen the competitiveness of our products and services and to improve our revenue base.

### TradeStation group

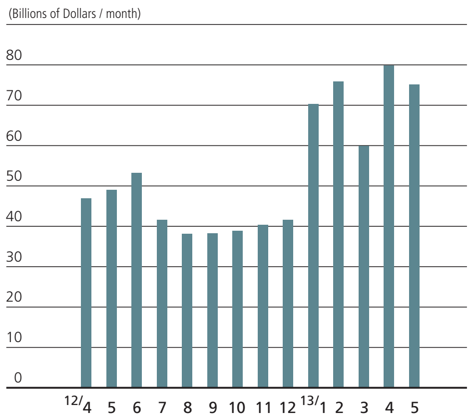
### Number of DARTs*/ Customer assets in custody




*DARTs of TradeStation Group, Inc. is the sum of DARTs of equities, futures, options and OTC FX of its subsidiary securities company and FX companies.

### Global data

### Trading value of Global FX*




*Trading value of Global FX is the sum of monthly trading value in global FX of the Group companies.

# Financial Section

# Consolidated Financial Statements

## Consolidated Statement of Income

For the fiscal years ended March 31, 2012 and 2013

| | Notes | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | | 2012 | 2013 | 2013 |
| **Revenue :** | | | | |
| Commission received | 7 | ¥ 17,030 | ¥ 20,367 | $ 216,463 |
| Net trading income | 8 | 6,200 | 6,974 | 74,118 |
| Financial revenue | 8 | 6,812 | 8,195 | 87,096 |
| Other operating revenue | 9 | 528 | 554 | 5,891 |
| Total operating revenue | | 30,569 | 36,090 | 383,568 |
| Other financial revenue | 8 | 482 | 4,855 | 51,600 |
| Other revenue | 11 | 323 | 1,759 | 18,700 |
| Equity in earnings of affiliates | 22 | — | 36 | 382 |
| Total revenue | | 31,375 | 42,740 | 454,250 |
| **Expense :** | | | | |
| Financial expenses | 8 | 1,682 | 2,320 | 24,662 |
| Selling, general and administrative expenses | 10,25,26,28 | 26,060 | 30,359 | 322,662 |
| Other financial expenses | 8 | 27 | 46 | 489 |
| Other expenses | 12,21 | 876 | 3,016 | 32,056 |
| Equity in losses of affiliates | 22 | 62 | — | — |
| Total expenses | | 28,707 | 35,742 | 379,869 |
| Income before income taxes | | 2,668 | 6,998 | 74,381 |
| Income tax expense | 23 | 1,574 | 3,091 | 32,856 |
| Net income | | 1,094 | 3,907 | 41,525 |
| **Net income attributable to :** | | | | |
| Owners of Monex Group, Inc. | | 1,028 | 3,901 | 41,461 |
| Non-controlling interests | | 65 | 6 | 65 |
| Net income | | ¥ 1,094 | ¥ 3,907 | $ 41,525 |
| | | Yen | | U.S. Dollars |
| **Earnings per share attributable to owners of Monex Group, Inc. :** | 32 | | | |
| Basic earnings per share | | ¥ 337.95 | ¥ 1,301.73 | $ 13.83 |
| Diluted earnings per share | | — | — | — |

See accompanying notes to the consolidated financial statements.

## Consolidated Statement of Comprehensive Income

For the fiscal years ended March 31, 2012 and 2013

| | Notes | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | | 2012 | 2013 | 2013 |
| Net income | | ¥ 1,094 | ¥ 3,907 | $ 41,525 |
| **Other comprehensive income :** | 31 | | | |
| Foreign currency translation adjustments in foreign operations | | 485 | 3,305 | 35,121 |
| Valuation difference on available-for-sale financial assets | | 4,277 | (2,519) | (26,768) |
| Accumulated other comprehensive income for equity method investments | | 3 | 51 | 545 |
| Other comprehensive income after income taxes | | 4,765 | 837 | 8,898 |
| Total comprehensive income | | 5,858 | 4,744 | 50,423 |
| **Total comprehensive income attributable to :** | | | | |
| Owners of Monex Group, Inc. | | 5,793 | 4,738 | 50,358 |
| Non-controlling interests | | 65 | 6 | 65 |
| Total comprehensive income | | ¥ 5,858 | ¥ 4,744 | $ 50,423 |

See accompanying notes to the consolidated financial statements.

# Consolidated Statement of Financial Position

As of April 1, 2011, March 31, 2012 and March 31, 2013

| | Notes | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|---|
| | | 2011 | 2012 | 2013 | 2013 |
| **Assets :** | | | | | |
| Cash and cash equivalents | 13,14,15,17 | ¥ 34,663 | ¥ 39,788 | ¥ 51,193 | $ 544,082 |
| Cash segregated as deposits | 13,14,16 | 175,202 | 291,899 | 349,837 | 3,718,115 |
| Trading securities and other | 13,14 | 1,833 | 2,430 | 4,078 | 43,337 |
| Derivative assets | 13,14 | 954 | 1,133 | 753 | 8,002 |
| Investments in securities | 13,14,17 | 13,181 | 22,144 | 18,551 | 197,162 |
| Margin transaction assets | 13,14 | 96,602 | 90,795 | 149,487 | 1,588,767 |
| Loans secured by securities | 13,14 | — | 15,339 | 44,583 | 473,836 |
| Other financial assets | 13,14,17 | 21,282 | 23,654 | 22,950 | 243,917 |
| Property and equipment | 19 | 1,150 | 1,759 | 1,485 | 15,778 |
| Intangible assets | 20 | 11,055 | 35,916 | 37,394 | 397,432 |
| Equity method investments | 14,22 | 808 | 257 | 826 | 8,778 |
| Deferred tax assets | 23 | 2,031 | 105 | 61 | 653 |
| Other assets | | 332 | 1,510 | 995 | 10,557 |
| Total assets | | 359,093 | 526,729 | 682,193 | 7,250,434 |
| **Liabilities and Equity :** | | | | | |
| **Liabilities :** | | | | | |
| Derivative liabilities | 13,14 | 2,103 | 2,599 | 7,604 | 80,817 |
| Margin transaction liabilities | 13,14,18 | 31,637 | 27,826 | 39,745 | 422,412 |
| Loans payables secured by securities | 13,14 | 26,603 | 24,776 | 67,661 | 719,109 |
| Deposits received | 13,14 | 93,842 | 185,797 | 231,164 | 2,456,838 |
| Guarantee deposits received | 13,14 | 78,707 | 118,058 | 131,535 | 1,397,973 |
| Bonds and loans payables | 13,14,18 | 49,768 | 82,200 | 113,381 | 1,205,023 |
| Other financial liabilities | 13,14 | 1,415 | 1,794 | 2,099 | 22,306 |
| Provisions | 27 | 48 | 122 | 88 | 935 |
| Income tax payables | | 582 | 391 | 2,072 | 22,020 |
| Deferred tax liabilities | 23 | 112 | 6,351 | 5,418 | 57,580 |
| Other liabilities | 24,28 | 281 | 1,009 | 1,726 | 18,341 |
| Total liabilities | | 285,098 | 450,923 | 602,492 | 6,403,354 |
| **Equity :** | | | | | |
| Common stock | 29 | 10,394 | 10,394 | 10,394 | 110,464 |
| Additional paid-in capital | 29 | 42,091 | 40,521 | 40,521 | 430,661 |
| Retained earnings | 29,30 | 20,246 | 18,808 | 22,079 | 234,663 |
| Other components of equity | 31 | 1,071 | 5,836 | 6,673 | 70,923 |
| Equity attributable to owners of Monex Group, Inc. | | 73,802 | 75,558 | 79,667 | 846,710 |
| Non-controlling interests | | 193 | 248 | 35 | 370 |
| Total equity | | 73,995 | 75,806 | 79,702 | 847,080 |
| Total liabilities and equity | | ¥ 359,093 | ¥ 526,729 | ¥ 682,193 | $ 7,250,434 |

See accompanying notes to the consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the fiscal years ended March 31, 2012 and 2013

Millions of Yen

| | Notes | Equity attributable to owners of Monex Group, Inc. | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Other components of equity | | | | | | |
| | | Common stock | Additional paid-in capital | Treasury stock | Retained earnings | Valuation difference on available-for-sale financial assets | Foreign currency translation adjustments in foreign operations | Other components of equity for equity method investment | Sub total | Total | Non-controlling interests | Total equity |
| **Balance as of April 1, 2011** | | **¥ 10,394** | **¥ 42,091** | **¥ —** | **¥ 20,246** | **¥ 1,074** | **¥ —** | **¥ (3)** | **¥ 1,071** | **¥ 73,802** | **¥ 193** | **¥ 73,995** |
| Net income | | — | — | — | 1,028 | — | — | — | — | 1,028 | 65 | 1,094 |
| Other comprehensive income | | — | — | — | — | 4,277 | 485 | 3 | 4,765 | 4,765 | — | 4,765 |
| Total comprehensive income | | — | — | — | 1,028 | 4,277 | 485 | 3 | 4,765 | 5,793 | 65 | 5,858 |
| **Transactions with Owners :** | | | | | | | | | | | | |
| Purchase of treasury stock | | — | — | (3,098) | — | — | — | — | — | (3,098) | — | (3,098) |
| Cancellation of treasury stock | | — | (3,098) | 3,098 | — | — | — | — | — | — | — | — |
| Dividends paid | 30 | — | — | — | (939) | — | — | — | — | (939) | — | (939) |
| Reclass from retained earnings to additional paid-in capital | | — | 1,528 | — | (1,528) | — | — | — | — | — | — | — |
| Changes in other non-controlling interests | | — | — | — | — | — | — | — | — | — | (11) | (11) |
| Total of transactions with owners | | — | (1,571) | — | (2,467) | — | — | — | — | (4,037) | (11) | (4,048) |
| **Balance as of March 31, 2012** | | **10,394** | **40,521** | **—** | **18,808** | **5,351** | **485** | **0** | **5,836** | **75,558** | **248** | **75,806** |
| Net income | | — | — | — | 3,901 | — | — | — | — | 3,901 | 6 | 3,907 |
| Other comprehensive income | | — | — | — | — | (2,519) | 3,305 | 51 | 837 | 837 | — | 837 |
| Total comprehensive income | | — | — | — | 3,901 | (2,519) | 3,305 | 51 | 837 | 4,738 | 6 | 4,744 |
| **Transactions with Owners :** | | | | | | | | | | | | |
| Dividends paid | 30 | — | — | — | (629) | — | — | — | — | (629) | — | (629) |
| Changes in other non-controlling interests | | — | — | — | — | — | — | — | — | — | (219) | (219) |
| Total of transactions with owners | | — | — | — | (629) | — | — | — | — | (629) | (219) | (848) |
| **Balance as of March 31, 2013** | | **¥ 10,394** | **¥ 40,521** | **¥ —** | **¥ 22,079** | **¥ 2,833** | **¥ 3,789** | **¥ 51** | **¥ 6,673** | **¥ 79,667** | **¥ 35** | **¥ 79,702** |

For the fiscal year ended March 31, 2013

Thousands of U.S. Dollars

| | Notes | Equity attributable to owners of Monex Group, Inc. | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Other components of equity | | | | | | |
| | | Common stock | Additional paid-in capital | Treasury stock | Retained earnings | Valuation difference on available-for-sale financial assets | Foreign currency translation adjustments in foreign operations | Other components of equity for equity method investment | Sub total | Total | Non-controlling interests | Total equity |
| **Balance as of March 31, 2012** | | **$110,464** | **$ 430,661** | **$ —** | **$ 199,891** | **$ 56,875** | **$ 5,151** | **$ (1)** | **$ 62,025** | **$ 803,040** | **$ 2,634** | **$ 805,674** |
| Net income | | — | — | — | 41,461 | — | — | — | — | 41,461 | 65 | 41,525 |
| Other comprehensive income | | — | — | — | — | (26,768) | 35,121 | 545 | 8,898 | 8,898 | — | 8,898 |
| Total comprehensive income | | — | — | — | 41,461 | (26,768) | 35,121 | 545 | 8,898 | 50,358 | 65 | 50,423 |
| **Transactions with Owners :** | | | | | | | | | | | | |
| Dividends paid | 30 | — | — | — | (6,689) | — | — | — | — | (6,689) | — | (6,689) |
| Changes in other non-controlling interests | | — | — | — | — | — | — | — | — | — | (2,328) | (2,328) |
| Total of transactions with owners | | — | — | — | (6,689) | — | — | — | — | (6,689) | (2,328) | (9,017) |
| **Balance as of March 31, 2013** | | **$110,464** | **$ 430,661** | **$ —** | **$ 234,663** | **$ 30,106** | **$ 40,272** | **$ 544** | **$ 70,923** | **$ 846,710** | **$ 370** | **$ 847,080** |

See accompanying notes to the consolidated financial statements.

# Consolidated Statement of Cash Flows

For the fiscal years ended March 31, 2012 and 2013

| | Notes | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | | 2012 | 2013 | 2013 |
| **Cash flows from operating activities :** | | | | |
| Income before income taxes | | ¥ 2,668 | ¥ 6,998 | $ 74,381 |
| Depreciation and amortization | | 2,406 | 3,116 | 33,114 |
| Impairment loss on non-financial assets | | — | 2,524 | 26,829 |
| Gain on bargain purchase | | — | (1,231) | (13,083) |
| Financial revenue and financial expenses | | (5,584) | (10,683) | (113,545) |
| Decrease/increase in derivative assets/liabilities | | 654 | 5,688 | 60,455 |
| Decrease/increase in assets/liabilities for margin transaction | | 1,996 | (46,234) | (491,383) |
| Decrease/increase in loans/loans payables secured by securities | | (11,475) | 14,605 | 155,222 |
| Decrease/increase in cash segregated as deposits | | 1,077 | (36,934) | (392,543) |
| Increase in deposits received and guarantee deposits received | | 173 | 36,034 | 382,977 |
| Decrease in short-term loans receivable | | 9,452 | 354 | 3,760 |
| Other, net | | (844) | (640) | (6,804) |
| Sub total | | 523 | (26,404) | (280,622) |
| Interest and dividends income received | | 6,305 | 8,174 | 86,878 |
| Interest expenses paid | | (1,697) | (2,231) | (23,711) |
| Income taxes paid | | (1,200) | (50) | (532) |
| Net cash provided by (used in) operating activities | | 3,931 | (20,510) | (217,987) |
| **Cash flows from investing activities :** | | | | |
| Payments into time deposits | | — | (100) | (1,063) |
| Proceeds from withdrawal of time deposits | | — | 400 | 4,251 |
| Purchase of investments in securities | | (9,216) | (20,342) | (216,197) |
| Proceeds from sales and redemption of securities | | 11,205 | 25,038 | 266,111 |
| Purchase of property and equipment | | (524) | (517) | (5,491) |
| Purchase of intangible assets | | (1,801) | (2,958) | (31,435) |
| Payments for purchase of subsidiaries | | (29,053) | (905) | (9,621) |
| Proceeds from purchase of subsidiaries | | 3,370 | — | — |
| Proceeds from sales of subsidiaries | | — | 46 | 486 |
| Payments for purchase of affiliates | | — | (259) | (2,752) |
| Proceeds from sales of affiliates | | 716 | — | — |
| Other, net | | (58) | (2) | (23) |
| Net cash provided by (used in) investing activities | | (25,361) | 401 | 4,266 |
| **Cash flows from financing activities :** | | | | |
| Net increase in short-term loans payables | | 18,200 | 23,834 | 253,307 |
| Proceeds from long-term loans payables | | 34,259 | 9,986 | 106,132 |
| Repayment and redemption of long-term loans payables | | (20,001) | (2,772) | (29,457) |
| Repayment of equity | | (2,141) | — | — |
| Proceeds from stock issuance to non-controlling interests | | — | 16 | 167 |
| Purchase of treasury stock | | (3,098) | — | — |
| Cash dividends paid | | (938) | (629) | (6,681) |
| Cash dividends paid to non-controlling interests | | — | (41) | (431) |
| Net cash provided by (used in) financing activities | | 26,281 | 30,395 | 323,037 |
| Net increase in cash and cash equivalents | | 4,852 | 10,286 | 109,316 |
| Cash and cash equivalents at the beginning of year | | 33,538 | 38,674 | 411,026 |
| Effect of exchange rate change on cash and cash equivalents | | 284 | 1,181 | 12,552 |
| Cash and cash equivalents at the end of year | 15 | ¥ 38,674 | ¥ 50,140 | $ 532,894 |

See accompanying notes to the consolidated financial statements.

# Notes to the Consolidated Financial Statements

## 1. Reporting Entity

Monex Group, Inc. (the "Company") is a company domiciled in Japan. The registered address of head office and principal business office is 2-4-1, Kojimachi, Chiyoda-ku, Tokyo. The consolidated financial statements as of and for the year ended March 31, 2013 comprise the financial statements of the Company and its subsidiaries (the "Group") and the interests in associates and jointly controlled entities. The Group engages in online securities business that is its core business, foreign exchange (FX) margin transaction and M&A advisory service.

## 2. Basis of Preparation of Financial Statements

### (1) Statement of compliance with International Financial Reporting Standards (IFRSs)

The Company meets the criteria of a "Specified Company" defined in Article 1-2, paragraph 1, item 1 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976) and the Group's financial statements are prepared in accordance with IFRSs as stipulated in Article 93 of the ordinance.

These financial statements are the Group's first IFRS financial statements and the date of transition to IFRSs is April 1, 2011. The Group applies IFRS 1: First-time Adoption of International Financial Reporting Standards. The effect of the transition to IFRSs on its reported financial position, financial performance and cash flows is described in "Note 38. Explanation of First Adoption of IFRSs."

### (2) Basis of presentation

The accompanying consolidated financial statements have been translated into English from the consolidated financial statements of the Company prepared in accordance with IFRSs with certain additional disclosures as required by Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc., and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act of Japan.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2013, which was ¥94.09 to U.S. $1. For translation purpose, amounts in Japanese yen before rounding to the millions are used and financial information presented in U.S. dollars is rounded to the nearest thousand. As a result, the amounts in U.S. dollars do not necessarily agree with the Japanese yen amounts in millions divided by ¥94.09. The convenience translations should not be construed as representations that the Japanese 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.

### (3) Basis of measurement

The consolidated financial statements are prepared based on the historical cost except for the following significant items.

- Derivatives are measured at fair value
- Financial instruments at fair value through profit or loss are measured at fair value
- Available-for-sale financial assets are measured at fair value
- Liabilities related to cash-settled share-based payment are measured at fair value

### (4) Functional currency and reporting currency

The consolidated financial statements are presented in Japanese yen, which is also the Company's functional currency. All financial information presented in Japanese yen is rounded to the nearest million.

### (5) Use of estimates and judgments

The Group's management are required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, revenue and expenses in preparation of financial statements in accordance with IFRSs. Actual results could differ from these estimates.

Accounting estimates and its underlying assumptions are continually reviewed. The impact of revisions to accounting estimates is prospectively recognized in the period when the revision is made and in the subsequent period.

The information about significant judgments in applying significant accounting policies that have a significant impact on the amounts recognized in the consolidated financial statements is described in the following notes.

- "Note 13. Financial Instruments"
- "Note 14. Fair Value Measurement"

The information about uncertainties of assumptions and estimates with a significant risk that could result in significant modification in the next fiscal year is described in the following notes.

- "Note 20. Intangible Assets"
- "Note 23. Deferred Tax and Income Tax Expenses"

# 3. Significant Accounting Policies

Unless otherwise noted, the accounting policies set forth below are applied continuously to all periods indicated in the consolidated financial statements (including the consolidated statement of financial position at the date of transition to the IFRSs).

## (1) Basis of consolidation

**(a) Business combinations**

The Group elected not to retroactively apply IFRS 3: Business Combinations (2008) to business combinations occurring before December 27, 2010. Carrying amount of goodwill in business combinations occurring before December 27, 2010 is recognized in accordance with generally accepted accounting principles in Japan (JGAAP).

Business combinations are accounted for by applying the acquisition method on the date that control is obtained (the acquisition date). Control means the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Except for the following items, identifiable assets and liabilities of acquired companies are measured at fair value on the acquisition date.

- Deferred tax assets and liabilities measured in accordance with IAS 12: Income Taxes.
- Assets and liabilities relating to employee benefits agreements measured in accordance with IAS 19: Employee Benefits.
- Liabilities relating to stock compensation agreements of acquired companies measured in accordance with IFRS 2: Share-based Payment.
- Non-current assets or disposal groups classified as held for sale in accordance with IFRS 5: Non-current Assets Held for Sale and Discontinued Operations.

Goodwill is measured at the fair value of the consideration transferred including the amount of non-controlling interests in the acquired company recognized on the acquisition date minus the net amount (ordinarily fair value) of identifiable acquired assets and assumed liabilities recognized on the acquisition date. If this amount is negative, it is immediately recognized in profit or loss.

Acquisition-related costs for business combinations other than costs relating to the issuance of debt or equity securities are recognized as expense when the costs are incurred.

If the initial accounting of a business combination is not completed by the end of the consolidated fiscal year in which the business combination occurred, provisional amounts for those items that are not completed are reported. If facts or circumstances that existed on the acquisition date are obtained during a period (the "measurement period") and, if known, would have had an impact on the recognized amounts that were initially determined on the acquisition date, that information is reflected and the provisional amounts recognized on the acquisition date are adjusted retroactively. If the newly-acquired information results in additional recognition of assets and liabilities, such assets and liabilities are recognized. The measurement period is within one year.

