ANNUAL REPORT 2014

For the Fiscal Year Ended
March 31, 2014

TOKAI TOKYO FINANCIAL HOLDINGS, INC.

Profile

Tokai Tokyo Financial Holdings, Inc. is the holding company of the Tokai Tokyo Financial Group, centered on Tokai Tokyo Securities Co., Ltd. As a holding company, Tokai Tokyo Financial Holdings operates and manages the group companies and seeks to enhance their value by promoting its regional and alliance strategies—both vital for the group—toward a new era in the financial industry.

As of March 31, 2014, the Tokai Tokyo Financial Group consists of Tokai Tokyo Financial Holdings, nine subsidiaries and four equity-method affiliates in Japan, and four overseas subsidiaries. The Group focuses on the securities business and provides financial products, services, and solutions that meet the needs of customers.

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Consolidated Financial Highlights

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	**2014**
Total revenues	¥ **90,547**	¥ 67,855	$ **879,785**
Operating income	**30,248**	15,252	**293,900**
Net income	**23,243**	11,273	**225,840**
Total assets	**617,270**	630,062	**5,997,573**
Total equity	**142,930**	122,397	**1,388,744**
Per share of common stock	Yen		U.S. Dollars
Basic net income	¥ **87.68**	¥ 42.74	$ **0.85**
Cash dividends applicable to the year	**32.00**	16.00	**0.31**

Note: U.S. dollar amounts are translated for convenience only at the rate of ¥102.92=U.S.$1.00.

To Our Shareholders

I would like to begin by expressing my sincere appreciation to the shareholders of Tokai Tokyo Financial Holdings, Inc. (hereafter, "Tokai Tokyo Financial Holdings" or "the Company") for your ongoing support. In this report, I am pleased to have the opportunity to discuss the performance and financial results of the Company and its consolidated subsidiaries (hereafter, "the Tokai Tokyo Financial Group" or "the Group") for fiscal 2013, ended March 31, 2014.

Tokai Tokyo Financial Holdings posted record-high consolidated results for total revenues, operating income, and net income in fiscal 2013. Year on year, total revenues increased 33.4% to ¥90,547 million, operating income jumped 98.3% to ¥30,248 million, and net income grew 106.2% to ¥23,243 million. Benefitting from brisk activity in the stock market, the Company enjoyed a considerable rise in brokerage, especially in association with stocks, as well as robust sales of investment trusts.

Since starting our "Ambitious 5" management plan in April 2012, the Tokai Tokyo Financial Group has been pursuing highly original management strategies. In the fiscal year under review, we formed alliances with regional banks in Japan, which contributed greatly to broadening the Group's business foundation, and we moved into high gear in our provision of business platform services to securities firms by furnishing infrastructure, functions and products. We also succeeded in expanding our alliance partners outside of Japan as we sought to enhance the Group's ability to supply information to customers. At the same time, we took steps to strengthen the Group's wealth management capabilities, and boosted assets under custody by expanding dealings with wealthy clients. Through these strategic projects, we ensured that fiscal 2013 was a year of major successes.

We have positioned fiscal 2014, ending March 31, 2015, the third year of "Ambitious 5," as the second stage toward achieving our goals. In a changing business environment, we are launching initiatives in new and important areas with the goal of becoming a leading player in Asia as a unique and comprehensive financial group. As we proceed with these endeavors, we ask all of the Company's shareholders for continued support in the year ahead.

Tateaki Ishida
President & CEO

Fiscal 2013 (April 1, 2013 to March 31, 2014)

Follow-Through with Strategic Projects Brought Us Success in Fiscal 2013

Expanding Our Domestic and International Network

During the fiscal year under review, the Tokai Tokyo Financial Group collaborated with regional banks in Japan as part of its alliance strategies. Senshu Ikeda Tokai Tokyo Securities Co., Ltd., a joint venture with Senshu Ikeda Holdings, Inc., began operations in September 2013 and posted excellent results together with three other joint venture companies. These results have maintained their contribution to consolidated revenues.

Concurrently, we continued to promote our business platform services to provide the necessary infrastructure, functions and products to securities firms, and greatly increased the transaction volume of foreign-equity assets under custody, for example. We also achieved progress in our international business alliances. Thus far, we have established business alliances with First Metro Investment Corporation in the Philippines, and the Bank of East Asia, Limited in Hong Kong. In September 2013, we concluded a business alliance agreement with Stifel Financial Corp., a comprehensive financial service group in the United States. Through this alliance, we can now provide the Group's customers with Stifel's services and information, including U.S. equity research reports.

Broadening Our Operating Foothold in the Chubu Region

Tokai Tokyo Securities Co., Ltd. (hereafter, “Tokai Tokyo Securities”), a core company in the Tokai Tokyo Financial Group, has worked to enhance its services for wealthy customers in the Chubu region, the company’s home ground. In October 2013, Tokai Tokyo Securities set up its Premier Medical Department as a specialized center offering a broad array of solutions to medical practitioners and hospitals, including asset management, business succession plans and tax planning. Through such an initiative, Tokai Tokyo Securities is improving its ability to respond to its customers’ wide varieties of needs.

To reinforce its position in the Chubu region, in February 2014 Tokai Tokyo Securities established the Tahara Office of the Toyohashi Branch in the Higashi Mikawa district of Aichi Prefecture, one of our key geographic markets. The company also divided its Central Japan Business Unit into two units on April 1, 2014, so that we can tailor business activities more precisely to the unique characteristics of the region.

Increasing Transactions with a Broad Range of New Customers

To boost convenience to customers who seek to multiply their assets, Tokai Tokyo Securities set up a customer support center in Tokyo in September 2013, adding to its existing center in Gifu Prefecture. From November of the same year, the company began offering a fuller range of services, including the “Direct Account,” which allows customers to consult with us on their investment options even if transactions are conducted only by telephone or through the Internet. Furthermore, Tokai Tokyo Securities has been offering a life planning simulation tool on its website to help customers analyze the status of their current assets, examine how the assets are allocated, and gain access to support. To promote the use of the Nippon Individual Savings Account (NISA), Tokai Tokyo Securities worked hard to put together a lineup of financial instruments tailored to customers’ investment purposes and goals. The company also created a unique investment information website called *Otome no Osaifu* (“A Woman’s Purse”), to help working female customers, one of our target segments, plan their investment portfolios. The company promoted this initiative by holding related events and seminars, and revamped the website in April 2014.

Enhancing Products and Services (Financial Instruments and Services) for the Corporate Customer Segment

To improve our capability to offer products to the customers, Tokai Tokyo Securities has been strengthening its bond underwriting business by augmenting its personnel and sales network. Such efforts paid off, and we won seventh place on the league table in terms of underwriting deals achieved and have consistently ascended the rankings table each year. Moreover, after establishing its Corporate Sales Headquarters on April 1, 2014, the company has worked continuously to develop more specialized and collaborative corporate sales operations.

Improving Risk Management and Preparedness

The Tokai Tokyo Financial Group continually prepares for all risks associated with its securities business. As part of this, Tokai Tokyo Financial Holdings established an internal comprehensive risk management group on April 1, 2014, to enhance the Group’s integrated risk management operations and preparedness.

Promoting Diversity in the Workplace

We strive to promote a workplace culture at the Tokai Tokyo Financial Group so that female staff feel comfortable to work here. As part of these efforts, we have introduced a career bridge system that creates opportunities to rehire former female employees who left their jobs for family-related reasons. Because we are keenly aware of changes over time in products and services needed, we have been upgrading the Group's human resources systems to place greater importance on specialization and diversification, and toward this end we adopted a new system in fiscal 2014.