If consideration transferred in a business combination includes assets or liabilities arising from a contingent consideration arrangement, the contingent consideration is measured at fair value on the acquisition date as part of the consideration transferred. Changes in the fair value of contingent consideration for measurement period are adjusted retroactively, and the corresponding amount of goodwill is adjusted. Changes in the fair value of contingent consideration beyond measurement period are not re-measured when the contingent consideration is classified as equity, and subsequent settlements are accounted for within equity. When contingent consideration is classified as an asset or liability, the consideration is appropriately remeasured in accordance with IAS 39: Financial Instruments: Recognition and Measurement or IAS 37: Provisions, Contingent Liabilities and Contingent Assets, and the gain or loss is recognized in profit or loss.

**(b) Changes in interests that do not result in loss of control**

Changes in interests that do not result in loss of control occurring on or after December 27, 2010 are accounted for within equity. The carrying amount of the Group's interests and non-controlling interests are adjusted to reflect changes in interests in subsidiaries and goodwill is not recognized.

**(c) Loss of control**

If control of a subsidiary is lost as a result of disposal of the Group's investment, the gain or loss on the disposal is calculated as the difference between the total of the fair value of the consideration received and remaining interests, and the carrying amount of the assets including goodwill, liabilities, and non-controlling interests of the subsidiary, and the gain or loss is recognized in profit or loss. Amounts relating to subsidiaries previously recognized in other comprehensive income are reported in the same manner as direct disposal by the Group of related assets and liabilities.

**(d) Subsidiaries**

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date the Group obtains control until the date control is lost. The accounting policies of subsidiaries are adjusted where necessary to ensure conformity with the accounting policies applied by the Group.

**(e) Cash segregated as deposits**

Trust accounts included in cash segregated as deposits are consolidated when it is concluded that the accounts are controlled by the Group.

**(f) Investment in associates and jointly controlled entities**

Associates are entities over which the Group has significant influence concerning financial and operating policies but does not have control or joint control. If the Group owns between 20% and 50% of the voting power of another company, it is presumed that the Group has significant influence on that company.

Jointly controlled entities are entities whose activities are jointly controlled by the Group and other parties, that were established pursuant to contractual agreement, and concerning which the unanimous consent of the joint controlling parties is required when making strategic financial and operating decisions.

Investments in associates and jointly controlled entities are reported using the equity method and are measured at acquisition cost at the date of acquisition.

The consolidated financial statements include the Group's share of the profit or loss and the changes in interests of companies subject to the equity method from the date that the group obtained significant influence or the date that joint control began until such influence or joint control terminates. The accounting policies of companies subject to the equity method are adjusted where necessary to ensure conformity with the accounting policies applied by the Group. If the Group's share of losses of companies subject to the equity method exceeds the interest in the companies subject to the equity method, the carrying amount of that investment is reduced to zero, and except in cases where the Group assumes liabilities or makes payment on behalf of the investee, no further losses are recognized.

#### (g) Transactions eliminated on consolidation

Receivables, payables and transactions within the Group and unrealized income or losses arising from transactions within the Group are eliminated when preparing the consolidated financial statements. Unrealized income arising from transactions with companies subject to the equity method is deducted from investments up to the amount of the Group's interest in the investee. Unrealized losses are treated in the same manner as for unrealized income as long as there is no evidence of impairment.

### (2) Foreign currency

#### (a) Transactions in foreign currencies

Transactions in foreign currencies are translated into the functional currency of the respective Group companies at the exchange rate on the date of the transaction. Assets and liabilities denominated in foreign currencies on the closing date of the fiscal year are re-translated to a functional currency using the exchange rate on the closing date of the fiscal year.

Assets and liabilities denominated in foreign currency measured at fair value are translated to a functional currency using the exchange rate on the date of the fair value measurement. Exchange differences arising from re-translation are recognized in profit or loss. Exchange differences arising from translation of financial instruments that are measured at fair value and whose changes are recognized in other comprehensive income are recognized in other comprehensive income. Non-monetary items measured using foreign currency acquisition costs are translated using the exchange rate on the date of transaction.

#### (b) Foreign operations

The assets and liabilities of foreign operations (including goodwill arising from acquisition and adjustments to fair value) are translated to Japanese yen using the exchange rate on the closing date of the fiscal year and revenues and expenses are translated to Japanese yen using the average exchange rate.

Currency translation adjustments are recognized in foreign currency translation adjustments in foreign operations of other comprehensive income. The Group elected to deem cumulative foreign currency translation adjustments from foreign operations at the date of transition to the IFRSs to be zero.

Currency translation adjustments after the date of transition to IFRSs have been included in other components of equity.
If foreign operations are disposed of, amounts relating to foreign currency translation adjustments in foreign operations are reclassified to profit or loss as a portion of the disposal gain or loss.

### (3) Financial instruments

#### (a) Recognition

The Group recognizes financial assets held for trading that are traded in a regular way purchase or sale on the settlement date.

Transactions of other financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments.

#### (b) Classification

Financial assets are classified into the following categories based on their characteristics and the purpose of holding them: (i) financial assets at fair value through profit or loss, (ii) held-to-maturity investments, (iii) loans and receivables, and (iv) available-for-sale financial assets.

(i) Financial assets at fair value through profit or loss

Financial assets held for trading are initially recognized at fair value, and subsequent fair value changes are recognized in profit or loss. Transaction costs at initial recognition are recognized in profit or loss when incurred. Also, interest and dividends from financial assets are recognized in profit or loss as financial revenue.

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and a fixed maturity which the Group has the positive intention and ability to hold to maturity other than loans and receivables are classified as held-to-maturity investments. Held-to-maturity investments are initially recognized at fair value plus directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

(iii) Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than financial assets at fair value through profit or loss and available-for-sale financial assets, are classified as loans and receivables. Loans and receivables are initially recognized at fair value plus directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method.

(iv) Available-for-sale financial assets

Non-derivative financial assets that are designated as available for sale at initial recognition, or that are not classified as any of the other categories are classified as available-for-sale financial assets. Available-for-sale financial assets are initially recognized at fair value plus directly attributable transaction costs, and subsequent to initial recognition, they are measured at fair value and fair value changes are recognized as valuation difference on available-for-sale financial assets in other comprehensive income.

Impairment losses are recognized in profit or loss when required. Dividends are recognized in profit or loss as financial revenue. If available-for-sale financial assets are derecognized, cumulative fair value changes recognized in other comprehensive income are reclassified to profit or loss.

(v) Non-derivative financial liabilities

The Group initially recognizes non-derivative financial liabilities at fair value (after deducting directly attributable transaction costs). Non-derivative financial liabilities held for trading are subsequently measured at fair value, and fair value changes are recognized in profit or loss. Non-derivative financial liabilities other than those held for trading are subsequently measured at amortized cost using the effective interest method.

**(c) Derecognition of financial assets and financial liabilities**

When contractual rights to cash flows from financial assets are expired or when contractual rights to receive cash flows from financial assets are transferred substantially in transactions that transfer all risks and rewards of ownership of the financial assets, the Group derecognizes the relevant financial assets. Also, when financial liabilities are extinguished, i.e., when contractual obligations are discharged, cancelled, or expired, the financial liabilities are derecognized.

**(d) Offsetting**

Financial assets and financial liabilities are set off and the net amount is presented in the consolidated statement of financial position only when the Group has the legal right to set off the recognized amount and the Group has the intent to settle on a net basis or to realize the asset and settle the liability simultaneously.

**(e) Amortized costs**

Amortized costs of financial assets and financial liabilities consist of the initially recognized amounts of the financial assets and liabilities less amounts previously repaid, adjusted by the cumulative amortization of the difference between the initially recognized amount and the maturity amount using the effective interest method, and less impairment losses.

**(f) Fair value measurement**

The Company applies IFRS 13: Fair Value Measurement (May 2011) to the fair value measurement. The fair value of financial assets and financial liabilities is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**(g) Impairment of financial assets**

When the Group recognizes impairment of financial assets other than securities, the impairment losses are accounted for using the allowance for doubtful receivables account without directly reducing the carrying amount of the financial assets.

In the case of financial assets other than financial assets at fair value through profit or loss, if there is objective evidence of impairment as a result of a loss event occurring after initial recognition and the loss event has negative effect on the future cash flows of the assets which can be reliably estimated, impairment losses are recognized. The Group considers each quarter whether there is objective evidence of impairment.

Impairment losses of available-for-sale financial assets are calculated as the difference between the carrying amount and fair value and recognized in profit or loss. Impairment losses of financial assets measured at amortized cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted by the effective interest rate at initial recognition of the relevant financial assets, and are recognized in profit or loss. Gain from assets for which impairment was recognized continues to be recognized through reversal of discounted amounts in conjunction with the passage of time.

If an event that reduces the amount of the impairment losses occurs after recognition of impairment losses with respect to financial assets measured at amortized cost, the previously recognized impairment losses are reversed in profit or loss.

**(h) Cash and cash equivalents**

Cash and cash equivalents comprise cash and highly liquid investments that are readily convertible to a known amount and are subjected to an insignificant risk of changes in value.

**( i ) Cash segregated as deposits**

Some of trust accounts of cash segregated as deposits held by the Group are within the scope of consolidation. Cash segregated as deposits is money that is segregated and invested in accordance with the laws and regulations of each jurisdiction to preserve deposits from customers, and accordingly, cash segregated as deposits is reported as such in the consolidated statement of financial position.

**( j ) Trading securities and other**

Trading securities and other are securities held by the Group primarily for short-term trading purpose.

**(k) Derivative assets and derivative liabilities**

The Group's derivative assets and derivative liabilities are primarily assets and liabilities arising from the FX margin trading business against customers or financial institutions.

**( l ) Investments in securities**

Investments in securities are investments in securities held by the Group other than "trading securities and other."

**(m) Margin transaction assets and margin transaction liabilities**

Margin transaction assets and margin transaction liabilities are claims and obligations arising against customers and securities finance companies in conjunction with domestic margin transaction.

**(n) Loans secured by securities and loans payables secured by securities**

Loans secured by securities and loans payables secured by securities are claims and obligations arising against customers, counterparty financial institutions, and clearing agencies in conjunction with the Group's transactions of loans secured by securities or loans payables secured by securities other than domestic margin transaction.

## (4) Property and equipment

### (a) Recognition and measurement

Property and equipment are reported at acquisition cost less accumulated depreciation and accumulated impairment losses.

Acquisition costs include costs directly related to acquisition of the asset and the costs of dismantling and removing. The Group elects to measure costs of dismantling and removing included in the cost of property and equipment at the date of transition to the IFRSs.

### (b) Depreciation

Depreciation and amortization are calculated on the basis of the depreciable amount. The depreciable amount is calculated as the acquisition cost of the asset net of residual value.

Property and equipment are depreciated over the estimated useful life of each part of an item of property, and depreciation is recognized in profit or loss applying the straight-line method. The straight-line method is applied because this is considered to be the most similar to the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term or its useful life, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives of major property and equipment in the fiscal year ended March 31, 2012 (the "previous consolidated fiscal year") and the fiscal year ended March 31, 2013 (the "the current consolidated fiscal year") are as follows.
Buildings: 3-18 years
Equipment and fixtures: 4-7 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date, and adjustments are made when required.

## (5) Intangible assets

### (a) Goodwill

Goodwill arising through acquisition of subsidiaries is reported as an intangible asset. The measurement method of goodwill at the initial recognition is described in (1) Basis of consolidation (a) Business combinations.

Goodwill relating to acquisitions prior to December 27, 2010 is calculated based on carrying amount according to JGAAP at the date of transition to the IFRSs.

Subsequent to initial recognition, goodwill is measured at acquisition cost net of accumulated impairment losses.

### (b) Internally generated intangible assets

The Group recognizes as intangible assets those software development costs if the development costs can be reliably determined, implementation is technologically feasible, there is a high probability for generating future economic benefit, and there are adequate resources to develop and use them. Subsequent to initial recognition, internally generated intangible assets are measured at acquisition costs net of accumulated depreciation and accumulated impairment losses.

### (c) Other intangible assets

Other intangible assets acquired by the Group with finite useful lives are measured at acquisition cost net of accumulated depreciation and accumulated impairment losses.

### (d) Subsequent expenditures

Subsequent expenditures are recognized as assets only if future economic benefit from a specific asset relating to the expenditure can be increased. Other subsequent expenditures including goodwill and brands internally generated by the Group are all recognized as expenses when incurred.

**(e) Amortization**

Amortization is based on the acquisition cost of the asset net of residual value.

Amortization of intangible assets other than goodwill is recognized in profit or loss applying the straight-line method over the estimated useful life from the time when the asset is available for use.

The estimated useful lives of major intangible assets in the previous consolidated fiscal year and the current consolidated fiscal year as follows.
Internally generated intangible assets: 5 years
Customer relationships: 18 years
Technology assets: 18 years
Other assets: 2-18 years

Amortization methods, useful lives, and residual values are reviewed at each reporting date, and adjustments are made when required.

The Group considers the useful life of intangible assets to be indefinite only if there is no foreseeable limit to the period over which the intangible assets are expected to generate net cash inflows for the Company based on analysis of all relevant factors. Intangible assets with indefinite useful lives are not amortized and are subject to impairment tests at the same time each year and when there are indications of impairment.

## (6) Impairment of non-financial assets

With the exception of deferred tax assets, the Group assesses whether there is any indication of impairment of non-financial assets at each reporting date. If there is any indication of impairment, the recoverable amount of the relevant asset is estimated. The recoverable amount of goodwill and intangible assets with indefinite useful lives or that are not yet available for use is estimated at the same time each year.

The recoverable amount of an asset or cash-generating unit (CGU) is the higher of the value in use or the fair value less cost of disposal. Value in use is calculated as the discounted present value of estimated future cash flows using a pre-tax discount rate that reflects the time value of money and the risks specific to the relevant asset.

A CGU is the smallest group of assets that generates cash inflows that are largely independent from the cash inflows from other assets or groups of assets through continuing use.

The Group determines CGUs in accordance with the units used to monitor goodwill for internal reporting purpose, and such units do not exceed operating segments before aggregation.

Corporate assets do not generate independent cash inflows. Consequently, if there is an indication of impairment of corporate assets, the recoverable amount is determined for the CGU to which the corporate asset belongs.

If the carrying amount of an asset or CGU exceeds its recoverable amount, impairment losses are recognized in profit or loss. Impairment losses recognized in relation to CGU initially reduce the carrying amount of the goodwill allocated to the CGU, and then proportionally reduce the carrying amount of other assets within the CGU.

Impairment losses relating to goodwill are not reversed. If other assets for which impairment was previously recognized, the Group assesses at each reporting date whether there is an indication of reduction or elimination of impairment loss. If there were changes in the estimates used to determine the recoverable amount, the impairment losses are reversed. Impairment losses are reversed to the extent of the carrying amount, net of depreciation and amortization, that would have been determined if no impairment loss had been recognized.

## (7) Employee benefits

**(a) Defined contribution pension plan**

The Company and some of its subsidiaries adopt defined contribution pension plans. The defined contribution pension plans are post-retirement benefit plans where the employer contributes a fixed amount into a separate entity with no legal or constructive obligations to pay further contributions. Contributions made to defined contribution pension plans are recognized in profit or loss during the employee's period of service.

**(b) Short-term employee benefits**

Discount calculations are not performed with respect to short-term employee benefits, and benefits are recognized in profit or loss when the associated services were rendered.

## (8) Share-based compensation transactions

The Company and some of its subsidiaries have cash-settled compensation plans where the amounts of the payments are linked to the Company's share prices for managing directors and certain employees. The amounts of cash-settled share-based compensation are recognized as liabilities at fair value, and changes in the fair value of those liabilities are recognized in profit or loss over the vesting period until the unconditional right to receive the compensation is fixed.

## (9) Provisions

Provisions are recognized when the Group has legal and constructive obligations as a result of past events, there is a high probability that an outflow of resources embodying economic benefits will be required to settle those obligations, and the amounts of those obligations can be reasonably estimated. Provisions are discounted to the present value of the estimated future cash flows using a pre-tax rate that reflects the time value of money and the risks specific to the relevant liabilities. Reversal of discounts to reflect the passage of time is recognized in profit or loss.

## (10) Equity

**(a) Common stock**

The issue price of equity instruments issued by the Company is recorded as Common stock and Additional paid-in capital, with expenses directly related to the issue (after tax effect) being deducted from Additional paid-in capital.

**(b) Treasury stock**

Treasury stock is measured at acquisition cost and deducted from equity. No gains or losses arising from the purchase, sale, or cancellation of the treasury stock are recognized in profit or loss. The difference between carrying amount and the consideration at the time of sale is recognized as Additional paid-in capital.

## (11) Revenue and expense

Revenue and expense are measured at the fair value of the consideration received or paid less consumption taxes and other taxes.

**(a) Commission received**

Commission received including brokerage commission is recognized when the related service is provided. In the case of transactions including customer loyalty programs, the fair value of the points is estimated and the amount less this value is recognized as revenue.

**(b) Net trading income**

Net trading income relating to the sale of "trading securities and other" is recognized on the trade date, and net trading income relating to retail FX margin transactions is recognized at the time of change in fair value of the related derivative asset and liabilities.

**(c) Financial revenue and financial expenses**

Financial revenue includes revenue from margin transaction, revenue from securities lending transactions, interest income, dividend income, gains on the sale of investments in securities, and changes in the fair value of derivatives other than trading assets. Financial expenses include expenses from margin transaction, expenses from securities lending transactions, interest paid, losses on the sale of investments in securities, and changes in the fair value of derivatives other than trading securities.

Interest received and interest paid are recognized as revenue or expense when incurred using the effective interest method. Dividend income is recognized when shareholders' rights relating to dividend vest.

**(d) Offsetting of revenue and expense**

Revenue and expense relating to transactions which the Group is not determined as a principal are set off and recognized on a net basis.

**(e) Lease payments**

Amounts paid in relation to operating leases are recognized in profit or loss applying the straight-line method over the term of the lease. Lease incentives received that are inseparable from total lease expenses are recognized over the lease term.

## (12) Income tax expense

Income tax expense includes current tax expense and deferred tax expense. These expenses other than items recognized in business combination and recognized directly in equity or other comprehensive income are recognized in profit or loss.

Current income tax expense is estimated taxes to be paid or refunded relating to taxable income or losses for the current fiscal year by applying enacted tax rate or substantively enacted tax rate at the end of the reporting period, adjusted for estimated taxes to be paid or refunded for prior years.

Deferred tax assets and liabilities are recognized with respect to the temporary difference between the carrying amount and the tax base of assets and liabilities. Deferred tax assets and liabilities are not recognized with respect to temporary differences arising from the initial recognition of assets and liabilities in transactions other than business combinations, and for transactions that affect neither accounting profit nor taxable profit (tax loss) and temporary differences arising from investments in subsidiaries and associates if the Company can control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not be reversed in the foreseeable future. Deferred tax liabilities are not recognized with respect to taxable temporary differences arising from the initial recognition of goodwill. Deferred tax assets and liabilities are calculated using the tax rate that is expected to be applied at the time that the temporary difference is reversed based on tax laws that are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible differences can be utilized. Deferred tax assets are reassessed at the end of each reporting period, and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are set off when the Group has a legally enforceable right to set off deferred tax assets against deferred tax liabilities and the deferred tax assets and deferred tax liabilities relate to corporate income taxes levied by the same taxation authority on either the same taxable entity or different taxable entity which intends to settle the deferred tax assets and liabilities on a net basis or to realize the assets and liabilities simultaneously.

## (13) Earnings per share

Earnings per share are calculated as earning attributable to the Company's ordinary shareholders divided by the weighted average number of shares outstanding during the reporting period adjusted for treasury stock. Diluted earnings per share (earnings per share after adjustment for potential shares) are not calculated, since there are no potential common stock that would have dilutive effect.

## (14) Segment information

Operating segments are components of business activities from which revenues are earned and expenses incurred including revenues and expenses relating to transactions with other operating segments. Discrete financial information for operating results of all operating segments is available and is regularly reviewed by the Company's Chief Executive Officer to make decision about resources to be allocated to each segment and assess performance.

Segment operating results reported to the Chief Executive Officer includes items directly attributable to the segment and items allocated to the segment based on reasonable grounds.

### (15) New accounting standards and interpretations

The new accounting standards and interpretations that have been issued but not applied to the consolidated fiscal year ended March 31, 2013 are as follows. These accounting standards and interpretations were not applied to the preparation of the Group's consolidated financial statements.

The Company is currently assessing potential impacts that application of these standards and interpretations will have on the Group's consolidated financial statements.

| Standard | | Effective date (Annual periods beginning on or after) | The Group's application date (For the fiscal year) | Forthcoming requirements |
|---|---|---|---|---|
| IFRS 7 | Financial Instruments: Disclosures | January 1, 2013 | March 31, 2014 | Disclosures of offsetting financial assets and financial liabilities |
| IFRS 9 | Financial Instruments | January 1, 2015 | March 31, 2016 | Requirements for classification and measurement of financial assets and liabilities<br>Revised requirements for changes in fair value of financial liabilities |
| IFRS 10 | Consolidated Financial Statements | January 1, 2013 | March 31, 2014 | Clarification of definition of control and application of single control model not subject to nature of acquired entity (Replacement of IAS 27 and SIC 12) |
| IFRS 11 | Joint Arrangements | January 1, 2013 | March 31, 2014 | Classification and accounting of joint arrangement based on agreed rights and obligations, not legal form (Replacement of IAS 31 and SIC 13) |
| IFRS 12 | Disclosure of Interests in Other Entities | January 1, 2013 | March 31, 2014 | Disclosure requirement for interests in other entities including subsidiaries, joint arrangements, associates and non-consolidated entity (Replacement of part of IAS 27 and 28) |
| IAS 1 | Presentation of Financial Statements | July 1, 2012 | March 31, 2014 | Presentation of items of other comprehensive income |
| | | January 1, 2013 | March 31, 2014 | Clarification of requirements for comparative information |
| IAS 16 | Property, Plant and Equipment | January 1, 2013 | March 31, 2014 | Classification of servicing equipment |
| IAS 19 | Employee Benefits | January 1, 2013 | March 31, 2014 | Recognition of actuarial gains and losses and past service costs and presentation and disclosures of employee benefit |
| IAS 32 | Financial Instruments: Presentation | January 1, 2013 | March 31, 2014 | Accounting for income taxes for transaction costs of dividends to owners of equity instruments and equity transaction costs |
| | | January 1, 2014 | March 31, 2015 | Offsetting financial assets and financial liabilities |

# 4. Financial Risk Management

The Group is exposed to the following risks arising from financial instruments in the course of its business activities:

- Credit risk;
- Liquidity risk;
- Market risk;
- Operational risk.

This note presents information about the impact of each of these risks on the Group, the Group's policies on the identification, analysis, and assessment of risk, and equity management.

## (1) Organizations for managing risks arising from financial instruments

To limit risks that have an impact on the Group's management within an acceptable range, risks are appropriately identified, analyzed and assessed, and appropriate management organizations are designed to respond to each risk.

The Company establishes rules for managing all risks that affect the Group's operations. Each risk including those arising from financial instruments are managed in accordance with specific management policies and management structures determined by the managing director (member of the board) responsible for overseeing the division that manages the risk, and each subsidiary is instructed to adopt risk management policies and establish risk management systems. The Company appointed a risk manager, and the risk manager monitors the status of design and operation of risk management systems within the Company and at major subsidiaries, and periodically reports the status to the Company's Board of Directors.

**(a) Credit risk**

Credit risk is the risk of financial loss arising from nonperformance by counterparty to an agreement or for other reasons. Credit risk arises principally from counterparty risks and issuer risks of the Group's customers and counterparty financial institutions.

The carrying amounts of financial assets after impairment are presented in the consolidated financial statements and are the amounts of maximum exposure of the Group to financial asset credit risks before taking into consideration the value of associated collateral. Information concerning collateral is set forth in Note 17: Collateral.

(Risks relating to customer transactions)

The Group has a globally diversified customer base, and does not have an excessive concentration of credit risk with any specific customers. Most of the claims against customers comprise (i) receivables pursuant to open contracts, (ii) loans secured by securities including loans for margin transaction, and (iii) FX margin transaction. The financial instruments business operators within the Group receive advances, guarantee deposits, and collateral with respect to the securities trading. The Group also identifies risks relating to position imbalances through ongoing monitoring of trading conditions concerning margin transaction and has introduced systems to control the occurrence of overdue claims by setting appropriate maintenance margin requirements and establishing systems for compulsory settlement, hence credit risks relating to claims against customers are limited.

(Risks relating to counterparty financial institutions and clearing houses)

The Group's counterparty financial institutions and clearing houses including trust banks that act as depositories for segregated customer money are all internationally recognized financial institutions, thus the credit risks concerning claims against these institutions are limited. If the Group obtains information that may lead to credit uncertainty such as a down grade of the credit rating of a counterparty financial institution or clearing house, necessary measures are taken in collaboration with all concerned divisions to avoid those risks.

(Other risks relating to counterparties of transaction)

The Group has outstanding loan commitment to Butterfield Trust (Bermuda) Limited of lower of ¥1.5 billion or the outstanding balance of Premium Hybrid 2006. This commitment is to provide necessary liquidity for executing early redemption payments to customers of the Group who has purchased Premium Hybrid 2006 should such request is made by customer. The likelihood that the Company will execute this commitment to Butterfield Trust (Bermuda) Limited is limited since the investment balance is less than ¥1.5 billion as of June 24, 2013, loan is provided only when liquidity cannot be obtained through sale and conversion of investment assets, early redemption is limited to specific periods twice each year, and the maximum redemption amount of each redemption is limited to 10% of the remaining balance of beneficiary securities at the time of the redemption deadline.

(Risks relating to issuers)

The Group holds securities such as Japanese government bonds and U.S. treasury bills for investment purposes. The Group also holds securities as inventories of financial instruments offered to customers. The Group conducts ongoing monitoring of the credit risks relating to the issuers of these securities, and the credit risks relating to those issuers are limited.

Aging analysis of financial assets which are overdue but not impaired

As of March 31, 2012 and 2013

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Within three months | ¥ 39 | ¥ 44 | $ 467 |
| Over three months but within one year | 1 | 0 | 1 |
| Over one year | 17 | 14 | 149 |
| Total | ¥ 57 | ¥ 58 | $ 616 |

These are primarily advances to customers, and considered to be recoverable as of the end of fiscal year. Consequently, the Company determined that impairment is not necessary.

When the Group recognizes impairment of financial assets other than securities, impairment is accounted for using the allowance for doubtful receivables account, not directly reducing the carrying amount of the financial assets. Allowances for doubtful receivables are made taking into consideration the likelihood of recovery based on the recent status of the Group's counterparties, payment conditions, and receipt of collateral. The balances of financial assets (other than impaired securities) which are individually considered to be impaired at the date of transition to the IFRS, at the end of the previous consolidated fiscal year, and at the end of current consolidated fiscal year were ¥1,055 million, ¥438 million, and ¥304 million ($3,235 thousand), respectively, and the related allowances for doubtful receivables were on those dates ¥1,054 million, ¥438 million, and ¥304 million ($3,226 thousand), respectively.

Changes in allowance for doubtful receivables which are individually considered to be impaired

For the fiscal years ended March 31, 2012 and 2013

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Beginning balance | ¥ 1,054 | ¥ 438 | $ 4,653 |
| Increase | 2 | 2 | 23 |
| Decrease (reversal) | (34) | (48) | (515) |
| Decrease (usage) | (583) | (88) | (936) |
| Foreign currency translation adjustments in foreign operations | 0 | 0 | 1 |
| Ending balance | ¥ 438 | ¥ 304 | $ 3,226 |

**(b) Liquidity risk**

Liquidity risk is the risk of inability to settle of obligations by an entity through the delivery of cash or other financial assets or other means.

The Group finances the funds necessary for operations by obtaining loans primarily from major financial institutions and securities finance companies and by issuing bonds in the capital market, and invests temporary surplus fund in highly liquid, short-term financial assets.

The Group regularly monitors the status and outlook of cash flows and reduces liquidity risks by entering into undisbursed commitment line agreements with major financial institutions. In addition, the Group aims to further reduce liquidity risks with internal systems that allow timely financing among the companies within the Group.

Deposits received from customers are segregated in customer trust accounts established based on laws and regulations, providing for adequate liquidity.

Bonds and loans payables balance by each maturity date

As of April 1, 2011

| | Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Contractual cash flows | Not later than one year | Later than one year but not later than two years | Later than two years but not later than three years | Later than three years but not later than four years | Later than four years but not later than five years | Over five years |
| Short-term loans payables and other | ¥ 44,800 | ¥ 44,800 | ¥ 44,800 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Bonds payables | 4,968 | 5,000 | 5,000 | — | — | — | — | — |
| Total | 49,768 | 49,800 | 49,800 | — | — | — | — | — |
| (Margin transaction liabilities) | | | | | | | | |
| Borrowings on margin transactions | ¥ 11,693 | ¥ 11,693 | ¥ 11,693 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |

As of March 31, 2012

| | Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Contractual cash flows | Not later than one year | Later than one year but not later than two years | Later than two years but not later than three years | Later than three years but not later than four years | Later than four years and but later than five years | Over five years |
| Short-term loans payables and other | ¥ 65,485 | ¥ 65,500 | ¥ 65,500 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Bonds payables | 261 | 280 | 280 | — | — | — | — | — |
| Long-term loans payables | 16,454 | 16,500 | — | 2,500 | 2,500 | 2,500 | 9,000 | — |
| Total | 82,200 | 82,280 | 65,780 | 2,500 | 2,500 | 2,500 | 9,000 | — |
| (Margin transaction liabilities) | | | | | | | | |
| Borrowings on margin transactions | ¥ 2,757 | ¥ 2,757 | ¥ 2,757 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |

As of March 31, 2013

| | Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Contractual cash flows | Not later than one year | Later than one year but not later than two years | Later than two years but not later than three years | Later than three years but not later than four years | Later than four years but not later than five years | Over five years |
| Short-term loans payables and other | ¥ 89,426 | ¥ 89,441 | ¥ 89,441 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Bonds payables | 9,986 | 10,000 | 10,000 | — | — | — | — | — |
| Long-term loans payables | 13,969 | 14,000 | — | 2,500 | 2,500 | 9,000 | — | — |
| Total | 113,381 | 113,441 | 99,441 | 2,500 | 2,500 | 9,000 | — | — |
| (Margin transaction liabilities) | | | | | | | | |
| Borrowings on margin transactions | ¥ 14,847 | ¥ 14,847 | ¥ 14,847 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |

| | Thousands of U.S. Dollars | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Contractual cash flows | Not later than one year | Later than one year but not later than two years | Later than two years but not later than three years | Later than three years but not later than four years | Later than four years but not later than five years | Over five years |
| Short-term loans payables and other | $ 950,431 | $ 950,589 | $ 950,589 | $ — | $ — | $ — | $ — | $ — |
| Bonds payables | 106,132 | 106,281 | 106,281 | — | — | — | — | — |
| Long-term loans payables | 148,460 | 148,794 | — | 26,570 | 26,570 | 95,653 | — | — |
| Total | 1,205,023 | 1,205,664 | 1,056,870 | 26,570 | 26,570 | 95,653 | — | — |
| (Margin transaction liabilities) | | | | | | | | |
| Borrowings on margin transactions | $ 157,801 | $ 157,801 | $ 157,801 | $ — | $ — | $ — | $ — | $ — |

There are no material financial liabilities (including derivatives) other than bonds and loans payables with maturity over one year.

**(c) Market risk**

Market risk is the risk of fluctuations in the fair value of securities and others as a result of changes in market price or future cash flows. Market risk includes foreign exchange risk, interest rate risk, and other risk.

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk relating to assets and liabilities denominated in foreign currencies such as foreign currency financial instrument inventories of financial instruments business operators as well as net investments in foreign operations.

The foreign exchange risk relating to assets and liabilities denominated in foreign currencies such as foreign currency financial instrument inventories is limited since the Group identifies the risks such as position imbalances through ongoing monitoring, and hedges the risks on net position with financial instruments such as foreign exchange forwards.

(ii) Interest rate risk

The Group is exposed to the risk of changes in interest rates since it obtains necessary funding through loans from major financial institutions and by issuing bonds in capital markets.

The main financial assets exposed to interest rate risks are cash segregated as deposits. To manage the risks, the results of quantitative analysis are reported to the Board of Directors.

Investments in segregated customer money trust and separate customer money trust are generally held to maturity with the aim of earning interest income for the investment period. Investment instruments currently include securities such as Japanese government bonds and U.S. treasury bills, bank deposits, and call loans.

The Group monitors the interest rate risks arising from these assets and liabilities, and if a drastic change in interest rates occurs, the Group has mechanism in place that allows for timely hedging of changes in profit and loss through use of interest rate swaps and other derivatives.

• Fixed interest rate financial instruments

The table below shows the impact on equity in the consolidated statement of financial position from changes in fair value in the event of a 10 basis point increase in interest rates with respect to Japanese government bonds and U.S. treasury bills in the previous consolidated fiscal year and the current consolidated fiscal year.

As of March 31, 2012 and 2013

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Japanese government bonds | ¥ (261) | ¥ (208) | $ (2,215) |
| U.S. treasury bills and other | (54) | (33) | (353) |
| Effect on equity | ¥ (315) | ¥ (242) | $ (2,568) |

The above includes effects of changes in fair value of available-for-sale financial assets, but there is no impact on net income unless the decreases in fair value result in recognition of impairment.

• Variable interest rate financial instruments

The following table shows the impact on pre-tax net income in the consolidated statement of income and equity in the consolidated statement of financial position from changes in fair value in the event of a 10 basis point increase in interest rates with respect to long-term loans payables in the previous consolidated fiscal year and the current consolidated fiscal year. This analysis is performed by multiplying the balance of variable interest rate financial instruments held by the Group at the end of the previous consolidated fiscal year and the current consolidated fiscal year by 10 basis points assuming that other variables are constant, without taking into consideration of future changes in balances, the effects of changes in exchange rates, or the dispersion effects of the timing of refinancing variable interest rate loans or the timing of interest rate changes.

For the fiscal years ended March 31, 2012 and 2013

| Sensitivity analysis | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Effect on income before tax | ¥ (16) | ¥ (14) | $ (148) |
| Effect on equity | (10) | (9) | (92) |

(iii) Other risks

The Group is exposed to risks from changes in the value of securities that were recognized on the consolidated statement of financial position, but manages status of these risks by monitoring the changes in value of securities held by the Group.

The following table shows the impact on pre-tax net income in the consolidated statement of income and equity in the consolidated statement of financial position from changes in the value of investments in securities in the event of a 10% decrease in the fair value of marketable securities held by the Group. This analysis is performed by multiplying the balance of investments in securities held by the Group at the end of the previous consolidated fiscal year and the current consolidated fiscal year by 10 percent assuming that other variables including the effects of future balance changes and exchange rate changes are constant.

As of March 31, 2012 and 2013

| Sensitivity analysis | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Effect on equity | ¥ (478) | ¥ (329) | $ (3,499) |

The above includes effects of changes in fair value of available-for-sale financial assets, but there is no impact on net income unless decreases in fair value result in recognition of impairment.

**(d) Operational risk**

The Group is exposed to operational risk arising from a wide variety of factors associated with business processes, personnel, and technology and infrastructure, and from external factors other than credit, market and liquidity risks such as changes in legal and regulatory requirements.

To identify and manage operational risks, the Company's risk manager monitors the status of design and operation of risk management systems within the Company and at major subsidiaries and periodically reports the status to the Company's Board of Directors. Subsidiaries reduce operational risks by specifying segregation of duties, adopting document management rules, and acting in compliance with laws and regulations. Furthermore, the Internal Audit Department identifies the presence of risks, requests improvements when necessary, and reports the status to the Board of Directors to reduce operational risk.

## (2) Capital management

To maintain management soundness and efficiency and achieve continuous growth, the Group focuses on maintenance of appropriate capital levels and a liability and capital structure commensurate with business risks. There are subsidiaries within the Group that are required under the Japanese Financial Instruments and Exchange Act and other similar foreign laws to maintain their capital-to-risk ratios or net assets at or above certain levels.

The principal laws of specific countries and jurisdictions that are applicable to the Group's main subsidiaries of each operating segment are as follows

| Country/territory | Name of law |
|---|---|
| Japan | Financial Instruments and Exchange Act |
| United States | Securities Act of 1933<br>Securities Exchange Act of 1934<br>Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010<br>Commodity Exchange Act of 1936 |
| China | Securities and Futures Ordinance (Cap. 571) |

The capital levels of each subsidiary satisfy the requirements under the laws of each country and territory.

During the current consolidated fiscal year, there were no changes to laws that could have a significant impact on calculation of capital requirements.

Based on the information available as of end of May 2013, summaries of the capital requirements applicable to Monex, Inc. and TradeStation Securities, Inc., which are main Group subsidiaries, and figures relating to capital requirements as of March 31, 2013 are set forth below.

**(a) Monex Inc.**

Monex Inc. is required by the Financial Instruments and Exchange Act and related applicable laws and regulations in Japan to maintain the amount of non-fixed capital (current assets) divided by the total of the amounts corresponding to the three risks indicated below at 120% or more.

i) Market risk (risk arising from decrease in the value of instruments held as a result of changes in market prices) amount;
ii) Counterparty risk (risk arising from counterparties to financial instrument transactions) amount; and
iii) Fundamental risk (risk arising from administrative processing errors or in the performance of other day-to-day operations) amount.

As of March 31, 2012 and 2013

| | 2012 | 2013 |
|---|---|---|
| Capital-to-risk ratio | 444.4% | 459.3% |

**(b) TradeStation Securities, Inc.**

TradeStation Securities, Inc., a broker-dealer subsidiary in the U.S., is required to maintain minimum net capital (SEC Rule 15c3-1) calculated under rules of the United States Securities and Exchange Commission (SEC) and self regulatory organizations.

Under these rules, TradeStation Securities, Inc. calculates its net capital requirements using the "alternative method," which requires the maintenance of minimum net capital, as defined by the rules, equal to the highest of:

i) U.S. $1 million;

ii) 8% of U.S. domestic and foreign domiciled customers' and non-customers' (creditors whose claims against TradeStation Securities, Inc. are subordinated to the claims against other creditors; excluding proprietary portions) risk maintenance of margin/performance bond requirements for all U.S. domestic and foreign futures, futures options, and over-the-counter derivative positions, excluding risk margin associated with naked long position; or

iii) 2% of aggregate customer debit items.

As of March 31, 2012 and 2013

| | Thousands of U.S. Dollars | |
|---|---|---|
| | 2012 | 2013 |
| Net capital | $ 45,728 | $ 44,721 |

## 5. Acquisition of Subsidiaries and Non-controlling Interests
(For the fiscal year ended March 31, 2012)

### (1) Acquisition of TradeStation Group, Inc. and other subsidiaries

As a result of a tender offer for shares of TradeStation Group, Inc., a holding company of a U.S. online securities group, and the merger with its subsidiary, TradeStation Group, Inc. became a wholly-owned subsidiary of the Company on June 8, 2011. The Company acquired 100% ownership of TradeStation Group, Inc. to realize "Global Vision strategy" which is the Group's business strategy that was designed to establish global and new online financial institution and give value to all the Group's stakeholders.

Fair value of consideration transferred, assets acquired and liabilities assumed

| | Millions of Yen |
|---|---|
| Consideration transferred (Cash) | ¥ 31,766 |
| Total | 31,766 |
| Cash and cash equivalents | 2,713 |
| Financial assets other than cash and cash equivalents | 147,166 |
| Property and equipment | 746 |
| Intangible assets | 13,360 |
| Other assets | 238 |
| Financial liabilities | (136,677) |
| Deferred tax liabilities | (5,137) |
| Other liabilities | (658) |
| Net assets | 21,751 |
| Goodwill | 10,015 |
| Total | ¥ 31,766 |

The assets acquired include loan receivables of ¥22,572 million mainly for margin transaction and do not include the amounts expected to be uncollectible.

The Group terminated share-based payment plan for employees of the acquired company and paid the consideration. The payment for future services of ¥382 million is accounted for as other assets at acquisition date and recognized as selling, general and administrative expenses in profit or loss as the services are received, and the payment for which future service is not required of ¥92 million is accounted for as selling, general and administrative expenses in profit or loss at acquisition date. The payment for services received by the acquisition date is included in the consideration transferred in the business combination.

Acquisition-related costs of ¥507 million are accounted for as selling, general and administrative expenses.

The fair value of loan receivables and other receivables acquired in the business combination is considered to approximate to the carrying amount of the acquired company since those receivables are collected in short term. Therefore its fair value is measured at the carrying amount. The fair value of property and equipment is measured based on cost approach. The fair value of intangible assets is measured based on income approach or cost approach.

The goodwill consists primarily of expected synergies from combining operation of TradeStation Group, Inc. with the Group. The recognized goodwill is not expected to be deductible for tax purpose.

## (2) Acquisition of IBFX Holdings, LLC. and other subsidiaries

TradeStation Group, Inc., the Company's subsidiary in the U.S., acquired IBFX Holdings, LLC whose business is FX margin transaction and its subsidiaries on November 15, 2011 and made IBFX Holdings, LLC and its subsidiaries into wholly owned subsidiaries. The Company acquired 100% ownership of IBFX Holdings, LLC to obtain FX transaction system, customer base and its trading volume, and FX business base in the U.S. and Australia in order to realize globalization of the Group's FX business and to accelerate revenue growth.

Fair value of consideration transferred, assets acquired and liabilities assumed

| | Millions of Yen |
|---|---|
| Consideration transferred (Cash) | ¥ 1,258 |
| Total | 1,258 |
| Cash and cash equivalents | 4,628 |
| Financial assets other than cash and cash equivalents | 3,635 |
| Property and equipment | 121 |
| Intangible assets | 916 |
| Other assets | 47 |
| Financial liabilities | (8,216) |
| Other liabilities | (76) |
| Net assets | 1,054 |
| Goodwill | 204 |
| Total | ¥ 1,258 |

The assets acquired include Guarantee deposits of ¥1,174 million and do not include the amounts expected to be uncollectible.

The fair value of property and equipment acquired in the business combination is measured based on cost approach. The fair value of intangible assets is measured based on income approach.

Acquisition-related costs of ¥37 million are accounted for as selling, general and administrative expenses.

The goodwill consists primarily of expected synergies from combining operations of IBFX Holdings, LLC and its subsidiaries with the Group. The entire amount of recognized goodwill is deductible for tax purpose over several years.

The acquired two companies' total operating revenue and net loss since the acquisition date included in the consolidated statement of income for previous fiscal year is ¥7,950 million, ¥818 million, respectively. If the acquisition date for the business combinations had been as of April 1, 2011, the total operating revenue and net income on consolidation basis would have been ¥33,166 million, ¥356 million, respectively. These figures are calculated assuming that fair value adjustments made as of April 1, 2011 would have been the same as the acquisition date even if the acquisition had been as of April 1, 2011.