The Second Stage of "Ambitious 5"

Setting a New Stage to Respond to the Changing Business Environment

Future Market Growth and the Changing Business Environment

As explained above, the Group saw steady progress in the first two years of its "Ambitious 5" management plan. The Group's operating environment, however, has changed since the plan was formulated. In 2014, stock prices in Japan rose markedly reflecting the effect of "Abenomics" measures implemented by the government, and Tokyo was awarded the 2020 Olympic Games. These and other factors are expected to have a positive impact on the Japanese economy and stock market in the future. At the same time, Japan's securities market is approaching a major turning point, equivalent to the second "financial big bang," amid high expectations for a large influx of investors attracted to NISA and stock exchange reforms currently under debate, such as the extension of trading hours. Consequently, the business environment is expected to continue changing over the medium term.

Having the Right Capabilities Needed in Today's World

Considering this major turning point in our operating environment, we examined the first two years of our "Ambitious 5" management plan and verified the Group's earnings structure, customer base, human resources, systems, and important markets to target, recognizing the need to renew our Group vision. Specifically, we concluded that it was necessary to integrate and strengthen three types of services: Internet-based, asset management, and banking related. Accordingly, we intend to improve the Group's Internet-based services to attract new customers, offer financial instruments that utilize our asset management services as a way to boost assets under custody at the Group and shift to a more stable earnings structure, and integrate banking services to improve customer convenience.

Fiscal 2014 (April 1, 2014 to March 31, 2015)

Satisfying Customers' Needs as a Comprehensive Financial Group for a New Generation

With the start of the second stage of "Ambitious 5" in fiscal 2014, we have sought to expand our network of partnerships through strategic alliances with regional banks to promote the Group's platform provision business. In addition to continuing implementation of our key strategic projects, we will steadily carry out the new measures mentioned above. Outside of Japan, we plan to expand and strengthen our network of partnerships in regions that we regard as vital, namely Asia and the Middle East.

In conclusion, we aim for further growth as a comprehensive financial group that pursues progressive and unique business strategies while responding rapidly to generational and social changes. As we strive to achieve these objectives, we hope to continue receiving the support and feedback from the Company's shareholders in the year ahead.

Operating Result for Fiscal 2013

Operating Environment

During the consolidated fiscal year under review (April 1, 2013 to March 31, 2014), the Japanese economy grew moderately assisted by improved corporate earnings, buoyant sales of expensive merchandise and an increase in public spending amid the depreciation of the yen in tandem with a strong stock market rally, under the "Abenomics" policy. Emerging long-term and large-scale projects including the Olympic Committee's nomination of Tokyo in September 2013 as the host city for the 2020 Olympic and Paralympic Games, as well as the announcement on the outline of the planned inauguration in 2027 of the Linear Chuo Shinkansen train between Shinagawa and Nagoya, contributed to the improvement of consumer confidence.

Looking abroad, the economy as a whole continued to grow, albeit moderately. The U.S. economy maintained its robust upward trend despite the cutback of the constantly expanded quantitative easing measures effective January 2014. The European economy began to recover led by Germany, France and the United Kingdom together with the economies of debtor countries such as Italy having bottomed out. In Asia, expansion of the Chinese economy decelerated slightly as the country reviewed its recent policy of giving the highest priority to economic growth, by placing greater emphasis on addressing social inequality, environmental problems, shadow banking issues, and so on. On the other hand, Southeast Asia witnessed a constant economic growth pace driven mainly by domestic demand.

Regarding the stock market, the Nikkei Stock Average started at just above ¥12,300 in April, and it momentarily reached a level as high as ¥15,900 in May, responding favorably to the announcement of what was called "monetary easing of unprecedented dimensions" made by the Bank of Japan as one of the "three arrows" of Abenomics. However, it fell briefly to near ¥12,400 in June due to apprehension concerning an overbought market. The market then recovered some strength. Subsequently, however, the Nikkei Stock Average hovered around the level of ¥14,000, reflecting anxiety over the rumored abatement of quantitative easing in the United States, a lack of identifiable concrete measures supporting the trumpeted growth strategies and a sell-off of stock in response to the revocation of tax breaks for securities transactions slated at the end of the year. A series of events then followed. From early autumn to the end of 2013, the government took up the agenda of corporate tax rate reduction; Ms. Janet Yellen, then the vice chair of the Federal Reserve Board (FRB), who emphasized employment, was appointed as the next chair of the FRB; and the yen stabilized at around ¥100 to the dollar. As a consequence, the stock market temporarily rebounded to the level of over ¥16,300 at the end of December. In contrast, however, at the beginning of this year, the Nikkei Stock Average fell due to the reduced U.S. quantitative easing, concerns over the slowdown of the Chinese economy and Ukraine's problems, ending at ¥14,827 on March 31, 2014. The daily average transaction volume on the First Section of the Tokyo Stock Exchange from April to March was ¥2,663.0 billion, which is a significant increase from ¥1,471.8 billion recorded in the previous fiscal year.

In the bond market, the yield on 10-year Japanese government bonds (JGBs), the benchmark for long-term interest rates, plunged abruptly (meaning higher bond prices) to a record all-time, though short-lived, low of

0.315% on April 5, 2013 after starting at a level higher than 0.5% in April, reflecting speculation that the Bank of Japan was buying JGBs on a massive scale in concert with the quantitative easing of unprecedented dimensions. The subject benchmark then soared (meaning lower bond prices) momentarily to 1.000% in May. This hike was attributable to two factors. One was the optimistic outlook for economic recovery supported by the yen's depreciation and a resurgent stock market. The other driving factor was that the market began thinking about the 2% inflation target that the government and the Bank of Japan had jointly set. Thereafter, commercial banks increased their fund surplus as the Bank of Japan continued purchasing JGBs while keeping the growth of banks' loan at a sluggishly low level, which then led the banks to purchase JGBs. The ultimate result was that the benchmark yield for 10-year JGBs gradually dropped, ending at 0.640% on March 31, 2014.

In these circumstances, Tokai Tokyo Securities, the core company of our Group, enhanced its wealth management function as part of the strategies under its management plan, "Ambitious 5." In September 2013, it launched in cooperation with Meinan Consulting Network the "Premier Consulting Desk Service," which provides referrals to legal and tax professionals and offers consulting services to high-net-worth customers. The Desk Service was deployed as part of the Wealth Management Unit established in April 2013, and is located in the Midland Premier Salon in the headquarters building.

Furthermore, under the Wealth Management Unit, Tokai Tokyo Securities established in October the Premier Medical Department, which specializes in providing solutions for matters such as asset management, business succession, and tax planning specifically for medical practitioners and medical corporations as part of our efforts to strengthen business capability to respond to customers' diverse needs.

In an effort to improve convenience for customers who aim to increase their financial assets in the future, Tokai Tokyo Securities opened a customer support center in Tokyo in September following the one in Gifu. It also commenced the "Direct Account" in November so that customers who conduct transactions only by telephone and via the Internet can seek advice on their investments. The services were further extended to transactions that can be conducted using a smartphone since January, in addition to those using a mobile phone. Furthermore, Tokai Tokyo Securities offers the "Life Plan Simulation Service" on its website, which can be used as a tool to analyze the present status of customers' assets, and review and support asset allocations.

To disseminate the NISA program, which is the preferential tax-exempt program for small financial investments made by individual investors, Tokai Tokyo Securities introduced diverse financial instruments catering to customers' various investment purposes and goals. In addition to an account opening campaign, Tokai Tokyo Securities implemented a fee-free campaign for purchasing domestic equities and publicly offered domestic investment trusts in a NISA account for the one-year period of 2014 (the fee was virtually free up to March 2014 through a refund of fees paid, and we have charged no fees since April). Moreover, Tokai Tokyo Securities is reinforcing a marketing approach that addresses female customers by organizing events and seminars entitled *Otome no Osaifu* ("A Woman's Purse"), which shares the name with the Company's proprietary investment information website dedicated mainly to working female customers, and by renewing the content of the website in April 2014 with the catch phrase "A website offering a guide for first-time female investors." Furthermore, Tokai Tokyo Securities established in January "Tokai Tokyo Financial Gallery," an information transmission base for investments, within the Tokyo Headquarters, in which the latest investment information and market information can be viewed and there is a corner where customers can experience various services.