(For the fiscal year ended March 31, 2013)

### (1) Acquisition of Sony Bank Securities Inc.

The Company acquired 100% of voting rights of Sony Bank Securities Inc. that was a subsidiary of Sony Bank Inc. ("Sony Bank") from Sony Bank Inc. to develop customer base, and to build up a closer connection with Sony Bank's online banking function and Monex, Inc. (the Company's subsidiary) on August 1, 2012. On January 12, 2013, Monex, Inc. as a surviving company absorbed Sony Bank Securities Inc.

Sony Bank Securities Inc. and Monex, Inc. agreed to strengthen the business alliance between the both companies.

Fair value of consideration transferred, assets acquired and liabilities assumed

| | Millions of Yen | Thousands of U.S.Dollars |
|---|---|---|
| Consideration transferred (Cash) | ¥ 2,256 | $ 23,981 |
| Total | 2,256 | 23,981 |
| Cash and cash equivalents | 1,751 | 18,612 |
| Financial assets other than cash and cash equivalents | 2,153 | 22,877 |
| Deferred tax assets | 909 | 9,659 |
| Other assets | 37 | 391 |
| Financial liabilities | (1,289) | (13,697) |
| Other liabilities | (73) | (778) |
| Net assets | 3,487 | 37,064 |
| Gain on bargain purchase | (1,231) | (13,083) |
| Total | ¥ 2,256 | $ 23,981 |

The main reason for this bargain purchase is that deferred tax assets for tax loss carried forward are recognized at the acquisition date. Gain on bargain purchase is included in other revenue in consolidated statement of income. The estimated contingent consideration of ¥83 million ($884 thousand) was recognized at the acquisition date and the same amount of money was paid after the absorption.

Sony Bank Securities, Inc.'s total operating revenue and net loss since the acquisition date included in the consolidated statement of income for the current consolidated fiscal year is ¥174 million ($1,848 thousand), ¥204 million ($2,165 thousand), respectively. If the acquisition date for the business combinations had been as of April 1, 2012, the total operating revenue and net income on consolidation basis would have been ¥42,819 million ($455,085 thousand), ¥3,853 million ($40,946 thousand), respectively. These figures are calculated assuming that fair value adjustments made as of April 1, 2012 would have been the same as the acquisition date even if the acquisition had been as of April 1, 2012.

## 6. Segment Information

### (1) Operating segment

The Group engages in a single business consisting of financial instruments business in Japan and financial business in other countries. In Japan, Monex, Inc. is the main entity, while business in the Unites States is handled by TradeStation Group, Inc. and its subsidiaries, and Monex International Limited, a Hong Kong-based company, and its subsidiaries are responsible for business in China. Each entity is an independent management unit that establishes comprehensive strategies and conducts business activity.

Accordingly, the Group comprises of different geographic segments based on the financial instruments business and financial business, and has three segments of Japan, the United States and China as reporting segments.

## The Group's operating results by reporting segment

For the fiscal year ended March 31, 2012

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | Reporting segment | | | | Adjustment | Consolidated |
| | Japan | U.S. | China | Total | | |
| Operating revenue from external customers | ¥ 21,472 | ¥ 8,644 | ¥ 454 | ¥ 30,569 | ¥ — | ¥ 30,569 |
| Internal operating revenue or transferred amount between segments | 95 | — | 1 | 96 | (96) | — |
| Total | 21,567 | 8,644 | 454 | 30,665 | (96) | 30,569 |
| Financial expenses | (986) | (693) | (3) | (1,682) | — | (1,682) |
| Depreciation and amortization | (1,181) | (1,162) | (64) | (2,406) | — | (2,406) |
| Other selling, general and administrative expenses | (15,561) | (7,723) | (373) | (23,657) | 3 | (23,654) |
| Other revenue and expenses (net amount) | (132) | (59) | (0) | (191) | 93 | (98) |
| Equity in losses of affiliates | (62) | — | — | (62) | — | (62) |
| Segment profit or loss (Income before income taxes) | ¥ 3,646 | ¥ (993) | ¥ 14 | ¥ 2,668 | ¥ — | ¥ 2,668 |

The following financial revenue is included in operating revenue.

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | Reporting segment | | | | Adjustment | Consolidated |
| | Japan | U.S. | China | Total | | |
| Financial revenue | ¥ 5,403 | ¥ 1,435 | ¥ 69 | ¥ 6,907 | ¥ (95) | ¥ 6,812 |

Note (1) Adjustment refers to elimination between segments.
(2) Transactions between segments are made by third-party price.

For the fiscal year ended March 31, 2013

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | Reporting segment | | | | Adjustment | Consolidated |
| | Japan | U.S. | China | Total | | |
| Operating revenue from external customers | ¥ 23,999 | ¥ 11,718 | ¥ 373 | ¥ 36,090 | ¥ — | ¥ 36,090 |
| Internal operating revenue or transferred amount between segments | 152 | 9 | 14 | 175 | (175) | — |
| Total | 24,151 | 11,727 | 387 | 36,265 | (175) | 36,090 |
| Financial expenses | (878) | (1,593) | (1) | (2,472) | 152 | (2,320) |
| Depreciation and amortization | (1,271) | (1,772) | (73) | (3,116) | — | (3,116) |
| Other selling, general and administrative expenses | (15,239) | (11,651) | (403) | (27,292) | 49 | (27,244) |
| Other revenue and expenses (net amount) | 6,089 | (2,485) | (18) | 3,586 | (33) | 3,552 |
| Equity in earnings of affiliates | 36 | — | — | 36 | — | 36 |
| Segment profit or loss (Income before income taxes) | ¥ 12,888 | ¥ (5,775) | ¥ (107) | ¥ 7,006 | ¥ (8) | ¥ 6,998 |

For the fiscal year ended March 31, 2013

| | Thousands of U.S. Dollars | | | | | |
|---|---|---|---|---|---|---|
| | Reporting segment | | | | Adjustment | Consolidated |
| | Japan | U.S. | China | Total | | |
| Operating revenue from external customers | $ 255,066 | $ 124,542 | $ 3,961 | $ 383,568 | $ — | $ 383,568 |
| Internal operating revenue or transferred amount between segments | 1,615 | 91 | 152 | 1,858 | (1,858) | — |
| Total | 256,680 | 124,632 | 4,112 | 385,425 | (1,858) | 383,568 |
| Financial expenses | (9,333) | (16,928) | (13) | (26,275) | 1,613 | (24,662) |
| Depreciation and amortization | (13,505) | (18,838) | (771) | (33,114) | — | (33,114) |
| Other selling, general and administrative expenses | (161,961) | (123,825) | (4,278) | (290,065) | 517 | (289,548) |
| Other revenue and expenses (net amount) | 64,710 | (26,414) | (186) | 38,110 | (356) | 37,754 |
| Equity in earnings of affiliates | 382 | — | — | 382 | — | 382 |
| Segment profit or loss (Income before income taxes) | $ 136,973 | $ (61,373) | $ (1,136) | $ 74,464 | $ (84) | $ 74,381 |

Other revenue and expenses (net amount) in U.S. segment include impairment loss on goodwill arising form acquisition of TradeStation Group, Inc. and the detailed information is described in "Note 21. Impairment of Non-financial Assets."

The following financial revenue is included in operating revenue.

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | Reporting segment | | | | Adjustment | Consolidated |
| | Japan | U.S. | China | Total | | |
| Financial revenue | ¥ 5,878 | ¥ 2,410 | ¥ 59 | ¥ 8,347 | ¥ (152) | ¥ 8,195 |

| | Thousands of U.S. Dollars | | | | | |
|---|---|---|---|---|---|---|
| | Reporting segment | | | | Adjustment | Consolidated |
| | Japan | U.S. | China | Total | | |
| Financial revenue | $ 62,475 | $ 25,609 | $ 625 | $ 88,709 | $ (1,613) | $ 87,096 |

Note (1) Adjustment refers to elimination between segments.
(2) Transactions between segments are made by third-party price.

## (2) Non-current assets (other than financial assets and deferred tax assets) by segment

As of March 31, 2012 and 2013

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Japan | ¥ 11,449 | ¥ 12,633 | $ 134,267 |
| U.S. | 25,463 | 25,289 | 268,776 |
| China | 1,097 | 1,211 | 12,876 |
| Total | ¥ 38,009 | ¥ 39,134 | $ 415,919 |

## 7. Commission Received

For the fiscal years ended March 31, 2012 and 2013

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Brokerage | ¥ 13,047 | ¥ 15,676 | $ 166,610 |
| Underwriting and distribution | 60 | 47 | 503 |
| Subscription and distribution | 456 | 494 | 5,250 |
| Other commission | 3,467 | 4,149 | 44,100 |
| Total | ¥ 17,030 | ¥ 20,367 | $ 216,463 |

Other commission includes agent fee for customer's investment trust trading and administrative fee for margin transaction.

## 8. Financial Revenue and Expenses

### (1) Net trading income

For the fiscal years ended March 31, 2012 and 2013

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Financial assets and liabilities at fair value through profit or loss | ¥ 6,200 | ¥ 6,974 | $ 74,118 |

### (2) Financial revenue and expenses

For the fiscal years ended March 31, 2012 and 2013

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Financial revenue : | | | |
| Financial assets at fair value through profit or loss | ¥ 52 | ¥ 422 | $ 4,486 |
| Held-to-maturity investments | 5 | 4 | 43 |
| Loans and receivables | 5,296 | 6,507 | 69,160 |
| Available-for-sale financial assets | 1,459 | 1,261 | 13,407 |
| Total | 6,812 | 8,195 | 87,096 |
| Financial expenses : | | | |
| Financial liabilities at fair value through profit or loss | 22 | 0 | 0 |
| Available-for-sale financial assets | — | 1 | 16 |
| Financial liabilities measured at amortized cost | 1,659 | 2,319 | 24,646 |
| Total | ¥ 1,682 | ¥ 2,320 | $ 24,662 |

### (3) Other financial revenue and expenses

For the fiscal years ended March 31, 2012 and 2013

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2012** | **2013** | **2013** |
| Other financial revenue : | | | |
| Loans and receivables | ¥ 84 | ¥ 32 | $ 339 |
| Available-for-sale financial assets | 398 | 4,823 | 51,261 |
| Total | 482 | 4,855 | 51,600 |
| Other financial expenses : | | | |
| Available-for-sale financial assets | 19 | 46 | 485 |
| Financial liabilities measured at amortized cost | 9 | 0 | 5 |
| Total | ¥ 27 | ¥ 46 | $ 489 |

Note (1) Interest income is not recognized for impaired financial assets.

(2) Other financial revenue for available-for-sale financial assets includes gain on sales of investments in securities. Gain on sales of investments in securities for previous consolidated fiscal year and current consolidated fiscal year is ¥345 million and ¥4,781 million ($50,808 thousand), respectively.

(3) Impairment loss (including reversal of impairment) by class of financial assets

For the fiscal years ended March 31, 2012 and 2013

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2012** | **2013** | **2013** |
| Investments in securities | ¥ 19 | ¥ 21 | $ 224 |
| Other financial assets | (35) | (47) | (494) |
| Total | ¥ (16) | ¥ (25) | $ (271) |

## 9. Other Operating Revenue

For the fiscal years ended March 31, 2012 and 2013

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2012** | **2013** | **2013** |
| Trading tool usage fee and information service fee | ¥ 440 | ¥ 471 | $ 5,006 |
| Other | 88 | 83 | 885 |
| Total | ¥ 528 | ¥ 554 | $ 5,891 |

## 10. Selling, General and Administrative Expenses

For the fiscal years ended March 31, 2012 and 2013

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2012** | **2013** | **2013** |
| Transaction related costs | ¥ 8,787 | ¥ 10,223 | $ 108,649 |
| Personnel expenses | 6,163 | 8,503 | 90,374 |
| Depreciation and amortization | 2,406 | 3,116 | 33,114 |
| Other | 8,704 | 8,517 | 90,524 |
| Total | ¥ 26,060 | ¥ 30,359 | $ 322,622 |

## 11. Other Revenue

For the fiscal years ended March 31, 2012 and 2013

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Gain on bargain purchase | ¥ — | ¥ 1,231 | $ 13,083 |
| Gain on sales on investments in subsidiaries | — | 317 | 3,372 |
| Gain on sales on investments in affiliates | 222 | — | — |
| Other | 101 | 211 | 2,244 |
| Total | ¥ 323 | ¥ 1,759 | $ 18,700 |

Note (1) Gain on sales on investments in affiliates for previous consolidated fiscal year is recognized for sales of the Company's entire shares of Dot Commodity Inc. in June, 2011.

(2) Gain on sales on investments in subsidiaries for the current consolidated fiscal year is recognized for sales of the Company's entire shares of Monex Alternative Investments, Inc to ASTMAX, Co., Ltd. (now Astmax Trading, Inc.) in August, 2012.

## 12. Other Expenses

For the fiscal years ended March 31, 2012 and 2013

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Impairment of non-financial assets | ¥ — | ¥ 2,524 | $ 26,829 |
| Business combination related costs | — | 270 | 2,875 |
| Special retirement payment | 47 | 65 | 686 |
| Cancellation loss of outsourcing contracts | 213 | 15 | 156 |
| Exchange loss | 513 | — | — |
| Legal settlement | 33 | — | — |
| Other | 69 | 142 | 1,510 |
| Total | ¥ 876 | ¥ 3,016 | $ 32,056 |

## 13. Financial Instruments

### (1) Fair value measurement

The fair values of financial assets and liabilities are determined as follows. Information about fair value hierarchy is described in Note 14.

**(a) Cash and cash equivalents**

As these instruments are with short-term maturities, the carrying amount approximates its fair value and its fair value measurement is categorized into Level 1.

**(b) Cash segregated as deposits**

The fair value of cash segregated as deposits is measured by each invested asset pursuant to its nature and its fair value hierarchy is categorized based on the fair value measurement according to its valuation method.

**(c) Trading securities and other, Investments in securities**

Marketable securities are measured at the quoted prices and their fair value measurement is categorized into Level 1. Securities without quoted prices are measured using the most recent transaction price between independent third parties, comparable companies method, net asset value based on the most recent available information or present value of future cash flow, and their fair value measurement is categorized into Level 2 or 3 according to its valuation method.

Those securities that had no quoted prices in an active market and for which their fair value could not be reasonably measured (the carrying amount of ¥2,000 million as of April 1, 2011) are recorded at acquisition cost and are not included in available-for-sale financial assets within (2) Carrying amount and fair value at the date of transition. ¥181 million of these non-marketable securities were sold during the previous consolidated fiscal year and gain on sales of the securities of ¥345 million is included in other financial revenue. As those securities became listed subsequently, their carrying amount and fair value is included in available-for-sale financial assets described in (2) Carrying amount and fair value as of and after March 31, 2012.

**(d) Derivative assets and liabilities**

The fair value of derivative assets and liabilities are measured by reasonable valuation method based on observable foreign exchange rate, interest rate and other information, and the fair value measurement is categorized in Level 2 or 3 according to its valuation method.

**(e) Margin transaction assets, Margin transaction liabilities, Loans secured by securities, Loans payables secured by securities, Other financial assets, Deposits received, Guarantee deposits received, Bonds and loans payables, and Other financial liabilities**

The carrying amount of instruments with short-term maturity approximates its fair value. The fair value hierarchy of financial assets and liabilities measured at fair value on a recurring basis is categorized according to its valuation method. The fair value measurement of financial assets and liabilities measured at fair value on a non-recurring basis is categorized in Level 2. The fair value of instruments with long-term maturity is measured using discounted future cash flow by discount rate reflecting counterparty or the Group's credibility. The fair value hierarchy of financial assets measured at fair value on a recurring basis is categorized according to its valuation method. The fair value hierarchy of financial assets measured at fair value on a non-recurring basis is categorized in Level 2.

## (2) Carrying amount and fair value

As of April 1, 2011

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Financial assets and liabilities at fair value through profit or loss | Held-to-maturity investments | Loans and receivables | Available-for-sale financial assets | Other financial liabilities | Total carrying amount | Fair value |
| Cash and cash equivalents | ¥ — | ¥ — | ¥ 34,663 | ¥ — | ¥ — | ¥ 34,663 | ¥ 34,663 |
| Cash segregated as deposits | — | — | 44,923 | 130,279 | — | 175,202 | 175,202 |
| Trading securities and other | 1,833 | — | — | — | — | 1,833 | 1,833 |
| Derivative assets | 954 | — | — | — | — | 954 | 954 |
| Investments in securities | — | 4,097 | — | 7,085 | — | 11,181 | 11,181 |
| Margin transaction assets | — | — | 96,602 | — | — | 96,602 | 96,602 |
| Other financial assets | — | — | 21,282 | — | — | 21,282 | 21,282 |
| Total | 2,787 | 4,097 | 197,470 | 137,364 | — | 341,717 | 341,717 |
| Derivative liabilities | 2,103 | — | — | — | — | 2,103 | 2,103 |
| Margin transaction liabilities | — | — | — | — | 31,637 | 31,637 | 31,637 |
| Loans payables secured by securities | — | — | — | — | 26,603 | 26,603 | 26,603 |
| Deposits received | — | — | — | — | 93,842 | 93,842 | 93,842 |
| Guarantee deposits received | — | — | — | — | 78,707 | 78,707 | 78,707 |
| Bonds and loans payables | — | — | — | — | 49,768 | 49,768 | 49,768 |
| Other financial liabilities | — | — | — | — | 1,415 | 1,415 | 1,415 |
| Total | ¥ 2,103 | ¥ — | ¥ — | ¥ — | ¥ 281,972 | ¥ 284,075 | ¥ 284,075 |

As of March 31, 2012

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Financial assets and liabilities at fair value through profit or loss | Held-to-maturity investments | Loans and receivables | Available-for-sale financial assets | Other financial liabilities | Total carrying amount | Fair value |
| Cash and cash equivalents | ¥ — | ¥ — | ¥ 39,788 | ¥ — | ¥ — | ¥ 39,788 | ¥ 39,788 |
| Cash segregated as deposits | — | — | 63,922 | 227,977 | — | 291,899 | 291,899 |
| Trading securities and other | 2,430 | — | — | — | — | 2,430 | 2,430 |
| Derivative assets | 1,133 | — | — | — | — | 1,133 | 1,133 |
| Investments in securities | — | 4,098 | — | 18,046 | — | 22,144 | 22,144 |
| Margin transaction assets | — | — | 90,795 | — | — | 90,795 | 90,795 |
| Loans secured by securities | — | — | 15,339 | — | — | 15,339 | 15,339 |
| Other financial assets | — | — | 21,362 | 2,293 | — | 23,654 | 23,654 |
| Total | 3,563 | 4,098 | 231,206 | 248,316 | — | 487,182 | 487,182 |
| Derivative liabilities | 2,599 | — | — | — | — | 2,599 | 2,599 |
| Margin transaction liabilities | — | — | — | — | 27,826 | 27,826 | 27,826 |
| Loans payables secured by securities | — | — | — | — | 24,776 | 24,776 | 24,776 |
| Deposits received | — | — | — | — | 185,797 | 185,797 | 185,797 |
| Guarantee deposits received | — | — | — | — | 118,058 | 118,058 | 118,058 |
| Bonds and loans payables | — | — | — | — | 82,200 | 82,200 | 82,200 |
| Other financial liabilities | — | — | — | — | 1,794 | 1,794 | 1,794 |
| Total | ¥ 2,599 | ¥ — | ¥ — | ¥ — | ¥ 440,451 | ¥ 443,050 | ¥ 443,050 |

As of March 31, 2013

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Financial assets and liabilities at fair value through profit or loss | Held-to-maturity investments | Loans and receivables | Available-for-sale financial assets | Other financial liabilities | Total carrying amount | Fair value |
| Cash and cash equivalents | ¥ — | ¥ — | ¥ 51,193 | ¥ — | ¥ — | ¥ 51,193 | ¥ 51,193 |
| Cash segregated as deposits | — | — | 93,211 | 256,626 | — | 349,837 | 349,837 |
| Trading securities and other | 4,078 | — | — | — | — | 4,078 | 4,078 |
| Derivative assets | 753 | — | — | — | — | 753 | 753 |
| Investments in securities | — | 4,599 | — | 13,952 | — | 18,551 | 18,551 |
| Margin transaction assets | — | — | 149,487 | — | — | 149,487 | 149,487 |
| Loans secured by securities | — | — | 44,583 | — | — | 44,583 | 44,583 |
| Other financial assets | — | — | 20,317 | 2,633 | — | 22,950 | 22,950 |
| Total | 4,830 | 4,599 | 358,791 | 273,212 | — | 641,432 | 641,432 |
| Derivative liabilities | 7,604 | — | — | — | — | 7,604 | 7,604 |
| Margin transaction liabilities | — | — | — | — | 39,745 | 39,745 | 39,745 |
| Loans payables secured by securities | — | — | — | — | 67,661 | 67,661 | 67,661 |
| Deposits received | — | — | — | — | 231,164 | 231,164 | 231,164 |
| Guarantee deposits received | — | — | — | — | 131,535 | 131,535 | 131,535 |
| Bonds and loans payables | — | — | — | — | 113,381 | 113,381 | 113,381 |
| Other financial liabilities | — | — | — | — | 2,099 | 2,099 | 2,099 |
| Total | ¥ 7,604 | ¥ — | ¥ — | ¥ — | ¥ 585,584 | ¥ 593,188 | ¥ 593,188 |

| | Thousands of U.S. Dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | Financial assets and liabilities at fair value through profit or loss | Held-to-maturity investments | Loans and receivables | Available-for-sale financial assets | Other financial liabilities | Total carrying amount | Fair value |
| Cash and cash equivalents | $ — | $ — | $ 544,082 | $ — | $ — | $ 544,082 | $ 544,082 |
| Cash segregated as deposits | — | — | 990,658 | 2,727,456 | — | 3,718,115 | 3,718,115 |
| Trading securities and other | 43,337 | — | — | — | — | 43,337 | 43,337 |
| Derivative assets | 8,002 | — | — | — | — | 8,002 | 8,002 |
| Investments in securities | — | 48,876 | — | 148,286 | — | 197,162 | 197,162 |
| Margin transaction assets | — | — | 1,588,767 | — | — | 1,588,767 | 1,588,767 |
| Loans secured by securities | — | — | 473,836 | — | — | 473,836 | 473,836 |
| Other financial assets | — | — | 215,929 | 27,987 | — | 243,917 | 243,917 |
| Total | 51,338 | 48,876 | 3,183,274 | 2,903,729 | — | 6,817,217 | 6,817,217 |
| Derivative liabilities | 80,817 | — | — | — | — | 80,817 | 80,817 |
| Margin transaction liabilities | — | — | — | — | 422,412 | 422,412 | 422,412 |
| Loans payables secured by securities | — | — | — | — | 719,109 | 719,109 | 719,109 |
| Deposits received | — | — | — | — | 2,456,838 | 2,456,838 | 2,456,838 |
| Guarantee deposits received | — | — | — | — | 1,397,973 | 1,397,973 | 1,397,973 |
| Bonds and loans payables | — | — | — | — | 1,205,023 | 1,205,023 | 1,205,023 |
| Other financial liabilities | — | — | — | — | 22,306 | 22,306 | 22,306 |
| Total | $ 80,817 | $ — | $ — | $ — | $ 6,223,661 | $ 6,304,478 | $ 6,304,478 |

## 14. Fair Value Measurement

### (1) Fair value measurement hierarchy

The Group early adopted IFRS 13: Fair Value Measurement. IFRS 13 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." It also defines fair value hierarchy used for fair value measurement as follows.