In February 2014, the Company opened the Tahara Office of the Toyohashi Branch in the Higashi Mikawa district of Aichi Prefecture, which is positioned as a priority business area. Also, with the aim of further reinforcing the development of strategic areas and firmly solidifying its business base in the Chubu region, Tokai Tokyo Securities divided Central Japan Business Unit into Central Japan Business Unit(First) and Central Japan Business Unit(Second) effective April 1, 2014. Concurrently, the Company has been focusing on measures to further increase revenues and expanding business bases such as the establishment of the Corporate Sales Headquarters for the purpose of strengthening the expertise for, and collaborations within, corporate sales activities.

Meanwhile, the Company has set strict internal rules regarding business solicitation toward senior customers in accordance with the guidelines of the Japan Securities Dealers Association. We ensure full implementation of the rules and monitor the state of compliance therewith.

Turning to the Group's performance for the period, Senshu Ikeda Tokai Tokyo Securities Co., Ltd., our joint venture established with Senshu Ikeda Holdings, Inc. (with a shareholding ratio of 40%), started operations in September in accordance with our alliance strategy as formulated under "Ambitious 5."

With respect to Hamagin Tokai Tokyo Securities Co., Ltd., a joint venture established by the Company and The Bank of Yokohama, Ltd., the Company transferred part of the shares in Hamagin Tokai Tokyo Securities Co., Ltd. to The Bank of Yokohama, Ltd. in September, intending to further enhance the support from the said bank, thus reducing our shareholding in the subject joint venture from 49% to 40%.

Developments in other joint venture operations are summarized as follows;
Nishi-Nippon City Tokai Tokyo Securities Co., Ltd., established with the Nishi-Nippon City Bank, Ltd., opened the Miyazaki Branch in May.
YM Securities Co., Ltd., an affiliate established with Yamaguchi Financial Group, Inc., opened its Yanai Branch in September, respectively strengthening the networks.

Regarding overseas alliances, the Company concluded a business alliance agreement in September with First Metro Investment Corporation, a major investment bank in the Philippines, and the Company is First Metro's first Japanese partner that has formed an alliance with them as a Japanese securities company group. Our objective in forming the subject alliance is to enhance our capability to deliver financial instruments and services. In addition, under another business alliance that was established with the Bank of East Asia, Hong Kong's largest local bank, we each began mutual introduction of our own customers to provide financial services as well as to exchange financial and market information from Hong Kong, Japan and other regions. Furthermore, we concluded a business alliance agreement in December with Stifel Financial Corp., a U.S. comprehensive financial service group that is known among other things for its research capability in U.S. stocks. It holds under its wing a securities firm, a commercial bank and a trust bank. Through this alliance, we provide the customers of the Group with information such as U.S. equity research reports as well as other services.

Besides the alliance strategy, the Group has made achievements steadily such as embarking on a full-scale platform business by offering infrastructure, functions and products that we have developed for the securities business, and by providing foreign equity, foreign bonds, structured bonds, and other products, as well as investment information and training services to many securities firms.

Concurrently, the Group has been promoting diversity (appointment of female workers and effective use of human resources with diverse backgrounds). Specific measures include extending the duration of childcare leave, as well as allowing child-rearing mothers a longer period of shortened working hours, and introducing the “Career Bridge Program,” which offers once-retired female job applicants a chance to return to the workplace, chiefly to create a friendly working environment for female employees. The idea is to create an opportunity for willing and competent female staff who had to quit their jobs due to unavoidable nursing and childcare duties and other situations of a similar nature.

In addition, in order to keep abreast of the changing times and to deal with the necessary evolution in business, the Company is now working hard to renovate its personnel system by putting a high priority on expertise, diversity and transparency. The new personnel system is set to be introduced during the fiscal year ending March 31, 2015.

Effective April 1, 2014, some employees of Tokai Tokyo Securities were transferred to the Company for the purpose of more effective business operation of the Group with our holding company as its guiding nucleus.

In accordance with the structural reform announced on the same date, the Group’s integrated risk management functions and systems have been reinforced by the newly established “General Risk Management Group.”

Analysis of Operating Results (All figures quoted here are on a consolidated basis)

The Company’s consolidated operating results for the fiscal year ended March 31, 2014 were as follows: Total revenues were ¥90,547 million, an increase of 33.4% year on year; net revenues stood at ¥88,682 million, a rise of 34.5% year on year; and selling, general and administrative expenses were ¥58,434 million, a rise of 15.2% year on year. As a result, operating income was ¥30,248 million, an increase of 98.3% year on year, and net income was ¥23,243 million, up 106.2%.

(Commissions)

During the period, commissions received increased 49.9% year on year, to ¥54,939 million, with details as follows.

(1) Brokerage

The volume of stock handled by Tokai Tokyo Securities, a consolidated subsidiary of the Company, was 6,435 million shares, an increase of 72.0% year on year, due partly to increased transactions by individual investors; whereas the stock brokerage amount was ¥4,527.6 billion, up 156.7% year on year. As a result, stock brokerage commissions earned by the Group totaled ¥25,671 million, up 160.4% year on year, whereas overall brokerage commissions amounted to ¥26,301 million, up 163.1% year on year.

(2) Underwriting and distribution

The Group recorded underwriting and distribution commissions of ¥22,071 million, an increase of 7.7% from the previous year. Distribution commissions for the most part were earned from investment trusts.

(3) Other

Other commissions totaled ¥6,567 million, an increase of 6.2% from the preceding year. Most of this amount was attributable to the commissions from investment trusts.

(Trading profit and loss)

In the consolidated fiscal year under review, the net gain on trading increased 15.8% year on year to ¥32,776 million. This was mainly attributable to an increase in the net gain on trading of stocks, the net gain on trading of bonds, and foreign exchange.

(Net interest and dividend income)

In the consolidated fiscal year under review, interest and dividend income was ¥2,832 million, down 2.1% year on year. Interest expense also decreased 1.8%, to ¥1,865 million, resulting in Net interest and dividend income of ¥966 million, down 2.6%.

(Selling, general and administrative expenses)

Selling, general and administrative expenses for the consolidated fiscal year under review were ¥58,434 million, up 15.2% year on year. Of that amount, employees' compensation and benefits increased 10.6%, to ¥28,971 million; brokerage and other commissions amounted to ¥7,038 million, up 50.0%; and data processing and office supplies increased 19.4% year on year, to ¥6,137 million. Real estate expenses decreased 2.7% year on year, to ¥5,911 million.

(Other income and expenses)

In the consolidated fiscal year under review, other income, net, was ¥5,059 million. The primary positive factors included equity in gain of associated companies of ¥1,709 million, reflecting strong performance of the jointly established securities firm; ¥895 million in a gain on change in equity the Company now possesses in Senshu Ikeda Tokai Tokyo Securities Co., Ltd. as a result of the third-party share allocation; and a gain of ¥556 million on sales of fixed assets.