Level 1: Quoted prices without adjustments in an active market for identical assets or liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the assets or liabilities

Transfers between levels of the fair value hierarchy of assets and liabilities are deemed to have occurred at the end of the reporting period.

### (2) Valuation techniques

Valuation techniques for fair value measurement of financial instruments are described in Note 13.

### (3) Valuation process

For fair value measurements categorized within Level 3, external valuation specialists or appropriate person for the valuation perform fair value valuation and analyze the valuation results in accordance with the valuation policies and procedures approved by the head of Financial Control Department. The valuation results are reviewed and approved by the head of Financial Control Department.

### (4) Quantitative information for assets categorized in Level 3

The valuation techniques and information about significant unobservable inputs for the assets measured by fair value on a recurring basis and categorized within Level 3 at the date of transition, previous consolidated fiscal year and current consolidated fiscal year are as follows.

As of April 1, 2011

| | Millions of Yen<br>Fair value | Valuation techniques | Unobservable inputs | Rates |
|---|---|---|---|---|
| Investments in securities | ¥ 3,728 | Income approach | Earnings growth rate<br>Discount rate | 0%<br>6.3% - 8.3% |

As of March 31, 2012

| | Millions of Yen<br>Fair value | Valuation techniques | Unobservable inputs | Rates |
|---|---|---|---|---|
| Investments in securities | ¥ 951 | Income approach | Earnings growth rate<br>Discount rate | 0%<br>6.5% - 8.3% |
| Derivative assets | 160 | Binomial model | Volatility rate | 45.0% |

As of March 31, 2013

| | Millions of Yen | Thousands of U.S. Dollars | Valuation techniques | Unobservable inputs | Rates |
|---|---|---|---|---|---|
| | Fair value | | | | |
| Investments in securities | ¥ 1,150 | $ 12,221 | Income approach | Earnings growth rate<br>Discount rate | 0%<br>5.8% - 5.9% |
| Derivative assets | 478 | 5,077 | Binomial model | Volatility rate | 45.0% |

## (5) Sensitivity analysis for volatility in significant unobservable inputs

For the assets measured by fair value on a recurring basis and categorized within Level 3, the fair value of investments in securities measured using income approach increases when discount rate decreases or earning growth rate increases, and decreases when discount rate increases or earning growth rate decreases. The fair value of investments in securities measured using binominal model increases when volatility rate increases and decreases when volatility rate decreases.

## (6) Fair value hierarchy of assets and liabilities measured by fair value on a recurring basis

Fair value hierarchy of assets and liabilities measured by fair value on a recurring basis on consolidated statement of financial position

As of April 1, 2011

| | Millions of Yen | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash segregated as deposits | ¥ 130,279 | ¥ — | ¥ — | ¥ 130,279 |
| Trading securities and other | 1,833 | — | — | 1,833 |
| Derivative assets | — | 954 | — | 954 |
| Investments in securities | 3,357 | — | 3,728 | 7,085 |
| Total | 135,469 | 954 | 3,728 | 140,151 |
| Derivative liabilities | — | 2,103 | — | 2,103 |
| Total | ¥ — | ¥ 2,103 | ¥ — | ¥ 2,103 |

As of March 31, 2012

| | Millions of Yen | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash segregated as deposits | ¥ 227,977 | ¥ — | ¥ — | ¥ 227,977 |
| Trading securities and other | 2,430 | — | — | 2,430 |
| Derivative assets | — | 973 | 160 | 1,133 |
| Investments in securities | 12,917 | 4,178 | 951 | 18,046 |
| Other financial assets | 2,293 | — | — | 2,293 |
| Total | 245,617 | 5,151 | 1,111 | 251,879 |
| Derivative liabilities | — | 2,599 | — | 2,599 |
| Total | ¥ — | ¥ 2,599 | ¥ — | ¥ 2,599 |

As of March 31, 2013

| | Millions of Yen | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash segregated as deposits | ¥ 256,626 | ¥ — | ¥ — | ¥ 256,626 |
| Trading securities and other | 4,078 | — | — | 4,078 |
| Derivative assets | — | 275 | 478 | 753 |
| Investments in securities | 12,802 | — | 1,150 | 13,952 |
| Other financial assets | 2,633 | — | — | 2,633 |
| Total | 276,140 | 275 | 1,628 | 278,042 |
| Derivative liabilities | — | 7,604 | — | 7,604 |
| Total | ¥ — | ¥ 7,604 | ¥ — | ¥ 7,604 |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash segregated as deposits | $ 2,727,456 | $ — | $ — | $ 2,727,456 |
| Trading securities and other | 43,337 | — | — | 43,337 |
| Derivative assets | — | 2,925 | 5,077 | 8,002 |
| Investments in securities | 136,065 | — | 12,221 | 148,286 |
| Other financial assets | 27,987 | — | — | 27,987 |
| Total | 2,934,845 | 2,925 | 17,298 | 2,955,068 |
| Derivative liabilities | — | 80,817 | — | 80,817 |
| Total | $ — | $ 80,817 | $ — | $ 80,817 |

Reconciliation of assets and liabilities measured using significant unobservable inputs on a recurring basis from the beginning balances to the ending balances for previous consolidated fiscal year and current consolidated fiscal year

For the fiscal years ended March 31, 2012 and 2013

| | Millions of Yen | | | | Thousands of U.S. Dollars | |
|---|---|---|---|---|---|---|
| | 2012 | | 2013 | | 2013 | |
| | Investments in securities | Derivative assets | Investments in securities | Derivative assets | Investments in securities | Derivative assets |
| Beginning balance | ¥ 3,728 | ¥ — | ¥ 951 | ¥ 160 | $ 10,103 | $ 1,705 |
| Total gains or losses | 649 | (22) | 296 | 317 | 3,151 | 3,372 |
| Profit or loss | (2) | (22) | 159 | 317 | 1,687 | 3,372 |
| Other comprehensive income | 651 | — | 138 | — | 1,463 | — |
| Purchases | 344 | 183 | 143 | — | 1,525 | — |
| Decrease by loss of control of subsidiaries | — | — | (10) | — | (106) | — |
| Sales and collections | (59) | — | (231) | — | (2,451) | — |
| Transfers out of Level 3 (Note) | (3,711) | — | — | — | — | — |
| Ending balance | 951 | 160 | 1,150 | 478 | 12,221 | 5,077 |
| Net amount of unrealized gains and losses included in profit or loss relating to assets and liabilities held at the end of the fiscal year | ¥ (2) | ¥ (22) | ¥ 15 | ¥ 317 | $ 155 | $ 3,372 |

The amounts recognized in profit or loss are included in other financial revenue or financial expenses in consolidated statement of income and the amounts recognized in other comprehensive income are included in valuation difference on available-for-sale financial assets in consolidated statement of comprehensive income.

Note The transfers out of Level 3 were made since significant inputs became observable.

## (7) Fair value hierarchy of assets and liabilities that are not measured at fair value but are in the scope of fair value disclosure

Fair value hierarchy of assets and liabilities that are not measured at fair value on consolidated statement of financial position, but are in the scope of fair value disclosure

As of April 1, 2011

| | Millions of Yen | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents | ¥ 34,663 | ¥ — | ¥ — | ¥ 34,663 |
| Cash segregated as deposits | 30,545 | 14,378 | — | 44,923 |
| Investments in securities | 4,097 | — | — | 4,097 |
| Margin transaction assets | — | 96,602 | — | 96,602 |
| Other financial assets | — | 21,282 | — | 21,282 |
| Total | 69,305 | 132,262 | — | 201,567 |
| | | | | |
| Margin transaction liabilities | — | 31,637 | — | 31,637 |
| Loans payables secured by securities | — | 26,603 | — | 26,603 |
| Deposits received | — | 93,842 | — | 93,842 |
| Guarantee deposits received | — | 78,707 | — | 78,707 |
| Bonds and loans payables | — | 49,768 | — | 49,768 |
| Other financial liabilities | — | 1,415 | — | 1,415 |
| Total | ¥ — | ¥ 281,972 | ¥ — | ¥ 281,972 |

As of March 31, 2012

| | Millions of Yen | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents | ¥ 39,788 | ¥ — | ¥ — | ¥ 39,788 |
| Cash segregated as deposits | 42,195 | 21,727 | — | 63,922 |
| Investments in securities | 4,098 | — | — | 4,098 |
| Margin transaction assets | — | 90,795 | — | 90,795 |
| Loans secured by securities | — | 15,339 | — | 15,339 |
| Other financial assets | — | 21,362 | — | 21,362 |
| Total | 86,081 | 149,223 | — | 235,304 |
| | | | | |
| Margin transaction liabilities | — | 27,826 | — | 27,826 |
| Loans payables secured by securities | — | 24,776 | — | 24,776 |
| Deposits received | — | 185,797 | — | 185,797 |
| Guarantee deposits received | — | 118,058 | — | 118,058 |
| Bonds and loans payables | — | 82,200 | — | 82,200 |
| Other financial liabilities | — | 1,794 | — | 1,794 |
| Total | ¥ — | ¥ 440,451 | ¥ — | ¥ 440,451 |

As of March 31, 2013

| | Millions of Yen | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents | ¥ 51,193 | ¥ — | ¥ — | ¥ 51,193 |
| Cash segregated as deposits | 63,128 | 30,083 | — | 93,211 |
| Investments in securities | 4,599 | — | — | 4,599 |
| Margin transaction assets | — | 149,487 | — | 149,487 |
| Loans secured by securities | — | 44,583 | — | 44,583 |
| Other financial assets | — | 20,317 | — | 20,317 |
| Equity method investments | 528 | — | — | 528 |
| Total | 119,447 | 244,470 | — | 363,918 |
| Margin transaction liabilities | — | 39,745 | — | 39,745 |
| Loans payables secured by securities | — | 67,661 | — | 67,661 |
| Deposits received | — | 231,164 | — | 231,164 |
| Guarantee deposits received | — | 131,535 | — | 131,535 |
| Bonds and loans payables | — | 113,381 | — | 113,381 |
| Other financial liabilities | — | 2,099 | — | 2,099 |
| Total | ¥ — | ¥ 585,584 | ¥ — | ¥ 585,584 |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents | $ 544,082 | $ — | $ — | $ 544,082 |
| Cash segregated as deposits | 670,933 | 319,725 | — | 990,658 |
| Investments in securities | 48,876 | — | — | 48,876 |
| Margin transaction assets | — | 1,588,767 | — | 1,588,767 |
| Loans secured by securities | — | 473,836 | — | 473,836 |
| Other financial assets | — | 215,929 | — | 215,929 |
| Equity method investments | 5,611 | — | — | 5,611 |
| Total | 1,269,502 | 2,598,258 | — | 3,867,761 |
| Margin transaction liabilities | — | 422,412 | — | 422,412 |
| Loans payables secured by securities | — | 719,109 | — | 719,109 |
| Deposits received | — | 2,456,838 | — | 2,456,838 |
| Guarantee deposits received | — | 1,397,973 | — | 1,397,973 |
| Bonds and loans payables | — | 1,205,023 | — | 1,205,023 |
| Other financial liabilities | — | 22,306 | — | 22,306 |
| Total | $ — | $ 6,223,661 | $ — | $ 6,223,661 |

### (8) Fair value hierarchy of assets and liabilities measured by fair value on a non-recurring basis

There are no assets or liabilities measured by fair value on a non-recurring basis at the date of transition, at the end of previous consolidated fiscal year and at the end of current consolidated fiscal year.

## 15. Cash and Cash Equivalents

As of April 1, 2011, March 31, 2012 and March 31, 2013

| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Cash and cash equivalents in consolidated statement of financial position | ¥ 34,663 | ¥ 39,788 | ¥ 51,193 | $ 544,082 |
| Term deposit over 3 months | — | — | (100) | (1,063) |
| Secured deposits | (3,236) | (1,188) | (1,107) | (11,766) |
| Instruments included in investments in securities such as MMF | 2,111 | 73 | 154 | 1,641 |
| Cash and cash equivalents in consolidated statement of cash flow | ¥ 33,538 | ¥ 38,674 | ¥ 50,140 | $ 532,894 |

Cash and cash equivalents included in cash segregated as deposits are not presented as cash and cash equivalents in consolidated statement of cash flow because those are segregated for customers in accordance with the laws and regulations.

## 16. Cash Segregated as Deposit

Assets included in cash segregated as deposits

As of April 1, 2011, March 31, 2012 and March 31, 2013

| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Cash and cash equivalents | ¥ 30,545 | ¥ 42,195 | ¥ 63,128 | $ 670,933 |
| Call loans | 14,244 | 21,614 | 29,977 | 318,599 |
| Government and corporate bonds | 101,279 | 209,977 | 206,126 | 2,190,736 |
| Joint investment trust | 29,000 | 18,000 | 50,500 | 536,720 |
| Others | 134 | 113 | 106 | 1,126 |
| Total | ¥ 175,202 | ¥ 291,899 | ¥ 349,837 | $ 3,718,115 |

## 17. Collateral

### (1) Collateral provided by the Group

As of March 31, 2012 and 2013

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Cash and cash equivalents (*1) | ¥ 1,187 | ¥ 1,107 | $ 11,766 |
| Investments in securities (*2) | 4,098 | 4,099 | 43,566 |
| Other financial assets (*3) | 12,615 | 11,734 | 124,710 |
| Total | ¥ 17,900 | ¥ 16,940 | $ 180,042 |

Note (1) Restricted deposits placed to counterparty financial institution for FX margin transaction

(2) Collateral pledged to counterparty financial institution for FX margin transaction, collateral pledged to securities finance company for lending transaction of margin transaction and collateral pledged to clearing houses for settlement of financial instruments trading

(3) Collateral pledged to counterparty financial institutions and exchanges for financial instrument trading and security deposits

## (2) Fair value of securities accepted from customers or other financial companies for services provided by the Group which are permitted to sell or repledge are as follows. For securities accepted which are permitted to sell or repledge, contractual terms generally requires that the equivalent securities be returned when transactions are settled.

As of March 31, 2012 and 2013

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Collateral securities for loans on margin transaction (*4) | ¥ 79,231 | ¥ 144,611 | $ 1,536,947 |
| Securities borrowing on margin transaction (*5) | 5,207 | 4,186 | 44,487 |
| Securities borrowing on loan contract | 99,290 | 145,872 | 1,550,343 |
| Substitute securities for guarantee deposits received | 191,951 | 265,424 | 2,820,955 |
| Securities accepted as other collateral with right to sell or repledge | 2 | 19 | 203 |
| Total | ¥ 375,680 | ¥ 560,112 | $ 5,952,934 |

## (3) Fair value of securities pledged to customers or other financial companies for sales or repledge included in (2).

As of March 31, 2012 and 2013

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Securities lending on margin transaction (*5) | ¥ 27,537 | ¥ 29,431 | $ 312,798 |
| Collateral securities for borrowings on margin transactions (*4) | 2,801 | 14,700 | 156,232 |
| Securities lending on loan contract | 35,917 | 77,753 | 826,364 |
| Substitute securities for guarantee deposits received that are pledged for lending transaction | 9,772 | 11,684 | 124,178 |
| Securities pledged as other collateral (*6) | 651 | 449 | 4,776 |
| Total | ¥ 76,678 | ¥ 134,017 | $ 1,424,348 |

Note (4) Securities company lends money for purchase of securities to customer and accepts the securities purchased by the customer as collateral. If the securities company borrows money from a securities finance company for the purchase, the securities company provides the securities to the securities finance company as collateral.

(5) Securities company lends securities for sale of securities to customer and accepts money received by the customer as collateral. If the securities company borrows securities from a securities finance company for the sale, the securities company provides the accepted money to the securities finance company as collateral.

(6) When securities company bids for lending transaction with securities finance company, the securities company provides securities to securities finance company and accepts money equivalent to fair value of the securities.

## 18. Bonds and Loans Payables

As of April 1, 2011, March 31, 2012 and March 31, 2013

| | Millions of Yen | | | Thousands of U.S. Dollars | % | Due date |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 | Average interest rate (*1) | |
| Short-term loans payables and other | ¥ 44,800 | ¥ 65,485 | ¥ 89,426 | $ 950,431 | 0.41 | |
| Bonds payables | 4,968 | 261 | 9,986 | 106,132 | — | |
| Long-term loans payables | — | 16,454 | 13,969 | 148,460 | 0.90 | May 31, 2016 |
| Total | 49,768 | 82,200 | 113,381 | 1,205,023 | | |
| (Margin transaction liabilities) | | | | | | |
| Borrowings on margin transactions | ¥ 11,693 | ¥ 2,757 | ¥ 14,847 | $ 157,801 | 0.77 | |

Note (1) Weighted average interest rate on borrowings at the end of each fiscal year

(2) Short-term loans payables and other and long-term loans payables include syndicate loan at the end of previous consolidated fiscal year and at the end of current consolidated fiscal year amounting to ¥13,980 million and ¥12,485 million ($132,687 thousand), respectively.

Summary of the terms of bonds payables

As of April 1, 2011, March 31, 2012 and March 31, 2013

| Company | Description | Issue date | Millions of Yen | | | Thousands of U.S. Dollars | % | Redemption date |
|---|---|---|---|---|---|---|---|---|
| | | | 2011 | 2012 | 2013 | 2013 | Rate | |
| Monex Group, Inc. | Yen-dominated bond with interest coupon of 1.10% due on July 5, 2011 | July 5, 2010 | ¥ 5,000 | ¥ — | ¥ — | $ — | 1.10 | July 5, 2011 |
| Monex Group, Inc. | Australian dollar-dominated bond due on December 28, 2012 | December28, 2011 | — | 596 [AUD 7,000 thousands] | — | — | 4.10 | December28, 2012 |
| Monex Group, Inc. | Yen-dominated bond with interest coupon of 1.00% due on March 26, 2014 | March 26, 2013 | — | — | 3,000 | 31,884 | 1.00 | March 26, 2014 |
| Monex Group, Inc. | Yen-dominated bond B with interest coupon of 1.00% due on March 26, 2014 | March 26, 2013 | — | — | 7,000 | 74,397 | 1.00 | March 26, 2014 |

For foreign currency dominated bonds, the amount in foreign currency is described in [ ] the parenthesis.

The Group complies with the contract terms for all bonds and loans payables.

## 19. Property and Equipment

| | Millions of Yen | | |
|---|---|---|---|
| | Buildings | Equipment and fixtures | Total |
| **Acquisition cost** | | | |
| As of April 1, 2011 | ¥ 381 | ¥ 1,812 | ¥ 2,193 |
| Increase by business combination | 19 | 850 | 869 |
| Increase for the fiscal year (Purchase) | 74 | 397 | 471 |
| Disposal | — | (496) | (496) |
| Foreign currency translation adjustments in foreign operations | 0 | 33 | 33 |
| As of March 31, 2012 | 475 | 2,595 | 3,069 |
| Increase for the fiscal year (Purchase) | 227 | 346 | 572 |
| Decrease by loss of control of a subsidiary | (15) | (12) | (26) |
| Disposal | (235) | (201) | (436) |
| Foreign currency translation adjustments in foreign operations | 11 | 203 | 214 |
| As of March 31, 2013 | ¥ 463 | ¥ 2,931 | ¥ 3,394 |

| | Millions of Yen | | |
|---|---|---|---|
| | Buildings | Equipment and fixtures | Total |
| **Accumulated depreciation and accumulated impairment loss** | | | |
| As of April 1, 2011 | ¥ 119 | ¥ 924 | ¥ 1,043 |
| Depreciation | 114 | 626 | 741 |
| Disposal | — | (489) | (489) |
| Foreign currency translation adjustments in foreign operations | 1 | 14 | 15 |
| As of March 31, 2012 | 235 | 1,076 | 1,310 |
| Decrease by loss of control of a subsidiary | (5) | (10) | (15) |
| Depreciation | 135 | 752 | 888 |
| Disposal | (228) | (173) | (401) |
| Foreign currency translation adjustments in foreign operations | 5 | 122 | 128 |
| As of March 31, 2013 | ¥ 142 | ¥ 1,768 | ¥ 1,909 |

| | Millions of Yen | | |
|---|---|---|---|
| | Buildings | Equipment and fixtures | Total |
| **Carrying amount** | | | |
| As of April 1, 2011 | ¥ 262 | ¥ 888 | ¥ 1,150 |
| As of March 31, 2012 | 240 | 1,519 | 1,759 |
| As of March 31, 2013 | 321 | 1,163 | 1,485 |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| | Buildings | Equipment and fixtures | Total |
| **Acquisition cost** | | | |
| As of March 31, 2012 | $ 5,044 | $ 27,577 | $ 32,621 |
| Increase for the fiscal year (Purchase) | 2,409 | 3,673 | 6,082 |
| Decrease by loss of control of a subsidiary | (157) | (123) | (280) |
| Disposal | (2,497) | (2,135) | (4,631) |
| Foreign currency translation adjustments in foreign operations | 120 | 2,159 | 2,279 |
| As of March 31, 2013 | $ 4,920 | $ 31,151 | $ 36,071 |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| | Buildings | Equipment and fixtures | Total |
| **Accumulated depreciation and accumulated impairment loss** | | | |
| As of March 31, 2012 | $ 2,493 | $ 11,434 | $ 13,927 |
| Decrease by loss of control of a subsidiary | (57) | (104) | (161) |
| Depreciation | 1,440 | 7,996 | 9,436 |
| Disposal | (2,423) | (1,841) | (4,264) |
| Foreign currency translation adjustments in foreign operations | 54 | 1,302 | 1,356 |
| As of March 31, 2013 | $ 1,506 | $ 18,787 | $ 20,293 |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| | Buildings | Equipment and fixtures | Total |
| **Carrying amount** | | | |
| As of March 31, 2012 | $ 2,551 | $ 16,143 | $ 18,695 |
| As of March 31, 2013 | 3,414 | 12,365 | 15,778 |

Note (1) Depreciation on property and equipment is included in selling, general and administrative expenses in the consolidated statement of income.

(2) There are no property and equipment with restricted ownership or pledged as collateral at the date of transition, at the end of previous consolidated fiscal year, and at the end of current consolidated fiscal year.

## 20. Intangible Assets

| | Millions of Yen | | | |
|---|---|---|---|---|
| | Goodwill | Internally generated intangible assets | Others | Total |
| **Acquisition cost** | | | | |
| As of April 1, 2011 | ¥ 8,007 | ¥ 379 | ¥ 4,723 | ¥ 13,108 |
| Increase by business combination | 10,219 | 295 | 13,981 | 24,495 |
| Increase (not by business combination) | — | 968 | 577 | 1,544 |
| Disposal | — | (43) | (334) | (377) |
| Foreign currency translation adjustments in foreign operations | 227 | 10 | 334 | 571 |
| As of March 31, 2012 | 18,453 | 1,608 | 19,280 | 39,341 |
| Increase in business combination | — | — | 26 | 26 |
| Increase (not by business combination) | — | 2,131 | 833 | 2,963 |
| Decrease by loss of control of a subsidiary | (58) | — | (9) | (67) |
| Disposal | 0 | (2) | (257) | (259) |
| Foreign currency translation adjustments in foreign operations | 1,598 | 134 | 2,261 | 3,993 |
| As of March 31, 2013 | ¥ 19,994 | ¥ 3,871 | ¥ 22,134 | ¥ 45,999 |

| | Millions of Yen | | | |
|---|---|---|---|---|
| | Goodwill | Internally generated intangible assets | Others | Total |
| **Accumulated amortization and accumulated impairment loss** | | | | |
| As of April 1, 2011 | ¥ — | ¥ 71 | ¥ 1,982 | ¥ 2,053 |
| Amortization | — | 128 | 1,537 | 1,666 |
| Disposal | — | — | (331) | (331) |
| Foreign currency translation adjustments in foreign operations | — | 4 | 33 | 37 |
| As of March 31, 2012 | — | 203 | 3,222 | 3,425 |
| Decrease by loss of control of a subsidiary | — | — | (5) | (5) |
| Amortization | — | 391 | 1,836 | 2,228 |
| Impairment loss | 2,524 | — | — | 2,524 |
| Disposal | — | — | (208) | (208) |
| Foreign currency translation adjustments in foreign operations | 332 | 24 | 284 | 640 |
| As of March 31, 2013 | ¥ 2,856 | ¥ 619 | ¥ 5,130 | ¥ 8,605 |

| | Millions of Yen | | | |
|---|---|---|---|---|
| | Goodwill | Internally generated intangible assets | Others | Total |
| **Carrying amount** | | | | |
| As of April 1, 2011 | ¥ 8,007 | ¥ 307 | ¥ 2,741 | ¥ 11,055 |
| As of March 31, 2012 | 18,453 | 1,405 | 16,058 | 35,916 |
| As of March 31, 2013 | 17,138 | 3,253 | 17,004 | 37,394 |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | Goodwill | Internally generated intangible assets | Others | Total |
| **Acquisition cost** | | | | |
| As of March 31, 2012 | $ 196,120 | $ 17,094 | $ 204,911 | $ 418,125 |
| Increase in business combination | — | — | 276 | 276 |
| Increase (not by business combination) | — | 22,645 | 8,850 | 31,495 |
| Decrease by loss of control of a subsidiary | (611) | — | (95) | (706) |
| Disposal | 0 | (23) | (2,730) | (2,753) |
| Foreign currency translation adjustments in foreign operations | 16,989 | 1,429 | 24,027 | 42,444 |
| March 31, 2013 | $ 212,499 | $ 41,144 | $ 235,239 | $ 488,882 |

|  | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
|  | Goodwill | Internally generated intangible assets | Others | Total |
| **Accumulated amortization and accumulated impairment loss** | | | | |
| As of March 31, 2012 | $ — | $ 2,156 | $ 34,244 | $ 36,401 |
| Decrease by loss of control of a subsidiary | — | — | (50) | (50) |
| Amortization | — | 4,161 | 19,518 | 23,679 |
| Impairment loss | 26,829 | — | — | 26,829 |
| Disposal | — | — | (2,208) | (2,208) |
| Foreign currency translation adjustments in foreign operations | 3,526 | 257 | 3,017 | 6,800 |
| As of March 31, 2013 | $ 30,355 | $ 6,574 | $ 54,521 | $ 91,450 |

|  | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
|  | Goodwill | Internally generated intangible assets | Others | Total |
| **Carrying amount** | | | | |
| As of March 31, 2012 | $ 196,120 | $ 14,937 | $ 170,667 | $ 381,724 |
| As of March 31, 2013 | 182,145 | 34,570 | 180,717 | 397,432 |

The above "Others" include customer relationships and technology assets held by TradeStation Group, Inc acquired in June 2011.

The carrying amount and the remaining amortization periods

As of April 1, 2012

| Class | Millions of Yen | Remaining amortization periods |
|---|---|---|
|  | Carrying amount |  |
| Customer relationships | ¥ 2,827 | 17 years |
| Technologies assets | 8,244 | 17 years |

As of March 31, 2013

| Class | Millions of Yen | Thousands of U.S. Dollars | Remaining amortization periods |
|---|---|---|---|
|  | Carrying amount | |  |
| Customer relationships | ¥ 3,058 | $ 32,500 | 16 years |
| Technologies assets | 8,919 | 94,792 | 16 years |

Intangible assets other than goodwill with definite useful lives are amortized over the useful lives. The amortization of intangible assets is included in selling, general and administrative expenses in the consolidated statement of income.

The carrying amount of intangible assets other than goodwill with indefinite useful lives

As of April 1, 2011, March 31, 2012 and March 31, 2013

| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Exchange membership and others | ¥ 204 | ¥ 211 | ¥ 193 | $ 2,056 |

Intangible assets with indefinite useful lives are mainly exchange membership. These are essential for financial service business that provides financial instruments and infrastructure through internet to customers. As long as financial service business is continued, these basically subsist, and are considered to have indefinite useful lives.

There are no intangible assets with restricted ownership or pledged as collateral at the date of transition, at the end of previous consolidated fiscal year, and at the end of current consolidated fiscal year.

Goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is any indication of impairment. The recoverable amount of goodwill and such intangible assets is calculated based on value in use. The goodwill arising in business combination is allocated to cash-generating unit (CGU) that is expected to benefit.

The carrying amounts before impairment of the goodwill and intangible assets with indefinite useful lives are allocated to the following CGUs.

As of April 1, 2011, March 31, 2012 and March 31, 2013

| CGU (Segment) | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| (Goodwill) | | | | |
| Japan | ¥ 7,684 | ¥ 7,685 | ¥ 7,627 | $ 81,062 |
| U.S. | — | 10,450 | 12,001 | 127,549 |
| China | 322 | 319 | 366 | 3,889 |
| Total | 8,007 | 18,453 | 19,994 | 212,499 |
| (Intangible assets with indefinite useful lives) | | | | |
| Japan | ¥ 204 | ¥ 211 | ¥ 193 | $ 2,056 |

The asset's value in use is calculated by discounting estimated operating future cash flows by the following discount rate.
The operating future cash flows are estimated based on the Group's financial plan approved by management for first five years and assumptions using the following long-term average growth rate for the subsequent years. This growth rate does not exceed the long-term average growth rate of the market.

The discount rate is a pre-tax rate that reflects weighted average cost of capital of each CGU and appropriate risk premium.

The discount rates before tax used for calculation of value in use for each CGU

For the fiscal years ended March 31, 2012 and 2013

| CGU (Segment) | 2012 | 2013 |
|---|---|---|
| Japan | 9.7% | 12.8% |
| U.S. | — | 16.3% |
| China | 14.1% | 13.9% |

The growth rate used for calculation of operating future cash flows for the years subsequent to the first five years

As of March 31, 2012 and 2013

| CGU (Segment) | 2012 | 2013 |
|---|---|---|
| Japan | 0.9% | 0.9% |
| U.S. | — | 2.0% |
| China | 3.0% | 3.0% |

## 21. Impairment of Non-financial Assets

As a result of impairment test based on the latest financial plan, impairment loss of ¥2,524 million ($26,829 thousand) was recognized for the goodwill arising from the acquisition of TradeStation Group, Inc. (U.S. segment) in June 2011 for current consolidated fiscal year since the recoverable amount was ¥25,028 million ($266,000 thousand) and the value in use was less than the carrying amount. Impairment loss was not recognized for assets other than goodwill. The impairment loss recognized is included in other expenses in the consolidated statement of income.

## 22. Companies Subject to Equity Method

Summary of associates

As of April 1, 2011, March 31, 2012 and March 31, 2013

| Company name | Business description | Segment | Ownership interest (%) | | |
|---|---|---|---|---|---|
| | | | 2011 | 2012 | 2013 |
| Dot Commodity, Inc. | Commodity futures trading | Japan | 22.80 | — | — |
| Triangle Partners (silent partnership Triangle Partners) | Investment management | Japan | 33.33 | 33.33 | 33.33 |
| BaiFor Investment Advisory Ltd. | Finance and training services | Japan | 49.00 | 49.00 | 49.00 |
| ASTMAX, Co., Ltd | Investment advisory | Japan | — | — | 15.04 |

Dot Commodity, Inc., an associate at the date of transition, is no longer an associate due to sales of the shares held by the Company in June 2011.

For current consolidated fiscal year, the Company transferred all shares of Monex Alternative Investments, Inc. held by the Company to ASTMAX Co., Ltd. (now Astmax Trading, Inc.) and acquired 15% shares of ASTMAX Co., Ltd. on August 1, 2012 aiming to combine asset management business of ASTMAX Co., Ltd. and Monex Alternative Investments, Inc. The Company applied equity method to ASTMAX Co., Ltd. due to significant influence over ASTMAX Co., Ltd. through dispatching board director and other means.

The fair value of investment in ASTMAX Co., Ltd. is ¥528 million ($5,611 thousand) at the end of current consolidated fiscal year.

Summarized financial information for equity method investments

As of April 1, 2011, March 31, 2012 and March 31, 20132013

| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Total assets | ¥ 33,558 | ¥ 2,295 | ¥ 6,542 | $ 69,530 |
| Total liabilities | 30,884 | 2,041 | 2,370 | 25,192 |
| Total equity | 2,674 | 254 | 4,172 | 44,338 |

For the fiscal years ended March 31, 2012 and 2013

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Net loss | ¥ (578) | ¥ (363) | $ (3,862) |

For the shares of losses on some equity method investments, the losses are not recognized because the accumulated losses exceed the carrying amount of equity method investments. The shares of losses not recognized for current consolidated fiscal year and the share of accumulated losses not recognized at the end of current consolidated fiscal year are both ¥15 million ($159 thousand).

# 23. Deferred Tax and Income Tax Expense

## (1) Deferred tax

Major components of deferred tax assets and deferred tax liabilities

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| | As of April 1, 2011 | Recognized through profit or loss | Recognized through other comprehensive income | Acquisition of subsidiaries | As of March 31, 2012 |
| Deferred tax assets : | | | | | |
| Tax loss carried forward | ¥ 2,142 | ¥ (951) | ¥ — | ¥ — | ¥ 1,191 |
| Accounts payable and accrued expenses | 124 | 123 | — | 57 | 304 |
| Accrued enterprise tax | 49 | (9) | — | — | 40 |
| Deferred revenue | 65 | (10) | — | — | 56 |
| Property and equipment | 59 | 54 | — | — | 113 |
| Investments in securities | 203 | (0) | (34) | — | 169 |
| Allowance for doubtful receivables | 428 | (285) | — | — | 143 |
| Others | 85 | (53) | — | 37 | 68 |
| Total deferred tax assets | 3,156 | (1,131) | (34) | 94 | 2,085 |
| Deferred tax liabilities : | | | | | |
| Investments in securities | 806 | (182) | 2,196 | 177 | 2,998 |
| Property and equipment | 257 | (90) | — | 4,799 | 4,966 |
| Goodwill | 172 | 72 | — | — | 244 |
| Others | 2 | (131) | — | 254 | 125 |
| Total deferred tax liabilities | ¥ 1,236 | ¥ (330) | ¥ 2,196 | ¥ 5,230 | ¥ 8,332 |

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| | As of March 31, 2012 | Recognized amount trough profit or loss | Recognized amount trough other comprehensive income | Acquisition of subsidiaries | As of March 31, 2013 |
| Deferred tax assets : | | | | | |
| Tax loss carried forward | ¥ 1,191 | ¥ (1,125) | ¥ — | ¥ 826 | ¥ 892 |
| Accounts payable and accrued expenses | 304 | 207 | — | 14 | 525 |
| Accrued enterprise tax | 40 | 142 | — | — | 182 |
| Deferred revenue | 56 | 9 | — | — | 65 |
| Property and equipment | 113 | 227 | — | 69 | 409 |
| Investments in securities | 169 | (49) | (44) | — | 76 |
| Allowance for doubtful receivables | 143 | (49) | — | — | 94 |
| Others | 68 | 177 | — | — | 245 |
| Total deferred tax assets | 2,085 | (460) | (44) | 909 | 2,489 |
| Deferred tax liabilities : | | | | | |
| Investments in securities | 2,998 | (0) | (1,408) | — | 1,590 |
| Property and equipment | 4,966 | 691 | — | — | 5,656 |
| Goodwill | 244 | 78 | — | — | 322 |
| Others | 125 | 153 | — | — | 277 |
| Total deferred tax liabilities | ¥ 8,332 | ¥ 922 | ¥ (1,408) | ¥ — | ¥ 7,845 |

| | Thousands of U.S. Dollars | | | | |
|---|---|---|---|---|---|
| | As of March 31, 2012 | Recognized through profit or loss | Recognized through other comprehensive income | Acquisition of subsidiaries | As of March 31, 2013 |
| Deferred tax assets : | | | | | |
| Tax loss carried forward | $ 12,658 | $ (11,961) | $ — | $ 8,781 | $ 9,478 |
| Accounts payable and accrued expenses | 3,233 | 2,201 | — | 146 | 5,580 |
| Accrued enterprise tax | 429 | 1,506 | — | — | 1,936 |
| Deferred revenue | 591 | 101 | — | — | 692 |
| Property and equipment | 1,204 | 2,413 | — | 733 | 4,350 |
| Investments in securities | 1,800 | (517) | (471) | — | 812 |
| Allowance for doubtful receivables | 1,520 | (516) | — | — | 1,004 |
| Others | 728 | 1,877 | — | — | 2,605 |
| Total deferred tax assets | 22,163 | (4,896) | (471) | 9,660 | 26,455 |
| Deferred tax liabilities : | | | | | |
| Investments in securities | 31,862 | (0) | (14,963) | — | 16,899 |
| Property and equipment | 52,775 | 7,342 | — | — | 60,118 |
| Goodwill | 2,589 | 828 | — | — | 3,418 |
| Others | 1,325 | 1,624 | — | — | 2,949 |
| Total deferred tax liabilities | $ 88,551 | $ 9,794 | $ (14,963) | $ — | $ 83,383 |

Note The difference between the total amount recognized in profit or loss and total income taxes expense is due to fluctuation of foreign exchange rate.

Deferred tax assets and deferred tax liabilities in the consolidated statement of financial position

As of April 1, 2011, March 31, 2012 and March 31, 2013

| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Deferred tax assets | ¥ 2,031 | ¥ 105 | ¥ 61 | $ 653 |
| Deferred tax liabilities | (112) | (6,351) | (5,418) | (57,580) |
| Net amount | ¥ 1,919 | ¥ (6,246) | ¥ (5,356) | $ (56,927) |

The amount of deductible temporary differences and tax loss carried forward for which no deferred tax asset is recognized

As of April 1, 2011, March 31, 2012 and March 31, 2013

| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Tax loss carried forward | ¥ 514 | ¥ 146 | ¥ 271 | $ 2,884 |
| Deductible temporary differences | 29 | 1 | 0 | 1 |
| Total | ¥ 543 | ¥ 147 | ¥ 272 | $ 2,886 |

Expiry date for tax loss carried forward for which no deferred tax asset is recognized

As of April 1, 2011, March 31, 2012 and March 31, 2013

| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Year 1 | ¥ — | ¥ — | ¥ — | $ — |
| Year 2 | 4 | — | — | — |
| Year 3 | 2 | — | — | — |
| Year 4 | 42 | — | — | — |
| Over year 5 | 467 | 146 | 271 | 2,884 |

The Company considers whether it is probable that taxable profit will be available against any or all of the deductible temporary differences or tax loss carried forward to recognize deferred tax assets. When the Company assesses the recoverability of deferred tax assets, the Company considers the timing of the expected reversal of the deductible temporary differences.

For some subsidiaries that record net loss and the recoverability of deferred tax assets depends on the future taxable income, deferred tax assets recognized at the end of previous consolidated fiscal year and at the end of current consolidated fiscal year are ¥105 million and ¥61 million ($653 thousand), respectively. The Company's management considers whether sufficient taxable profit will be available for the deductible temporary differences or tax loss carried forward based on the past performance, the approved future business plan and the tax planning, and the deferred tax assets are recognized as the result of the assessment.

For deductible and taxable temporary differences associated with investments in subsidiaries, deferred tax assets and liabilities are not basically recognized at the date of transition, at the end of previous consolidated fiscal year and at the end of current consolidated fiscal year, because the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future. The deductible temporary differences associated with investments in subsidiaries for which a deferred tax asset is not recognized at the date of transition, at the end of previous consolidated fiscal year and at the end of current consolidated fiscal year are ¥1,548 million, ¥2,753 million and ¥3,943 million ($41,904 thousand), respectively. The taxable temporary differences associated with investments in subsidiaries for which a deferred tax liability is not recognized at the date of transition, at the end of previous consolidated fiscal year and at the end of current consolidated fiscal year are ¥3,411 million, ¥4,160 million and ¥8,612 million ($91,531 thousand), respectively.

## (2) Income tax expense

Current income tax expense and deferred tax expense

For the fiscal years ended March 31, 2012 and 2013

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Current income tax expense : | | | |
| For the fiscal year | ¥ 842 | ¥ 2,260 | $ 24,022 |
| Total current income tax expense | 842 | 2,260 | 24,022 |
| Deferred tax expense : | | | |
| Increase and decrease in temporary differences | 540 | 831 | 8,834 |
| Changes in applicable tax rate | 192 | — | — |
| Total deferred income tax expense | 733 | 831 | 8,834 |
| Total income tax expense | ¥ 1,574 | ¥ 3,091 | $ 32,856 |

The current tax expense includes the amount of the benefit arising from a previously unrecognized tax loss carried forward or temporary difference of a past period that is used to reduce current tax expense, and the related current income tax expense for previous consolidated fiscal year and current consolidated fiscal year decreased by ¥65 million and ¥11 million ($118 thousand), respectively.

The deferred tax expense includes the amount of the benefit arising from a previously unrecognized tax loss carried forward or temporary difference of a past period, and the related deferred tax expense for previous consolidated fiscal year and current consolidated fiscal year decreased by ¥65 million and ¥11 million ($118 thousand), respectively.

The deferred tax expense includes the write-down or reversal of previous write-down of deferred tax assets, and the related deferred tax expense for previous consolidated fiscal year and current consolidated fiscal year decreased by ¥86 million and increased by ¥54 million ($569 thousand), respectively.

Corporate tax, inhabitant tax and deductible enterprise tax are levied to the Company, and the statutory effective tax rates calculated based on the taxes for the previous consolidated fiscal year and current consolidated fiscal year are 40.7% and 38.0%, respectively. Corporate tax and other taxes for foreign subsidiaries are levied under the relevant jurisdiction.