Consolidated Financial Statements

Tokai Tokyo Financial Holdings, Inc.
and Consolidated Subsidiaries

Year ended March 31, 2014
with Independent Auditor's Report

Consolidated Balance Sheet

Tokai Tokyo Financial Holdings, Inc. and Consolidated Subsidiaries

As of March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
ASSETS			
Cash on hand and in banks (Notes 4, 8 and 15):			
Cash and deposits	¥ **39,529**	¥ 48,857	$ **384,075**
Cash segregated as deposits	**27,308**	23,289	**265,333**
	66,837	72,146	**649,408**
Collateralized short-term financing agreements (Note 15):			
Cash collateral pledged for securities borrowed	**174,949**	209,499	**1,699,858**
Loans under resell agreements	**43,527**	60,070	**422,915**
	218,476	269,569	**2,122,773**
Trading assets (Note15):			
Trading securities (Notes 5 and 8)	**222,696**	200,738	**2,163,776**
Derivatives (Note 6)	**1,463**	2,663	**14,216**
	224,159	203,401	**2,177,992**
Receivables:			
Receivables from brokers, dealers, and clearing organizations (Note 15)	**15,957**	8,181	**155,046**
Receivables from customers	**177**	341	**1,717**
Receivables related to margin transactions (Note 15)	**49,312**	31,817	**479,130**
Other	**2,607**	2,482	**25,326**
	68,053	42,821	**661,219**
Allowance for doubtful accounts	**(48)**	(31)	**(468)**
	68,005	42,790	**660,751**
Investment securities (Notes 5, 8 and 15)	**13,148**	11,480	**127,760**
Investments in associated companies (Note 15)	**8,196**	6,438	**79,638**
Deferred tax assets (Note 14)	**1,949**	3,787	**18,934**
Other assets:			
Property and equipment (Notes 8, 9 and 10)	**16,992**	16,884	**165,102**
Less: accumulated depreciation	**(7,597)**	(8,096)	**(73,821)**
	9,395	8,788	**91,281**
Lease deposits	**1,945**	2,063	**18,903**
Asset for retirement benefits (Note 11)	**1,224**	—	**11,897**
Other (Note 8)	**5,246**	10,757	**50,969**
	17,810	21,608	**173,050**
Allowance for doubtful accounts	**(1,310)**	(1,157)	**(12,733)**
	16,500	20,451	**160,317**
Total assets	¥ **617,270**	¥ 630,062	$ **5,997,573**

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
LIABILITIES AND EQUITY			
Borrowings (Notes 7, 8 and 15):			
Short-term borrowings	¥ **132,296**	¥ 142,248	$ **1,285,431**
Commercial paper	**7,800**	10,000	**75,787**
Current portion of long-term debt	**24,156**	6,283	**234,706**
Long-term debt	**5,300**	5,684	**51,496**
	169,552	164,215	**1,647,420**
Collateralized short-term financing agreements (Notes 8 and 15):			
Cash received on securities loaned	**15,669**	38,910	**152,242**
Borrowings under repurchase agreements	**104,258**	114,758	**1,013,002**
	119,927	153,668	**1,165,244**
Trading liabilities (Note 15):			
Trading securities (Note 5)	**71,970**	87,628	**699,280**
Derivatives (Note 6)	**4,623**	6,328	**44,920**
	76,593	93,956	**744,200**
Payables (Note 15):			
Payables to brokers, dealers, and clearing organizations	**42,980**	33,676	**417,607**
Payables to customers	**27,010**	18,207	**262,437**
Payables related to margin transactions (Note 8)	**16,746**	19,075	**162,709**
Other	**8,004**	7,401	**77,765**
	94,740	78,359	**920,518**
Deferred tax liabilities (Note 14)	**719**	—	**6,984**
Accrued and other liabilities:			
Income taxes payable (Note 15)	**5,621**	8,023	**54,615**
Provision for bonuses	**3,444**	5,052	**33,464**
Liability for retirement benefits (Note 11)	**637**	1,548	**6,186**
Other	**2,819**	2,656	**27,395**
	12,521	17,279	**121,660**
Statutory reserves	**288**	188	**2,803**
Total liabilities	**474,340**	507,665	**4,608,829**
Equity (Notes 12, 13 and 23)			
Common stock:			
Authorize 972,730,000 shares			
Issued: 280,582,115 shares in 2014 and in 2013	**36,000**	36,000	**349,786**
Capital surplus	**33,413**	33,282	**324,647**
Stock acquisition rights	**105**	115	**1,015**
Retained earnings	**71,644**	56,342	**696,119**
Less: treasury stock, at cost: 14,685,238 shares in 2014 and 16,122,363 shares in 2013	**(3,835)**	(4,208)	**(37,265)**
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	**2,275**	1,187	**22,099**
Foreign currency translation adjustments	**(219)**	(656)	**(2,126)**
Defined retirement benefit plans	**1,185**	—	**11,516**
Total	**140,568**	122,062	**1,365,791**
Minority interests	**2,362**	335	**22,953**
Total equity	**142,930**	122,397	**1,388,744**
Total liabilities and equity	¥ **617,270**	¥ 630,062	$ **5,997,573**

Consolidated Statement of Income

Tokai Tokyo Financial Holdings, Inc. and Consolidated Subsidiaries

For the year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Revenues:			
Commissions (Note 16)	¥ **54,939**	¥ 36,660	$ **533,809**
Net gain on trading	**32,776**	28,302	**318,460**
Interest and dividend income	**2,832**	2,893	**27,516**
Total revenues	**90,547**	67,855	**879,785**
Interest expense	**1,865**	1,900	**18,121**
Net revenues	**88,682**	65,955	**861,664**
Selling, general and administrative expenses (Note 17)	**58,434**	50,703	**567,764**
Operating income	**30,248**	15,252	**293,900**
Other income, net (Note 18)	**5,059**	2,560	**49,153**
Income before income taxes and minority interests	**35,307**	17,812	**343,053**
Income taxes (Note 14):			
Current	**10,675**	8,712	**103,721**
Deferred	**1,235**	(2,197)	**11,995**
Total income taxes	**11,910**	6,515	**115,716**
Net income before minority interests	**23,397**	11,297	**227,337**
Minority interests in net income	**154**	24	**1,497**
Net income	¥ **23,243**	¥ 11,273	$ **225,840**

	Yen		U.S. dollars
Per share of common stock (Notes 2(s) and 21):			
Basic net income	¥ **87.68**	¥ 42.74	$ **0.85**
Diluted net income	**87.21**	42.66	**0.85**
Cash dividends applicable to the year	**32.00**	16.00	**0.31**

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Tokai Tokai Tokyo Financial Holdings, Inc. and Consolidated Subsidiaries

For the year ended March 31, 2014

	Millions of yen				Thousands of U.S. dollars (Note 1)	
		2014		2013		**2014**
Net income before minority interests	¥	**23,397**	¥	11,297	$	**227,337**
Other comprehensive income (Note 19):						
Unrealized gain on available-for-sale securities		**1,088**		2,411		**10,574**
Foreign currency translation adjustments		**437**		218		**4,250**
Comprehensive income	¥	**24,922**	¥	13,926	$	**242,161**
Total comprehensive income attributable to (Note 19):						
Owners of the parent	¥	**24,767**	¥	13,901	$	**240,658**
Minority interests		**155**		25		**1,503**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Tokai Tokyo Financial Holdings, Inc. and Consolidated Subsidiaries