In Japan, the Act to Revise Income Taxes, Etc. Construct a System Addressing Changes in Socio-Economic Structures (Law No. 114 of 2011) and the Act on Special Measures for Securing Financial Resources Necessary for Reconstruction from the Great East Japan Earthquake (Law No. 117 of 2011) were announced on December 2, 2011 and corporate taxes have been reduced and a special corporate tax for reconstruction proposes has been levied in the fiscal year beginning on or after April 1, 2012. Since previous consolidated fiscal year, the statutory tax rate used for calculation of deferred tax assets and liabilities has changed from previous into 40.7% to 38.0% for temporary differences expected to be reversed from the fiscal year beginning on April 1, 2012 to the fiscal year beginning on April 1, 2014 and 35.6% for temporary differences expected to be reversed from the fiscal year beginning on or after April 1, 2015.

The deferred tax liability after offsetting with deferred tax asset decreased by ¥228 million, the income tax expense increased by ¥192 million and other comprehensive income increased by ¥420 million due to the tax rate change for previous consolidated fiscal year.

Tax amount for other tax jurisdiction is calculated based on the general tax rate of the relevant jurisdiction.

Reconciliation between statutory effective tax rate and average effective rate in the consolidated statement of income

For the fiscal years ended March 31, 2012 and 2013

| | % | |
|---|---|---|
| | 2012 | 2013 |
| Statutory effective tax rate | 40.7 | 38.0 |
| Costs related to acquisition of subsidiaries | 15.3 | — |
| Impairment loss on non-financial assets | — | 13.3 |
| Gain on bargain purchase | — | (6.7) |
| Gain on sales of investments in subsidiaries | — | (1.7) |
| Unrecognized deferred tax assets | (6.8) | 1.2 |
| Adjustment of deferred tax assets by changes in applicable tax rate | 7.2 | — |
| Others | 2.6 | 0.1 |
| Average effective tax rate | 59.0 | 44.2 |

## 24. Deferred Revenue

Deferred revenue is recognized for customer loyalty programs that are granted but not used and presented as other liabilities in the consolidated statement of financial position. The carrying amounts at the date of transition, at the end of previous consolidated fiscal year and at the end of current consolidated fiscal year are ¥161 million, ¥146 million and ¥171 million ($1,820 thousand), respectively.

## 25. Operating Leases

The Group rents office building and others under cancellable or non-cancellable operating leases. The minimum lease payments for operating lease recognized as expense for previous consolidated fiscal year and for current consolidated fiscal year are ¥384 million and ¥602 million ($6,400 thousand), respectively.

Future minimum lease payment under non-cancellable operating leases

As of April 1, 2011, March 31, 2012 and March 31, 2013

| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Within one year | ¥ — | ¥ 229 | ¥ 615 | $ 6,541 |
| Over one year but within five years | — | 539 | 1,354 | 14,385 |
| Over five years | — | 647 | 849 | 9,019 |
| Total | ¥ — | ¥ 1,415 | ¥ 2,818 | $ 29,946 |

Certain lease agreements include a provision to renew the agreements. There are no lease agreements with contingent rate, escalation clause and restrictive clause which restricts dividends, additional leasing and additional borrowings and other.

## 26. Post-employment Benefits

The Group has a defined contribution plan to provide post-employment benefits to the employees under which the employees have right to receive benefits for the related service periods.

For the fiscal years ended March 31, 2012 and 2013

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Contribution to defined contribution plan | ¥ 38 | ¥ 94 | $ 995 |

## 27. Provisions

Provisions consist of only asset retirement obligations.

Changes in provisions

For the fiscal years ended March 31, 2012 and 2013

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Beginning balance | ¥ 48 | ¥ 122 | $ 1,295 |
| Increase for the fiscal year | 72 | 67 | 709 |
| Decrease for the fiscal year (usage) | — | (102) | (1,084) |
| Reversal of discounted amounts by the passage of time | 1 | 1 | 15 |
| Ending balance | ¥ 122 | ¥ 88 | $ 935 |

## 28. Share-based Payment

Cash-settled share-based bonus plan

The Group provides a bonus plan linked to the Company's share price to the key management personnel and certain employees. The plan requires the management and employees to stay in the Group until the payment date to receive the bonus and if they leave the Group due to specific reason the right to receive the bonus would be lost. The period to the payment is one year to five years.

For the Company and some domestic companies, the payment amounts are determined by multiplying granted notional number of shares by base price that is calculated in a prescribed manner.

For some foreign subsidiaries, the payment amount is determined by multiplying granted amounts by fluctuation rate of share price between grant date and payment date.

The estimated payment amount for share-based bonus is calculated based on the Company's share price at the end of fiscal year.

As of March 31, 2012 and 2013

| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | **Original estimated payment amount at grant date** | **Estimated payment amount** | | |
| | | **2012** | **2013** | **2013** |
| The Company and domestic group companies | | | | |
| Granted on June 27, 2011 (For 1 year) | ¥ 21 | ¥ 20 | ¥ — | $ — |
| Granted on June 27, 2011 (For 2 year) | 16 | 15 | 29 | 309 |
| Granted on June 27, 2011 (For 3 year) | 16 | 15 | 29 | 309 |
| Granted on June 29, 2012 (For 1 year) | 24 | — | 48 | 507 |
| Granted on June 29, 2012 (For 2 year) | 18 | — | 36 | 381 |
| Granted on June 29, 2012 (For 3 year) | 18 | — | 36 | 381 |
| Foreign group companies | | | | |
| Granted on June 17, 2011 (For 2 year) | 46 | 52 | 104 | 1,108 |
| Granted on June 17, 2011 (For 3 year) | 85 | 96 | 203 | 2,162 |
| Granted on June 17, 2011 (For 4 year) | 100 | 113 | 238 | 2,532 |
| Granted on June 17, 2011 (For 5 year) | 100 | 113 | 238 | 2,532 |
| Granted on June 17, 2011 (For 6 year) | 100 | 113 | 238 | 2,532 |
| Granted on March 30, 2012 (For 1 year) | 9 | 7 | 14 | 144 |
| Granted on March 30, 2012 (For 2 year) | 9 | 7 | 14 | 144 |
| Granted on March 30, 2012 (For 3 year) | 9 | 7 | 14 | 144 |
| Granted on March 30, 2012 (For 4 year) | 9 | 7 | 14 | 144 |
| Granted on June 29, 2012 (For 1 year) | 47 | — | 126 | 1,344 |
| Granted on June 29, 2012 (For 2 year) | 47 | — | 126 | 1,344 |
| Granted on June 29, 2012 (For 3 year) | 47 | — | 126 | 1,344 |
| Granted on June 29, 2012 (For 4 year) | 47 | — | 126 | 1,344 |
| Total | ¥ 768 | ¥ 566 | ¥ 1,760 | $ 18,704 |

The carrying amount of liabilities arising from share-based payment transactions

As of March 31, 2012 and 2013

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2012** | **2013** | **2013** |
| Liabilities arising from share-based payment | ¥ 120 | ¥ 783 | $ 8,320 |

There are no liabilities for vested right at the end of previous consolidated fiscal year. The carrying amount of the liabilities for rights vested by the end of current consolidated fiscal year is ¥14 million ($144 thousand).

The total expenses recognized for previous consolidated fiscal year and current consolidated fiscal year are ¥116 million and ¥602 million ($6,396 thousand), respectively. These expenses are included in selling, general and administrative expenses in consolidated statement of income.

## 29. Paid-in Capital and Other Equity

The numbers of shares authorized and issued

For the fiscal years ended March 31, 2012 and 2013

| | Number of shares | |
|---|---|---|
| | 2012 | 2013 |
| The number of shares authorized | | |
| Common stock | 8,800,000 | 8,800,000 |
| The number of shares issued | | |
| Beginning balance | 3,196,805 | 2,996,805 |
| Shares issued by cash | | |
| Shares issued in business combination | | |
| Cancellation of treasury stock | (200,000) | — |
| Ending balance | 2,996,805 | 2,996,805 |

Common stock

All shares are no-par value shares and all shares issued are paid in.

Shareholders of common stock have right to receive declared dividends and one voting right per share at shareholders' meeting. All rights for shares held by the Company (treasury stock) are suspended until reissuance.

Treasury stock

There is no treasury stock held by the Company at the date of transition, at the end of previous consolidated fiscal year and at the end of current consolidated fiscal year.

Additional paid-in capital

Under the Japanese Companies Act (the Act), additional paid-in capital consists of legal capital surplus and other capital surplus. The Act requires the amounts that are not recorded as common stock at stock issuance to be included in legal capital surplus. Legal capital surplus can be transferred to common stock by resolution at shareholders' meeting. Other capital surplus includes surplus due to reversal of common stock and legal capital surplus and gain on disposal of treasury stock.

Retained earnings

Retained earnings include legal earnings reserved and other retained earnings. The Act requires to reserve one-tenth of dividends paid in legal capital surplus and legal earnings reserved to the extent that the aggregate amount of legal capital surplus and legal earnings reserved become one-forth of the amount of common stock.

## 30. Dividends

The Company's dividends policy is to pay out dividends twice a year as interim dividends and year-end dividends.

The latest actual performance for dividends paid

| Resolution date | Class of shares | Millions of Yen | Yen | Record date | Effective date |
|---|---|---|---|---|---|
| | | Paid amount | Dividends per share | | |
| June 25, 2011 | Common stock | ¥ 639 | ¥ 200.00 | March 31, 2011 | June 27, 2011 |
| October 26, 2011 | Common stock | 300 | 100.00 | September 30, 2011 | December 9, 2011 |
| June 23, 2012 | Common stock | 300 | 100.00 | March 31, 2012 | June 25, 2012 |
| October 24, 2012 | Common stock | 330 | 110.00 | September 30, 2012 | November 29, 2012 |

| Resolution date | Class of shares | Thousands of U.S. Dollars<br>Paid amount | U.S. Dollars<br>Dividends per share | Record date | Effective date |
|---|---|---|---|---|---|
| June 23, 2012 | Common stock | $ 3,185 | $ 1.06 | March 31, 2012 | June 25, 2012 |
| October 24, 2012 | Common stock | 3,504 | 1.17 | September 30, 2012 | November 29, 2012 |

Dividends whose record date is in the current fiscal year but whose effective date is in the following fiscal year

| Resolution date | Class of shares | Millions of Yen<br>Paid amount | Yen<br>Dividends per share | Record date | Effective date |
|---|---|---|---|---|---|
| June 22, 2013 | Common stock | ¥ 899 | ¥ 300.00 | March 31, 2013 | June 24, 2013 |

| Resolution date | Class of shares | Thousands of U.S. Dollars<br>Paid amount | U.S. Dollars<br>Dividends per share | Record date | Effective date |
|---|---|---|---|---|---|
| June 22, 2013 | Common stock | $ 9,555 | $ 3.19 | March 31, 2013 | June 24, 2013 |

## 31. Other Components of Equity and Other Comprehensive Income

Changes in accumulated other comprehensive income

For the fiscal years ended March 31, 2012 and 2013

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Foreign currency translation adjustments in foreign operations | | | |
| Beginning balance | ¥ — | ¥ 485 | $ 5,151 |
| Other comprehensive income before reclassification | 485 | 3,305 | 35,121 |
| Reclassification to profit or loss | — | — | — |
| Ending balance | 485 | 3,789 | 40,272 |
| Valuation difference on available-for-sale financial assets | | | |
| Beginning balance | 1,074 | 5,351 | 56,875 |
| Other comprehensive income before reclassification | 4,572 | 860 | 9,141 |
| Reclassification to profit or loss | (295) | (3,379) | (35,910) |
| Ending balance | 5,351 | 2,833 | 30,106 |
| Accumulated other comprehensive income for equity method investments | | | |
| Beginning balance | (3) | 0 | (1) |
| Other comprehensive income before reclassification | (30) | 104 | 1,108 |
| Reclassification to profit or loss | 33 | (53) | (563) |
| Ending balance | 0 | 51 | 544 |
| Other components of equity | | | |
| Beginning balance | 1,071 | 5,836 | 62,025 |
| Other comprehensive income before reclassification | 5,026 | 4,269 | 45,370 |
| Reclassification to profit or loss | (262) | (3,432) | (36,472) |
| Ending balance | ¥ 5,836 | ¥ 6,673 | $ 70,923 |

There is no other comprehensive income attributable to non-controlling interests for previous consolidated fiscal year and for current consolidated fiscal year.

Other comprehensive income (including amounts attributable to non-controlling interests) and the related tax effects

For the fiscal years ended March 31, 2012 and 2013

| | Millions of Yen | | | | | | Thousands of U.S. Dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2012 | | | 2013 | | | 2013 | | |
| | Before related tax effects | Tax effect | Net of related tax effects | Before related tax effects | Tax effect | Net of related tax effects | Before related tax effects | Tax effect | Net of related tax effects |
| Foreign currency translation adjustments in foreign operations | | | | | | | | | |
| Other comprehensive income before reclassification | ¥ 485 | ¥ — | ¥ 485 | ¥ 3,305 | ¥ — | ¥ 3,305 | $ 35,121 | $ — | $ 35,121 |
| Reclassification to profit or loss | — | — | — | — | — | — | — | — | — |
| Changes for the reporting period | 485 | — | 485 | 3,305 | — | 3,305 | 35,121 | — | 35,121 |
| Valuation difference on available-for-sale financial assets | | | | | | | | | |
| Other comprehensive income before reclassification | 7,004 | (2,432) | 4,572 | 1,340 | (480) | 860 | 14,245 | (5,104) | 9,141 |
| Reclassification to profit or loss | (498) | 204 | (295) | (5,251) | 1,872 | (3,379) | (55,807) | 19,898 | (35,910) |
| Changes for the reporting period | 6,505 | (2,228) | 4,277 | (3,911) | 1,392 | (2,519) | (41,562) | 14,794 | (26,768) |
| Accumulated other comprehensive income for equity method investments | | | | | | | | | |
| Other comprehensive income before reclassification | (47) | 16 | (30) | 162 | (58) | 104 | 1,721 | (614) | 1,108 |
| Reclassification to profit or loss | 51 | (18) | 33 | (82) | 29 | (53) | (874) | 312 | (563) |
| Changes for the reporting period | 5 | (2) | 3 | 80 | (28) | 51 | 847 | (302) | 545 |
| Total other comprehensive income | ¥ 6,995 | ¥ (2,230) | ¥ 4,765 | ¥ (526) | ¥ 1,364 | ¥ 837 | $ (5,594) | $ 14,492 | $ 8,898 |

## 32. Earnings per Share

Basic earnings per share for current consolidated fiscal year is calculated based on net income attributable to owner of the Company of ¥3,901 million ($41,461 thousand) (previous consolidated fiscal year; ¥1,028 million) and weighted average number of common stock of 2,997 thousand shares (previous consolidated fiscal year; 3,043 thousand shares).

## 33. Non-cash Transactions

The Company has no significant non-cash transactions (investment and finance transactions without cash and cash equivalents) for previous consolidated fiscal year and current consolidated fiscal year.

## 34. Contingencies

There are no contingencies that have significant effect on the consolidated financial statements.

## 35. Related Parties

Compensation to the Group's key management personnel

For the fiscal years ended March 31, 2012 and 2013

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Short-term benefit | ¥ 190 | ¥ 198 | $ 2,109 |
| Post-employment benefit | — | 1 | 5 |
| Share-based payment | 9 | 92 | 977 |
| Total | ¥ 199 | ¥ 291 | $ 3,091 |

Note: The key management personnel are the directors of the Company's board meeting for the fiscal year.

## 36. Group Entities

The Company's significant subsidiaries as of March 31, 2013

| Name of subsidiary | Location | % Proportion of voting power |
|---|---|---|
| Monex, Inc. | Japan | 100.0 |
| Monex FX, Inc. | Japan | 100.0 |
| Monex Hambrecht, Inc. | Japan | 84.1 |
| Trade Science Corporation | Japan | 100.0 |
| TradeStation Group, Inc. | U.S. | 100.0 |
| TradeStation Securities, Inc. | U.S. | 100.0 |
| IBFX, Inc. | U.S. | 100.0 |
| TradeStation Technologies, Inc. | U.S. | 100.0 |
| Monex International Limited | Hong Kong | 100.0 |
| Monex Boom Securities (H.K.) Limited | Hong Kong | 100.0 |
| Others (15 companies) | | |

## 37. Events after the Reporting Period

**(Events related to investment)**

The Company entered into a share transfer agreement with Swiss Reinsurance Company Ltd and sold the entire shares (5,683,900 shares) of Lifenet Insurance Company on April 25, 2013.

The gain on sale of the shares of ¥2,288 million ($24,321 thousand) will be recognized in other financial revenue in consolidated financial statements for the year ending March 31, 2014.

**(Purchase and cancellation of treasury stock)**

The Company has resolved at the meeting of the Board of Directors held on May 14, 2013 to purchase treasury stock pursuant to Article 156 of the the Japanese Companies Act (the Act), as applied by reading of terms under the provisions of Paragraph 3, Article 165 of the Act. The Company also resolved to cancel treasury stock pursuant to the provision of Article 178 of the Act and cancelled treasury stock accordingly. The details of the resolutions are as follows.

### (1) Reason of purchase and cancellation of treasury stock

To increase capital efficiency in response to business environment changes and to further enhance returns to shareholders

### (2) Purchase of treasury stock

**(a) Class of purchased shares**

The Company's common stock

**(b) Method of purchase**

Purchase through an off-auction treasury stock purchase trading at Tokyo Stock Exchange, Inc. (ToSTNeT-3)

**(c) Number of purchased shares**

120,000 shares

**(d) Total acquisition costs**

¥5,514 million ($58,603 thousand)

**(e) Purchase date**

May 15, 2013

### (3) Cancellation of treasury stock

**(a) Class of cancelled shares**

The Company's common stock

**(b) Number of cancelled shares**

120,000 shares

**(c) Cancellation date**

May 31, 2013

## 38. Explanation of First Adoption of IFRSs

The consolidated financial statements are the Group's first consolidated financial statements prepared in accordance with IFRSs.

The accounting policies set out in Note 3 were applied in preparing the consolidated financial statements for the fiscal year ended March 31, 2013 and the fiscal year ended March 31, 2012 and the consolidated statements of financial position prepared as of April 1, 2011 (the date of transition to IFRSs for the Group).

### (1) Exemptions under IFRS 1

IFRSs generally require retrospective application of IFRSs for an entity adopting IFRSs for the first time (first-time adopter). IFRS 1, however, requires the application of certain exemptions and permits the application of other exemptions from some requirements of other IFRSs. The effects of application of these exemptions are adjusted in retained earnings at the date of transition to IFRSs. The exemptions that the Group used in the transition from accounting principles generally accepted in Japan (JGAAP) to IFRSs are as follows.

**(a) Business combinations**

A first-time adopter is allowed to elect retroactive application to all business combinations that occurred before the date of transition or prospective application to a particular business combination that occurred on or before the date of transition.

The Group elected not to retroactively apply IFRS 3 to past business combinations that occurred before December 27, 2010. As a result, the carrying amount of goodwill at the date of transition arising from business combinations occurred before December 27, 2010 is measured at the carrying amount under JGAAP at the date of transition. Impairment tests are performed with respect to goodwill at the transition date, regardless of the indication of impairment.

**(b) Foreign currency translation adjustments**

IFRS 1 allows a first-time adopter to elect to restate foreign currency translation adjustments for foreign operations at the date of transition by recalculating retroactively at the date of establishment or acquisition of the subsidiary or to deem the cumulative foreign currency translation adjustments at of the date of transition to be zero.

The Group elected to deem cumulative foreign currency translation adjustments for foreign operations to be zero as at the date of transition.

**(c) Changes in decommissioning, restoration and similar liabilities included in cost of property and equipment**

With regard to decommissioning and other liabilities included in the cost of property and equipment, IFRS 1 allows a first-time adopter to elect retroactive application to such liabilities that occurred before the date of transition or to measure such liabilities as at the date of transition.

The Group elected to measure decommissioning, restoration and similar liabilities included in cost of property and equipment as at the date of transition.

## (2) Exceptions to retrospective application under IFRS 1

IFRS 1 prohibits retroactive application of IFRSs to "estimates," "derecognition of financial assets and financial liabilities," "hedge accounting," and "non-controlling interests." The Group applies IFRSs prospectively to these transactions occurring on or after the date of transition.

## (3) Adjustments from JGAAP to IFRSs

When preparing the consolidated financial statements in accordance with IFRSs, the Group adjusted amounts in the consolidated financial statements prepared in accordance with JGAAP. The impact of the transition from JGAAP to IFRSs on the Company's financial position and financial performance is described in the following tables and notes accompanying the tables.