For the year ended March 31, 2014

	Thousands of shares		Millions of yen										
								Accumulated other comprehensive income					
	Common stock	*Treasury stock*	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Minority interests	Total equity
Balance as of April 1, 2012	*280,582*	*16,884*	¥ 36,000	¥ 33,155	¥ 115	¥ 47,178	¥ (4,403)	¥ (1,223)	¥ (874)	—	¥ 109,948	¥ 311	¥ 110,259
Net income	—	—	—	—	—	11,273	—	—	—	—	11,273	—	11,273
Cash dividends, ¥8.00 per share	—	—	—	—	—	(2,109)	—	—	—	—	(2,109)	—	(2,109)
Purchase of treasury stock	—	*26*	—	—	—	—	(11)	—	—	—	(11)	—	(11)
Disposal of treasury stock	—	*(788)*	—	127	—	—	206	—	—	—	333	—	333
Net change in the year	—	—	—	—	(0)	—	—	2,410	218	—	2,628	24	2,652
Balance as of March 31, 2013	***280,582***	***16,122***	**¥ 36,000**	**¥ 33,282**	**¥ 115**	**¥ 56,342**	**¥ (4,208)**	**¥ 1,187**	**¥ (656)**	**—**	**¥ 122,062**	**¥ 335**	**¥ 122,397**
Net income	**—**	**—**	**—**	**—**	**—**	**23,243**	**—**	**—**	**—**	**—**	**23,243**	**—**	**23,243**
Cash dividends, ¥30.00 per share	**—**	**—**	**—**	**—**	**—**	**(7,941)**	**—**	**—**	**—**	**—**	**(7,941)**	**—**	**(7,941)**
Purchase of treasury stock	**—**	***5***	**—**	**—**	**—**	**—**	**(4)**	**—**	**—**	**—**	**(4)**	**—**	**(4)**
Disposal of treasury stock	**—**	***(1,442)***	**—**	**131**	**—**	**—**	**377**	**—**	**—**	**—**	**508**	**—**	**508**
Net change in the year	**—**	**—**	**—**	**—**	**(10)**	**—**	**—**	**1,088**	**437**	**¥ 1,185**	**2,700**	**2,027**	**4,727**
Balance as of March 31, 2014	***280,582***	***14,685***	**¥ 36,000**	**¥ 33,413**	**¥ 105**	**¥ 71,644**	**¥ (3,835)**	**¥ 2,275**	**¥ (219)**	**¥ 1,185**	**¥ 140,568**	**¥ 2,362**	**¥ 142,930**

	Thousands of U.S. dollars (Note 1)										
						Accumulated other comprehensive income					
	Common stock	Capital Surplus	Stock acquisition rights	Retained earnings	Treasury stock	Net unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Minority interests	Total equity
Balance as of March 31, 2013	**$ 349,786**	**$ 323,378**	**$ 1,114**	**$ 547,437**	**$ (40,882)**	**$ 11,531**	**$ (6,376)**	**—**	**$ 1,185,988**	**$ 3,258**	**$ 1,189,246**
Net income	**—**	**—**	**—**	**225,840**	**—**	**—**	**—**	**—**	**225,840**	**—**	**225,840**
Cash dividends, $0.29 per share	**—**	**—**	**—**	**(77,158)**	**—**	**—**	**—**	**—**	**(77,158)**	**—**	**(77,158)**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(42)**	**—**	**—**	**—**	**(42)**	**—**	**(42)**
Disposal of treasury stock	**—**	**1,269**	**—**	**—**	**3,659**	**—**	**—**	**—**	**4,928**	**—**	**4,928**
Net change in the year	**—**	**—**	**(99)**	**—**	**—**	**10,568**	**4,250**	**$ 11,516**	**26,235**	**19,695**	**45,930**
Balance as of March 31, 2014	**$ 349,786**	**$ 324,647**	**$ 1,015**	**$ 696,119**	**$ (37,265)**	**$ 22,099**	**$ (2,126)**	**$ 11,516**	**$ 1,365,791**	**$ 22,953**	**$ 1,388,744**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Tokai Tokai Tokyo Financial Holdings, Inc. and Consolidated Subsidiaries

For the year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 35,307	¥ 17,812	$ 343,053
Adjustments for:			
Income taxes - paid	(13,100)	(2,058)	(127,280)
Depreciation and amortization	1,941	2,467	18,862
Increase (decrease) in allowance for doubtful accounts	170	(2)	1,652
Decrease in liability for retirement benefits	(303)	(80)	(2,943)
Increase in provision for statutory reserves	101	22	979
Gain on sales of investment securities	(253)	(83)	(2,463)
Gain on change in equity	(895)	—	(8,696)
Gain on sales of stocks of associated companies	(334)	—	(3,252)
Loss on disposal of fixed assets	—	82	—
Gain on sales of fixed assets	(528)	(185)	(5,130)
Impairment loss on investment securities	30	61	293
Gain on transfer of business	—	(390)	—
(Increase) decrease in receivables	(25,384)	19,129	(246,644)
Increase in payables	16,140	46,423	156,822
Trading assets and liabilities	(38,121)	(22,155)	(370,390)
Collateralized short-term financing agreements	17,352	19,835	168,597
Other, net	(6,824)	(1,857)	(66,301)
Total adjustments	(50,008)	61,209	(485,894)
Net cash (used in) provided by operating activities	(14,701)	79,021	(142,841)
Cash flows from investing activities:			
Purchases of property and equipment	(1,206)	(825)	(11,720)
Proceeds from sales of property and equipment	18	278	176
Purchases of investment securities	(461)	(260)	(4,483)
Proceeds from sales of investment securities	875	1,109	8,509
Proceeds from sales of stocks of associated companies	1,050	—	10,202
Proceeds from sales of investment property	4,893	—	47,539
Proceeds from transfer of business	—	800	—
Other, net	284	666	2,759
Net cash provided by investing activities	5,453	1,768	52,982
Cash flows from financing activities:			
Decrease in short-term borrowings - net	(9,955)	(76,000)	(96,731)
Proceeds from long-term debt	31,036	18,054	301,553
Repayment of long-term debt	(13,619)	(19,496)	(132,322)
Proceeds from commercial paper	42,200	48,500	410,027
Redemption of commercial paper	(44,400)	(45,000)	(431,403)
Proceeds from exercise of stock options	417	273	4,052
Purchases of treasury stock of subsidiaries	(17)	—	(163)
Net increase in treasury stock	(4)	(11)	(39)
Cash dividends paid	(7,941)	(2,109)	(77,158)
Subscription money received from the minority shareholders	4,312	—	41,893
Payments of cash dividends to minority shareholders	(2)	(0)	(16)
Other, net	(163)	(75)	(1,581)
Net cash provided by (used in) financing activities	1,864	(75,864)	18,112
Effect of exchange rate change on cash and cash equivalents	506	236	4,916
Net (decrease) increase in cash and cash equivalents	(6,878)	5,161	(66,831)
Decrease in cash and cash equivalents due to change in the scope of consolidation	(2,472)	—	(24,021)
Cash and cash equivalents at the beginning of year	48,491	43,331	471,161
Cash and cash equivalents at the end of year (Note 4)	¥ 39,141	¥ 48,492	$ 380,309

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements
Tokai Tokyo Financial Holdings, Inc. and Consolidated Subsidiaries
Year ended March 31, 2014

1. Basis of presentation of consolidated financial statements

The accompanying consolidated financial statements have been prepared by Tokai Tokyo Financial Holdings, Inc. (hereafter referred to as the "Company") and its subsidiaries (together with the Company, hereafter referred to as the "Group") in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRS").

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued in Japan in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2013 consolidated financial statements to conform to the classifications used in 2014.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translation of Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2014, which was ¥102.92 to USD1. The amounts in Japanese yen are directly converted into U.S. dollar amounts even for the amounts presented only in millions of Japanese yen in the financial statements. As such, there are cases for which the conversion of the amounts in millions of Japanese yen with the prevailing exchange rate are different from those in U.S. dollars shown in the financial statements. The translation should not be construed as a representation that the Japanese yen amounts have been, could have been or could be converted into U.S. dollars at that or any other rate.

2. Summary of significant accounting policies

a. Principles of consolidation

The consolidated financial statements as of March 31, 2014, include the accounts of the Company and its 20 (20 in 2013) subsidiaries.

The new investments in Asia-Pacific Rising Fund Limited and Asia-Pacific Rising Master Fund Limited are newly included in the scope of the consolidation effective June 2013 and the new investment in Value Up Investment Limited Partnership is newly included in the scope of the consolidation effective February 2014. Tokai Tokyo Asia Renaissance Fund Limited and Tokai Tokyo Asia Renaissance Master Fund Limited, which had been consolidated previously and liquidated in November 2013, are excluded from the scope of the consolidation from June 2013 as their impact on the consolidated financial statements became immaterial. Senshu Ikeda Tokai Tokyo Securities Co., Ltd. ("SITTS"), which had been consolidated previously, is excluded from the scope of the consolidation and accounted for by the equity method from September 2013 as the percentage of voting rights held by the Group decreased because of capital increase by the third-party allotment.

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the

Company has the ability to exercise significant influence are accounted for by the equity method.

Investments in four (three in 2013) associated companies are accounted for by the equity method. Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Unification of accounting policies applied to foreign subsidiaries for the consolidated financial statements

In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either IFRS or generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gains or losses of pensions that have been directly recorded in equity; (c) expensing capitalized research and development costs; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) exclusion of minority interests from net income, if contained in net income.

c. Unification of accounting policies for associated companies used in applying the equity method

In March 2008, the ASBJ issued ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine the necessary adjustments.

d. Business combinations

In October 2003, the Business Accounting Council issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the ASBJ issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures." The accounting standard for business combinations allowed companies to apply the pooling-of-interests method of accounting only when certain specific criteria were met such that the business combination was essentially regarded as a uniting-of-interests. For business combinations that did not meet the uniting-of-interests criteria, the business combination was considered to be an acquisition and the purchase method of accounting was required. This standard also prescribed the accounting for combinations of entities under common control and for joint ventures.

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ

Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling-of-interests method of accounting is no longer allowed. (2) The previous accounting standard required research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development costs ("IPR&D") acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

e. Cash and cash equivalents

Cash and cash equivalents disclosed in the consolidated statement of cash flows comprise cash on hand, demand deposits and ordinary deposits which can be easily liquidated on demand with original maturities of three months or less.

f. Financial instruments

The purpose of trading activities is to make profits or reduce losses from short-term volatility and arbitrage between markets in stock prices, interest rates, foreign exchange rates and other market indices. The scope of trading activities mainly consists of the following:

1) Buying and selling of securities
2) Derivative market transactions
3) Over-the-counter ("OTC") derivative transactions

Securities, derivative contracts and other financial instruments classified as trading assets and liabilities are stated at fair value based on the mark-to-market method.

Other securities, including investment securities, are held for nontrading purposes and are classified as available-for-sale. Available-for-sale securities that have a market quotation are stated at the market price prevailing at the end of the fiscal year. Differences between the cost of securities held determined by the moving-average method and the fair value less associated deferred taxes are recorded in "Unrealized gain (loss) on available-for-sale securities" in equity on the consolidated balance sheet. Available-for-sale securities without a market quotation are stated at cost as determined by the moving average. Where available-for-sale securities have declined significantly and such impairment of value is deemed not temporary, such securities are written down to their fair value and the resulting losses are charged to income for the period.

g. Property and equipment

Property and equipment are stated at cost. Depreciation of tangible fixed assets is calculated by the declining-balance method based on the estimated useful lives of the assets. However, buildings (excluding leasehold improvements) acquired by the Company and its domestic consolidated subsidiaries on or after April 1, 1998, are depreciated by the straight-line method. The estimated useful lives of tangible fixed assets are mainly as follows:

Buildings	2-50 years
Fixtures and furniture	3-20 years

h. Long-lived assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

i. Intangible fixed assets

Amortization of intangible fixed assets is calculated by the straight-line method. Software for internal use is amortized by the straight-line method over its economic useful life.

j. Retirement and pension plan

The Company and its domestic subsidiaries have a defined benefit corporate pension plan as a main defined benefit plan and have a defined contribution pension plan. There are some cases in which extra retirement benefits are paid to employees when they retire. Tokai Tokyo Securities Co., Ltd. ("Tokai Tokyo Securities"), a wholly owned major subsidiary of the Company, contributed the retirement benefit trust for its pension plan. Certain consolidated companies apply the simplified method to state the liability based on the amount that would be paid if employees retired at the consolidated balance sheet date.

Effective April 1, 2000, the Company and its domestic subsidiaries adopted a new accounting standard for retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses are amortized on a straight-line basis over 10 years within the average remaining service period. Past service costs are amortized on a straight-line basis over 10 years within the average remaining service period.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

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

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments (see Note

2.*u*).

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective March 31, 2014. As a result, "Asset for retirement benefits" of ¥1,224 million ($11,897 thousand) was recorded as of March 31, 2014, and "Accumulated other comprehensive income" for the year ended March 31, 2014, increased by ¥1,185 million ($11,516 thousand).

k. Asset retirement obligations

In March 2008, the ASBJ issued the ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

l. Statutory reserves

The Japanese Financial Instruments and Exchange Act and its related regulations require a securities company to set aside a reserve in proportion to its securities transactions and other related trading to cover future eventual operational losses caused by the securities company for customer transactions.

m. Stock options

In December 2005, the ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options," and related guidance. This standard and guidance are applicable to stock options newly granted on and after May 1, 2006. This standard requires companies to measure the cost of employee stock options based on the fair value at the date of grant and recognize compensation expense over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to nonemployees based on the fair value of either the stock option or the goods or services received. In the balance sheet, stock options are presented as stock acquisition rights as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

n. Leases

In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the balance sheet.

In addition, the revised accounting standard permits leases that existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions.

The Group applied the revised accounting standard effective April 1, 2008. In addition, the Group continues to account for leases that existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions. All other leases are accounted for as operating leases.

o. Bonuses to directors and Audit & Supervisory Board members

Bonuses to directors and Audit & Supervisory Board members are accrued at the end of the year to which such bonuses are attributable.

p. Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

The Group files a tax return under the consolidated corporate-tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly-owned domestic subsidiaries.

q. Foreign currency transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

r. Foreign currency financial statements

The balance sheet and statement of income accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

s. Per share information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock split.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

t. Accounting changes and error corrections

In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied following a revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

u. New accounting pronouncements

Accounting Standard for Retirement Benefits—On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

Major changes are as follows:

(*a*) *Treatment in the balance sheet*

Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, is recognized as a liability or asset.

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

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

The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

(*c*) *Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases*

The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard for (a) and (b) above effective March 31, 2014, and expects to apply (c) above from April 1, 2014, and the effects of applying the revised accounting standard for (c) above are to decrease “Asset for retirement benefit” of ¥862 million ($8,375 thousand), “Retained earnings” of ¥557 million ($5,412 thousand), and “Operating income” and “Net income” of ¥58 million ($564 thousand).

3. Business combination

Corporate split among consolidated subsidiaries, capital increase by the third-party allotment and change in the scope of consolidation

Based on the resolution of the board of directors’ meeting on July 19, 2013, the Company agreed to tie up with Senshu Ikeda Holdings, Inc. (“SIH”), and to start operation of SITTS, a joint venture of the Company and SIH, from September 2, 2013.

Based on the respective resolutions of the board of directors’ meetings at Tokai Tokyo Securities, a

wholly-owned subsidiary of the Company, and SITTS on July 19, 2013, SITTS succeeded the financial instruments business of Tokai Tokyo Securities at its Kobe Branch as the result of the corporate split on September 2, 2013.
As a result of the capital increase by the third-party allotment to SIH on September 2, 2013, SITTS was excluded from the scope of consolidation and accounted for by the equity method.

(1) Outline and purpose of the transactions

① Business alliance

In April 2012, the Company started the business plan, "Ambitious 5," under which the Company tackled the "Alliance & Platform, an active expansion of business base" as one of the strategies. By leveraging the cultivated platform, i.e., the infrastructure and functions necessary for the security business, the Company aims to expand the Group business basis through a joint venture.