Reconciliation of assets, liabilities and equity as of April 1, 2011

| Assets | Millions of Yen | | | | Assets |
|---|---|---|---|---|---|
| | JGAAP | Reclass adjustment | Effects of transition to IFRSs | IFRSs | |
| Cash and deposits | ¥ 34,950 | ¥ — | ¥ (287) | ¥ 34,663 | Cash and cash equivalents |
| Cash segregated for customers and others | 138,627 | 36,575 | — | 175,202 | Cash segregated as deposits |
| Money held in trust | 36,575 | (36,575) | | | |
| Trading securities and other | 1,234 | — | 598 | 1,833 | Trading securities and other |
| Derivatives | 8,270 | — | (7,315) | 954 | Derivative assets |
| Securities | 6,208 | 6,173 | 801 | 13,181 | Investments in securities |
| Operating investment securities | 971 | (971) | | | |
| Trade date accrual | 42 | (42) | | | |
| Margin transaction assets | 96,602 | — | — | 96,602 | Margin transaction assets |
| | | 21,992 | (710) | 21,282 | Other financial assets |
| Payments on securities subscribed | 634 | (634) | | | |
| Short-term guarantee money deposited | 6,435 | (6,435) | | | |
| Accrued revenues | 2,423 | (2,423) | | | |
| Short-term loans receivable | 10,738 | (10,738) | | | |
| Deferred tax assets (current) | 1,978 | (1,978) | | | |
| Other current assets | 1,457 | (1,457) | | | |
| Allowance for doubtful receivables (current) | (97) | 97 | | | |
| Property and equipment | 736 | — | 413 | 1,150 | Property and equipment |
| Intangible assets | 10,914 | — | 141 | 11,055 | Intangible assets |
| | | 886 | (78) | 808 | Equity method investments |
| Investment securities | 6,007 | (6,007) | | | |
| Long-term guarantee deposits | 591 | (591) | | | |
| Deferred tax assets (non-current) | 350 | 1,978 | (297) | 2,031 | Deferred tax assets |
| Long-term receivable for customers | 1,052 | (1,052) | | | |
| Other | 85 | 151 | 96 | 332 | Other assets |
| Allowance for doubtful receivables (non- current) | (1,052) | 1,052 | | | |
| Total assets | ¥ 365,731 | ¥ — | ¥ (6,637) | ¥ 359,093 | Total assets |

| Liabilities and Net assets | Millions of Yen | | | | Liabilities and Equity |
|---|---|---|---|---|---|
| | JGAAP | Reclass adjustment | Effects of transition to IFRSs | IFRSs | |
| Derivatives | ¥ 3,321 | ¥ 1 | ¥ (1,219) | ¥ 2,103 | Derivative liabilities |
| Margin transaction liabilities | 31,637 | — | — | 31,637 | Margin transaction liabilities |
| Loans payable secured by securities | 26,603 | — | — | 26,603 | Loans payables secured by securities |
| Deposits received | 93,857 | — | (15) | 93,842 | Deposits received |
| Guarantee money received | 85,012 | — | (6,305) | 78,707 | Guarantee deposits received |
| Short-term borrowings | 39,800 | 10,000 | (32) | 49,768 | Bonds and loans payables |
| Current portion of bonds | 5,000 | (5,000) | | | |
| Current portion of long-term debt | 5,000 | (5,000) | | | |
| Income tax payables | 582 | — | — | 582 | Income tax payables |
| | | 1,147 | 267 | 1,415 | Other financial liabilities |
| | | — | 48 | 48 | Provisions |
| Consumption taxes payable | 25 | (25) | | | |
| Accrued employees' bonuses | 23 | (23) | | | |
| Accrued directors' bonuses | 8 | (8) | | | |
| Allowance for point services | 161 | (161) | | | |
| Other current liabilities | 1,126 | 220 | (1,064) | 281 | Other liabilities |
| Long-term deposits received | 1,152 | (1,152) | | | |
| Deferred tax liabilities | 143 | — | (31) | 112 | Deferred tax liabilities |
| Financial instruments transactions reserve | 1,254 | — | (1,254) | | |
| Total liabilities | 294,705 | — | (9,607) | 285,098 | Total liabilities |
| Owners' equity | | | | | |
| Common stock | 10,394 | — | — | 10,394 | Common stock |
| Capital surplus | 42,163 | — | (72) | 42,091 | Additional paid-in capital |
| Retained earnings | 18,404 | — | 1,842 | 20,246 | Retained earnings |
| Accumulated other comprehensive income | (138) | — | 1,209 | 1,071 | Other components of equity |
| Minority interests | 203 | — | (10) | 193 | Non-controlling interests |
| Total net assets | 71,026 | — | 2,970 | 73,995 | Total equity |
| Total liabilities and net assets | ¥ 365,731 | ¥ — | ¥ (6,637) | ¥ 359,093 | Total liabilities and equity |

Reconciliation of assets, liabilities and equity as of March 31, 2012

| Assets | Millions of Yen | | | | Assets |
|---|---|---|---|---|---|
| | JGAAP | Reclass adjustment | Effects of transition to IFRSs | IFRSs | |
| Cash and deposits | ¥ 40,382 | ¥ — | ¥ (594) | ¥ 39,788 | Cash and cash equivalents |
| Cash segregated for customers and others | 247,745 | 44,154 | — | 291,899 | Cash segregated as deposits |
| Money held in trust | 44,154 | (44,154) | | | |
| Trading securities and other | 1,645 | — | 785 | 2,430 | Trading securities and other |
| Derivatives | 11,013 | — | (9,880) | 1,133 | Derivative assets |
| Securities | 9,765 | 10,503 | 1,876 | 22,144 | Investments in securities |
| Operating investment securities | 522 | (522) | | | |
| Trade date accrual | 32 | (32) | | | |
| Margin transaction assets | 90,795 | — | — | 90,795 | Margin transaction assets |
| Loans secured by securities | 15,339 | — | — | 15,339 | Loans secured by securities |
| | | 24,461 | (807) | 23,654 | Other financial assets |
| Payments on securities subscribed | 786 | (786) | | | |
| Short-term guarantee money deposited | 12,424 | (12,424) | | | |
| Accrued revenues | 2,890 | (2,890) | | | |
| Short-term loans receivable | 6,698 | (6,698) | | | |
| Deferred tax assets (current) | 1,015 | (1,015) | | | |
| Other current assets | 2,605 | (2,605) | | | |
| Allowance for doubtful receivables (current) | (94) | 94 | | | |
| Property and equipment | 1,317 | — | 442 | 1,759 | Property and equipment |
| Intangible assets | 35,614 | — | 302 | 35,916 | Intangible assets |
| | | 284 | (27) | 257 | Equity method investments |
| Investment securities | 10,236 | (10,236) | | | |
| Long-term guarantee deposits | 289 | (289) | | | |
| Deferred tax assets (non-current) | 412 | 1,015 | (1,323) | 105 | Deferred tax assets |
| Long-term receivable for customers | 436 | (436) | | | |
| Other | 78 | 1,141 | 291 | 1,510 | Other assets |
| Allowance for doubtful receivables (non- current) | (437) | 437 | | | |
| Total assets | ¥ 535,663 | ¥ — | ¥ (8,934) | ¥ 526,729 | Total assets |

| Liabilities and Net assets | Millions of Yen JGAAP | Reclass adjustment | Effects of transition to IFRSs | IFRSs | Liabilities and Equity |
|---|---|---|---|---|---|
| Derivatives | ¥ 5,285 | ¥ 32 | ¥ (2,717) | ¥ 2,599 | Derivative liabilities |
| Margin transaction liabilities | 27,826 | — | — | 27,826 | Margin transaction liabilities |
| Loans payable secured by securities | 24,776 | — | — | 24,776 | Loans payables secured by securities |
| Deposits received | 185,797 | — | — | 185,797 | Deposits received |
| Guarantee money received | 125,583 | — | (7,524) | 118,058 | Guarantee deposits received |
| Short-term borrowings | 63,000 | 19,281 | (81) | 82,200 | Bonds and loans payables |
| Current portion of bonds | 281 | (281) | | | |
| Current portion of long-term debt | 2,500 | (2,500) | | | |
| Income tax payables | 391 | — | — | 391 | Income tax payables |
| | | 1,639 | 155 | 1,794 | Other financial liabilities |
| | | — | 122 | 122 | Provisions |
| Consumption taxes payable | 59 | (59) | | | |
| Accrued employees' bonuses | 268 | (268) | | | |
| Accrued directors' bonuses | 11 | (11) | | | |
| Allowance for point services | 146 | (146) | | | |
| Other current liabilities | 2,078 | (159) | (912) | 1,009 | Other liabilities |
| Long-term debt | 16,500 | (16,500) | | | |
| Long-term deposits received | 1,028 | (1,028) | | | |
| Deferred tax liabilities | 6,544 | — | (193) | 6,351 | Deferred tax liabilities |
| Financial instruments transactions reserve | 1,130 | — | (1,130) | | |
| Total liabilities | 463,203 | — | (12,280) | 450,923 | Total liabilities |
| Owners' equity | | | | | |
| Common stock | 10,394 | — | — | 10,394 | Common stock |
| Capital surplus | 40,593 | — | (72) | 40,521 | Additional paid-in capital |
| Retained earnings | 17,359 | — | 1,448 | 18,808 | Retained earnings |
| Accumulated other comprehensive income | 3,857 | — | 1,979 | 5,836 | Other components of equity |
| Minority interests | 257 | — | (10) | 248 | Non-controlling interests |
| Total net assets | 72,460 | — | 3,346 | 75,806 | Total equity |
| Total liabilities and net assets | ¥ 535,663 | ¥ — | ¥ (8,934) | ¥ 526,729 | Total liabilities and equity |

Reconciliation of net income and comprehensive income for the fiscal year ended March 31, 2012

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| | JGAAP | Reclass adjustment | Effects of transition to IFRSs | IFRSs | |
| Commission revenues | ¥ 17,107 | ¥ — | ¥ (77) | ¥ 17,030 | Commission received |
| Net gain on trading account | 6,200 | — | — | 6,200 | Net trading income |
| Net gain on operating investments | 61 | (61) | | | |
| Financial income | 8,383 | 69 | (1,640) | 6,812 | Financial revenue |
| Other operating revenues | 542 | (14) | — | 528 | Other operating revenue |
| Financial expenses | 3,239 | — | (1,557) | 1,682 | Financial expenses |
| Selling, general and administrative expenses | 26,605 | — | (545) | 26,060 | Selling, general and administrative expenses |
| | | 430 | 52 | 482 | Other financial revenue |
| | | 149 | (121) | 27 | Other financial expenses |
| | | 474 | (151) | 323 | Other revenue |
| | | 564 | 312 | 876 | Other expenses |
| | | 49 | 12 | 62 | Equity in losses of affiliates |
| Non-operating income | 207 | (207) | | | |
| Non-operating expenses | 282 | (282) | | | |
| Extraordinary income | 691 | (691) | | | |
| Extraordinary loss | 411 | (411) | | | |
| Distribution of gain in silent partnership | 68 | (68) | | | |
| Income before income taxes | 2,585 | — | 83 | 2,668 | Income before income taxes |
| Income taxes | 1,099 | — | 475 | 1,574 | Income tax expense |
| Net income before minority interests | 1,486 | — | (392) | 1,094 | Net income |
| Minority interests | 63 | (63) | | | |
| Net income | 1,423 | — | (394) | 1,028 | Net income attributable to : Owners of Monex Group, Inc. |
| | | 63 | 2 | 65 | Non-controlling interests |
| Consolidated statement of comprehensive income | | | | | |
| Net income before minority interests | 1,486 | — | (392) | 1,094 | Net income |
| Unrealized gain (loss) on available-for-sale securities | 3,772 | — | 505 | 4,277 | Valuation difference on available-for-sale financial assets |
| Foreign currency translation adjustments | 229 | — | 255 | 485 | Foreign currency translation adjustments in foreign operations |
| Share of other comprehensive loss in affiliates | (7) | — | 10 | 3 | Accumulated other comprehensive income for equity method investments |
| Total other comprehensive income | 3,994 | — | 771 | 4,765 | Other comprehensive income after income tax |
| Total comprehensive income | ¥ 5,480 | ¥ — | ¥ 379 | ¥ 5,858 | Total comprehensive income |
| Comprehensive income attributed to shareholders of the Company | ¥ 5,416 | ¥ — | ¥ 377 | ¥ 5,793 | Total comprehensive income attributable to : Owners of Monex Group, Inc. |
| Comprehensive income attributed to minority interest | 63 | — | 2 | 65 | Non-controlling interests |

The following items are changes in presentation in the consolidated statement of financial position and consolidated statement of income, and there is no effect on the consolidated statement of comprehensive income and equity.

**(a) Derivative assets, derivative liabilities, guarantee deposits paid, and guarantee deposits received**

Under JGAAP, derivative assets and derivative liabilities relating to FX margin transaction are presented without offsetting with guarantee deposits paid and guarantee deposits received, but under IFRSs, they are set off by each counterparty when it meets the offsetting criteria.

**(b) Financial revenue and financial expenses**

Under JGAAP, financial revenue and financial expenses related to security lending transactions are presented on a gross basis, but under IFRSs, the Group is not considered as principal of the transactions, and consequently, some portion of financial revenue and financial expenses are set off.

**Notes concerning adjustments to equity and comprehensive income**

**(a) Goodwill**

Amortization of goodwill

Under JGAAP, goodwill is amortized using the straight line method over the reasonably estimated effective period, but under IFRSs, goodwill arising from business combinations is not amortized and is subject to impairment testing each fiscal year. Also, negative goodwill recognized as liabilities and systematically amortized each fiscal year under JGAAP is reclassified to retained earnings at the date of transition under IFRSs. As a result of these adjustments, retained earnings increased by ¥203 million at the date of transition. Also, for the previous consolidated fiscal year, retained earnings (as of the end of the previous consolidated fiscal year) increased by ¥1,295 million and net income increased by ¥1,092 million.

Acquisition-related costs for business combination

Under JGAAP, costs arising in relation to business combinations are accounted for as a portion of the consideration for acquisition, but under IFRSs, costs arising from business combinations on or after December 27, 2010 are recognized in profit or loss. As a result of this adjustment, retained earnings decreased by ¥240 million at the date of transition. Also, for the previous consolidated fiscal year, retained earnings (as of the end of the previous consolidated fiscal year) decreased by ¥785 million and net income decrease by ¥545 million.

Hedging transactions for consideration transferred

Under JGAAP, hedge accounting was applied to forecast transactions with foreign exchange futures in the acquisition of TradeStation Group, Inc. for the purpose of hedging the variability in cash flows arising from the forecast transactions, and gain or loss on the foreign exchange futures was included in the consideration transferred. However, some of the conditions for cash flow hedge accounting under IFRSs were not met, and as a result hedge accounting cannot be applied. As a result of this adjustment, both retained earnings (as of the end of the previous consolidated fiscal year) and net income for the previous consolidated fiscal year decreased by ¥457 million.

Goodwill for tax purposes

Under JGAAP, deductible temporary difference for tax base of goodwill is recognized as deferred tax assets to the extent that it is probable that tax profit will be available. However, under IFRSs, deferred tax liabilities are recognized against the difference between the carrying amount and its tax base of deductible goodwill for tax purpose. As a result of this adjustment, retained earnings decreased by ¥412 million on the date of transition. Also, for the previous consolidated fiscal year, retained earnings (as of the end of the previous consolidated fiscal year) decreased by ¥385 million and net income increased by ¥27 million.

**(b) Unquoted equity instruments**

Under JGAAP, unquoted equity instruments are in principle measured at cost, but under IFRSs, they are in principle measured at fair value. As a result of this adjustment, other components of equity increased by ¥1,121 million at the date of transition. Also, for the previous consolidated fiscal year, other components of equity (as of the end of the previous consolidated fiscal year) increased by ¥1,632 million and other comprehensive income increased by ¥510 million.

**(c) Special statutory reserves**

Under JGAAP, financial instruments transaction liabilities reserve are recognized as potential future losses that do not exist as of the reporting date, but under IFRSs, they do not meet the liability recognition requirements, and are not recognized. As a result of this adjustment, retained earnings increased by ¥1,254 million at the date of transition. Also, for the previous consolidated fiscal year, retained earnings (as of the end of the previous consolidated fiscal year) increased by ¥1,130 million and net income decreased by ¥124 million.

**(d) Property and equipment**

The Company and its domestic subsidiaries primarily applied the declining balance method under JGAAP to depreciation and amortization of property and equipment, but applied the straight line method under IFRSs. As a result of this adjustment, retained earnings increased by ¥197 million at the date of transition. Also, for the previous consolidated fiscal year, retained earnings (as of the end of the previous consolidated fiscal year) increased by ¥228 million and net income increased by ¥31 million.

**(e) Deferred tax assets**

Under JGAAP, deferred tax assets are recognized according to corporate classifications specified in the Japanese Institute of Certified Public Accountants Audit Committee Report No. 66, "Auditing Treatment Regarding Judgment of Realizability of Deferred Tax Assets." Under IFRSs, deferred tax assets are recognized to the extent that unused tax losses and deductible temporary differences are determined by management to have a high probability of use against future tax profit. As a result of this adjustment, retained earnings increased by ¥954 million at the date of transition. Also, for the previous consolidated fiscal year, retained earnings (as of the end of the previous consolidated fiscal year) increased by ¥496 million and net income decreased by ¥457 million.

**Disclosure of significant adjustment items in the consolidated statement of cash flows**

Other than reclassification in relation to acquisition of subsidiary shares, there are no material differences between IFRSs and JGAAP in the consolidated statement of cash flows. Under JGAAP, acquisition-related costs included in goodwill were classified as investing activities in the consolidated statement of cash flows, but under IFRSs, acquisition-related costs are classified as operating activities. The reclassified amount in the previous consolidated fiscal year is ¥1,479 million.

## 39. Approval of Consolidated Financial Statements

The original consolidated financial statements filed with the appropriate Local Finance Bureaus of the Ministry of Finance as required by the Financial Instruments and Exchange Act of Japan were approved by Oki Matsumoto (the Company's Representative Executive Officer and CEO) and Masaki Ueda (the Company's Executive Officer and CFO) on June 22, 2013.

## Independent Auditor's Report

To the Board of Directors of Monex Group, Inc.:

We have audited the accompanying consolidated financial statements of Monex Group, Inc. and its consolidated subsidiaries, which comprise the consolidated statement of income and the consolidated statement of comprehensive income for the year ended March 31, 2013, the consolidated statement of financial position as at March 31, 2013, the consolidated statement of changes in equity and the consolidated statement of 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 International Financial Reporting Standards as stipulated in Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, 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 comply with ethical requirements and 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 our judgement, 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, we consider 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, while the objective of the financial statement audit is 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 Monex Group, Inc. and its consolidated subsidiaries as at March 31, 2013, and their financial performance and cash flows for the year then ended in accordance with International Finacial Reporting Standards.

### Emphasis of Matter

Without qualifying our opinion, we draw attention to the following :

(1) As discussed in Note 37 to the consolidated financial statements, Monex Group, Inc. entered into a share transfer agreement with Swiss Reinsurance Company Ltd and sold the entire shares of Lifenet Insurance Company on April 25, 2013.

(2) As discussed in Note 37 to the consolidated financial statements, Monex Group, Inc. has resolved at the meeting of the Board of Directors held on May 14, 2013 to purchase and cancel treasury stocks which was executed on May 15, 2013 and May 31, 2013 respectively.

### Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

KPMG AZSA LLC

August 9, 2013
Tokyo, Japan

# Corporate Information

(As of June 30, 2013)

## Corporate Profile

### Monex Group, Inc.

Founded: August 2004
Representative: Oki Matsumoto
Capital: ¥10,393 million
Description of Business: Holding company
Head Office: Kojimachi Odori Bldg. 2-4-1, Kojimachi, Chiyoda-ku, Tokyo 102-0083, Japan
URL: http://www.monexgroup.jp/

## Group Company Profile

**Domestic**

### Monex, Inc.

Founded: May 1999
Representative: Oki Matsumoto
Capital: ¥7,425 million
Description of Business: Securities business, accompanying business, other services
Head Office: Chiyoda-ku, Tokyo

### Monex FX, Inc.

Founded: July 2004
Representative: Toshihiko Katsuya
Capital: ¥1,800 million
Description of Business: Financial product trading and related businesses
Head Office: Chuo-ku, Tokyo

### Monex Hambrecht, Inc.

Founded: September 2005
Representative: Yuko Seimei
Capital: ¥113 million
Description of Business: M&A advisory services, research and investigation for OpenIPO® business
Head Office: Minato-ku, Tokyo

### Trade Science Corporation

Founded: April 2006
Representative: Kazuhiro Kunisada
Capital: ¥91 million
Description of Business: Investment advisory service utilizing program investment management methods and related R&D
Head Office: Chiyoda-ku, Tokyo

**Overseas offices**

### TradeStation Group, Inc.

Founded: January 2000
Representative: Salomon Sredni
Capital: U.S.$515,000
Description of Business: Holding company in the United States
Head Office: Florida, United States

### TradeStation Securities, Inc.

Founded: September 1995
Representative: William Cahill
Description of Business: Online brokerage
Head Office: Florida, United States

### IBFX, Inc.

Founded: June 2010
Representative: Gary Weiss
Description of Business: FX business
Head Office: Florida, United States

### TradeStation Technologies, Inc.

Founded: September 1982
Representative: Salomon Sredni
Description of Business: Technology development
Head Office: Florida, United States

### TradeStation Global Services, S.A.

Founded: April 2012
Representative: Enrique Pizzi
Description of Business: Software development
Head Office: San Jose, Costa Rica

### TradeStation Europe Limited

Founded: June 2005
Representative: Jeremy Davies
Description of Business: Securities business
Head Office: London, United Kingdom

### IBFX Australia Pty. Ltd.

Founded: November 2002
Representative: Gary Weiss
Description of Business: FX, CFD business
Head Office: Sydney, Australia

### Monex International Limited

Founded: August 2010
Representative: Takashi Oyagi
Capital: U.S.$10 million
Description of Business: Holding company in Hong Kong
Head Office: Hong Kong

### Monex Boom Securities (H.K.) Limited

(Monex BOOM Securities)

Founded: March 1997
Representative: Agatha Lo
Capital: HK$80 million
Description of Business: Online brokerage
Head Office: Hong Kong

### Beijing Representative Office

Established: October 2010
Business: Developing business opportunities in China
Address: Beijing, China

Monex Group, Inc.
Kojimachi Odori Bldg.
2-4-1, Kojimachi, Chiyoda-ku, Tokyo 102-0083, Japan
www.monexgroup.jp/en/