SIH is a representative independent financial group in the Kansai region, of which main subsidiary is The Senshu Ikeda Bank, Ltd.. The Company believes that a new type of securities company, which is closely related to the region, will be created through the combination of the strong business basis of SIH and the advanced expertise and resources in the security business of the Group.

② Corporate split

The Company believes the further synergy effect is expected following the corporate split of the Kobe Branch of Tokai Tokyo Securities to SITTS, as the alliance effect with SIH is fully demonstrated by providing customers in Kansai region with community-based better products and services, and as it makes possible for SITTS to absorb know-hows in the financial instrument business of Tokai Tokyo Securities more quickly.

③ Capital increase by the third-party allotment

SIH fully subscribed the new shares issued by SITTS at the capital increase by the third-party allotment which took place immediately after the corporate split described above. As a result, SITTS became the joint venture of SIH and the Company (SITTS holds 60% and the Company holds 40% of the shares of SITTS).

(2) Outline of corporate split

① Effective date: September 2, 2013

② Assets and liabilities spun off and transferred were as follows:

Assets	(Millions of yen)	(Thousands of U.S. dollars)
Cash and deposits	¥ 1	$ 8
Cash segregated as deposits	150	1,461
Receivables related to margin transactions	240	2,330
Property and equipment	12	114
Other assets	26	253
Total	¥ 429	$ 4,166
Liabilities	**(Millions of yen)**	**(Thousands of U.S. dollars)**
Payables to customers	¥ 150	$ 1,461
Payables related to margin transactions	240	2,330
Other liabilities	3	27
Total	¥ 393	$ 3,818

③ Consideration for the split business

SITTS issued 1,500 shares of common stock as a consideration for the enterprise value of the financial instrument business of Kobe branch of Tokai Tokyo Securities on the effective date of the corporate split. On the same day, Tokai Tokyo Securities transferred the above stock to the Company as a dividend.

(3) Outline of the capital increase by the third-party allotment

① Subscription and allotment of new shares: By way of a third-party allotment

② Number of shares newly issued: 2,400 shares of common stock

③ Issue price: ¥1 million ($10 thousand) per share

④ Total issue price: ¥2,400 million ($23,319 thousand)

⑤ Amount capitalized;

Increased common stock: ¥1,200 million ($11,660 thousand)

Increased capital surplus: ¥1,200 million ($11,660 thousand)

⑥ Due date for payment: September 2, 2013

(4) Change in the scope of consolidation

The capital increase by SITTS described above resulted in the decrease in the Company's interest ratio in SITTS. Consequently, SITTS was excluded from the scope of consolidation and accounted for by the equity method. As a result, the Company recognized ¥895 million ($8,696 thousand) of "Gain on change in equity" as other income in the consolidated statements of income.

4. Cash and cash equivalents

Reconciliations between cash and cash equivalents in the consolidated statement of cash flows and cash and deposits in the consolidated balance sheets as of March 31, 2014 and 2013, were presented as follows:

	(Millions of yen)				(Thousands of U.S. dollars)	
		2014		2013		**2014**
Cash and deposits	¥	**39,529**	¥	48,857	$	**384,075**
Time deposits with maturity of over three months		**(388)**		(365)		**(3,766)**
Cash and cash equivalents	¥	**39,141**	¥	48,492	$	**380,309**

5. Securities

(1) Trading securities as of March 31, 2014 and 2013, consisted of the following:

	(Millions of yen)				(Thousands of U.S. dollars)	
		2014		2013		**2014**
Trading assets:						
Equity and warrants	¥	**27,539**	¥	6,648	$	**267,576**
Bonds		**170,380**		177,889		**1,655,460**
Beneficiary certificates of investment trusts		**24,777**		16,125		**240,740**
Other		**-**		76		**-**
Total	¥	**222,696**	¥	200,738	$	**2,163,776**
Trading liabilities:						
Equity and warrants	¥	**4,736**	¥	4,646	$	**46,013**
Bonds		**67,234**		82,982		**653,267**
Beneficiary certificates of investment trust		**-**		0		**-**
Total	¥	**71,970**	¥	87,628	$	**699,280**

(2) Investment securities with market value as of March 31, 2014 and 2013, consisted of the following:

	(Millions of yen)					
	2014			2013		
	Balance sheet	**Acquisition cost**	**Difference**	Balance sheet	Acquisition cost	Difference
Available-for-sale securities						
Securities with market value that exceed acquisition cost:	**¥ 5,516**	**¥ 2,326**	**¥ 3,190**	¥ 3,704	¥ 1,523	¥ 2,181
Stocks	**5,506**	**2,316**	**3,190**	3,694	1,513	2,181
Bonds	**10**	**10**	**0**	10	10	0
Governmental/municipal bonds	**10**	**10**	**0**	10	10	0
Securities with market value that do not exceed acquisition cost:	**1,806**	**2,170**	**(364)**	2,588	3,130	(542)
Stocks	**1,806**	**2,170**	**(364)**	2,588	3,130	(542)
	¥ 7,322	**¥ 4,496**	**¥ 2,826**	¥ 6,292	¥ 4,653	¥ 1,639

	(Thousands of U.S. dollars)		
	2014		
	Balance sheet	**Acquisition cost**	**Difference**
Available-for-sale securities:			
Securities with market value that exceed acquisition cost:	**$ 53,599**	**$ 22,598**	**$ 31,001**
Stocks	**53,502**	**22,501**	**31,001**
Bonds	**97**	**97**	**0**
Governmental/municipal bonds	**97**	**97**	**0**
Securities with market value that do not exceed acquisition cost:	**17,545**	**21,084**	**(3,539)**
Stocks	**17,545**	**21,084**	**(3,539)**
	$ 71,144	**$ 43,682**	**$ 27,462**

(3) The proceed from sales of investment securities, gross realized gain and loss on investment securities for the years ended March 31, 2014 and 2013, were summarized as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2014	2013	**2014**
Proceed from sales	**¥ 1,071**	¥ 1,109	**$ 10,405**
Stocks	**518**	1,033	**5,035**
Other	**553**	76	**5,370**
Gross realized gain	**276**	155	**2,677**
Gross realized loss	**(22)**	(72)	**(214)**

(4) The impairment loss on available-for-sale securities for the years ended March 31, 2014 and 2013, was ¥30 million ($293 thousand) and ¥61 million, respectively.

6. Derivatives

The Group enters into derivative financial instruments, including foreign currency forward contracts, currency swaps, currency options and foreign exchange margin trading to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Group also makes use of derivative financial instruments such as bond futures transactions, interest rate futures transactions, and interest rate swap contracts to manage its interest rate exposures on certain liabilities. In addition, the Group entered into stock-related derivative transactions to manage the fluctuation of stock prices.

The methods for calculating fair value are based on the internal rules for calculating fair value. The principal methods for calculating fair value are as follows:

Category	Method
Equity options Stock index options	Settlement price at the main financial instruments exchange.
Foreign currency forward contracts	Discounting the receipt and payment amounts using the interest rate of the applicable currency and converting them into yen at the currency exchange rate of the day, then subtracting the present value of payments from the present value of receipts.
Stock index futures	Liquidation index at the main financial instruments exchange.
Interest rate futures	Liquidation price or equivalent price at the financial instruments exchange or foreign financial instruments exchange.
Bond futures	Liquidation price at the main financial instruments exchange.
OTC equity options Stock lending transactions with equity options Equity swap transactions	Present value calculated by price valuation model based on interest rate, dividend yield, volatility, prices of underlying securities, length of transaction, etc.
Currency option contracts	Calculating the future value of receipts and payments by reference to the swap rate, volatility, correlation, etc., and discounting them using the interest rate of the respective currencies, then converting them into yen at the currency rate of the day. The present value of payments in yen is subtracted from the present value of receipts in yen.
Interest rate swaps Currency swap contracts	Calculating the future value of receipts and payments by reference to the swap rate, volatility, etc., and discounting them using the interest rate of the respective currencies, then converting them into yen at the currency rate of the day. The present value of payments in yen is subtracted from the present value of receipts in yen. For transactions in which mutual payment of cash is generated or expired under certain conditions, the present value is the discounted amount of future value reflecting the probability distribution of the net amount of receipts and payments.
Foreign exchange margin trading	Converting the foreign currency amount into yen at the currency rate published by vendors, etc.

Derivative transactions to which hedge accounting is not applied

(1) Currency-related transactions

At March 31, 2014	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
	(Millions of yen)			
OTC:				
Foreign currency forward contracts:				
Selling	**¥ 48,453**	**¥ 364**	**¥ (599)**	**¥ (599)**
Buying	**24,716**	**-**	**255**	**255**
Currency option contracts:				
Selling	**60,587**	**33,614**	**3,519**	**(232)**
Buying	**31,024**	**20,011**	**596**	**(398)**
Currency swap contracts	**49,778**	**40,239**	**(181)**	**(181)**
Foreign exchange margin trading:				
Selling	**711**	**-**	**(8)**	**(8)**
Buying	**701**	**-**	**18**	**18**

At March 31, 2013	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
	(Millions of yen)			
OTC:				
Foreign currency forward contracts:				
Selling	¥ 24,594	-	¥ 79	¥ 79
Buying	19,049	-	(74)	(74)
Currency option contracts:				
Selling	83,295	¥ 39,005	5,023	(1,071)
Buying	32,678	24,958	236	(928)
Currency swap contracts	33,280	23,635	928	928
Foreign exchange margin trading:				
Selling	699	-	4	4
Buying	683	-	12	12

At March 31, 2014	(Thousands of U.S. dollars) Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
OTC:				
Foreign currency forward contracts:				
Selling	$ 470,782	$ 3,536	$ (5,816)	$ (5,816)
Buying	240,149	-	2,482	2,482
Currency option contracts:				
Selling	588,676	326,603	34,187	(2,256)
Buying	301,434	194,434	5,795	(3,870)
Currency swap contracts	483,659	390,975	(1,756)	(1,756)
Foreign exchange margin trading:				
Selling	6,907	-	(77)	(77)
Buying	6,807	-	178	178

(2) Interest rate-related transactions

At March 31, 2014	(Millions of yen) Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Listed:				
Interest rate futures:				
Selling	¥ 3,581	¥ 1,530	¥ (0)	¥ (0)
Buying	-	-	-	-
Bond futures:				
Selling	7,753	-	19	19
Buying	3,303	-	(1)	(1)
OTC:				
Swaps:				
Fixed rate receipt, floating rate payment	103,206	72,019	1,673	1,673
Fixed rate payment, floating rate receipt	98,118	66,637	(1,890)	(1,890)
Yen/Yen basis swap	9,100	8,600	45	45

At March 31, 2013	(Millions of yen)			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Listed:				
Bond futures:				
Selling	¥ 2,657	-	¥ (0)	¥ (0)
Buying	1,310	-	(1)	(1)
OTC:				
Swaps:				
Fixed rate receipt, floating rate payment	122,394	¥ 97,141	4,739	4,739
Fixed rate payment, floating rate receipt	133,181	103,897	(5,021)	(5,021)
Yen/Yen basis swap	8,000	5,800	17	17

At March 31, 2014	**(Thousands of U.S. dollars)**			
	Contract amount	**Contract amount due after one year**	**Fair value**	**Unrealized gain (loss)**
Listed:				
Interest rate futures:				
Selling	**$ 34,796**	**$ 14,864**	**$ (0)**	**$ (0)**
Buying	**-**	**-**	**-**	**-**
Bond futures:				
Selling	**75,330**	**-**	**186**	**186**
Buying	**32,096**	**-**	**(6)**	**(6)**
OTC:				
Swaps:				
Fixed rate receipt, floating rate payment	**1,002,780**	**699,756**	**16,259**	**16,259**
Fixed rate payment, floating rate receipt	**953,344**	**647,468**	**(18,360)**	**(18,360)**
Yen/Yen basis swap	**88,418**	**83,560**	**435**	**435**

(3) Stock-related transactions

At March 31, 2014	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
	(Millions of yen)			
Listed:				
Index futures:				
Selling	¥ 24,879	-	¥ 462	¥ 462
Buying	840	-	16	16
Index options:				
Selling	5,596	-	21	7
Buying	4,433	-	20	(9)
Equity options:				
Selling	-	-	-	-
Buying	709	-	26	(3)
OTC:				
Stock lending transactions with equity options:				
Selling	-	-	-	-
Buying	1,411	-	23	18
OTC equity options:				
Selling	8,039	-	380	1
Buying	7,931	-	301	(26)
Equity swap transactions	426	-	20	20

At March 31, 2013	(Millions of yen) Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Listed:				
Index futures:				
Selling	¥ 4,883	-	¥ (238)	¥ (238)
Buying	251	-	9	9
Index options:				
Selling	12,678	-	1,782	(1,036)
Buying	12,493	-	1,776	1,260
Equity options:				
Selling	-	-	-	-
Buying	227	-	7	5
OTC:				
Stock lending transactions with equity options:				
Selling	-	-	-	-
Buying	229	-	11	8
OTC equity options:				
Selling	3,012	-	214	(82)
Buying	7,061	-	1,000	218
Equity swap transactions	3,785	¥ 3,248	10	10

At March 31, 2014	(Thousands of U.S. dollars) Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Listed:				
Index futures:				
Selling	$ 241,734	-	$ 4,489	$ 4,489
Buying	8,160	-	152	152
Index options:				
Selling	54,375	-	201	69
Buying	43,067	-	197	(90)
Equity options:				
Selling	-	-	-	-
Buying	6,884	-	251	(30)
OTC:				
Stock lending transactions with equity options:				
Selling	-	-	-	-
Buying	13,714	-	228	175
OTC equity options:				
Selling	78,110	-	3,690	5
Buying	77,059	-	2,922	(256)
Equity swap transactions	4,137	-	196	196

Derivative transactions to which hedge accounting is applied

There are no derivative transactions to which hedge accounting is applied.

7. Borrowings

Borrowings as of March 31, 2014 and 2013, were as follows:

	(Millions of yen) 2014	(Millions of yen) 2013	(Thousands of U.S. dollars) 2014	(Weighted-average interest rate or interest rate range) 2014
Short-term borrowings:				
Borrowings from financial institutions	**¥ 131,096**	¥ 140,618	**$ 1,273,771**	
Borrowings from securities finance companies	**1,200**	1,630	**11,660**	
Total	**¥ 132,296**	¥ 142,248	**$ 1,285,431**	**0.31%**
Commercial paper:				
Short-term bonds	**¥ 7,800**	¥ 10,000	**$ 75,787**	**0.15-0.31%**
Total	**¥ 7,800**	¥ 10,000	**$ 75,787**	
Long-term debt:				
Borrowings from financial institutions	**¥ 200**	¥ 3,840	**$ 1,943**	**1.25%**
Straight bonds:				
Yen	**27,848**	4,500	**270,579**	**0.30-0.60%**
U.S. dollar	**-**	940	**-**	
Exchangeable bonds	**1,108**	2,387	**10,765**	**0.10-22.80%**
Step-up callable bonds	**200**	200	**1,943**	**0.50%**
Callable bonds	**100**	100	**972**	**0.35%**
Total	**¥ 29,456**	¥ 11,967	**$ 286,202**	
Less current portion	**(24,156)**	(6,283)	**(234,706)**	
Long-term debt, less current portion	**¥ 5,300**	¥ 5,684	**$ 51,496**	
Total borrowings	**¥ 169,552**	¥ 164,215	**$ 1,647,420**	

The aggregate annual maturities of long-term debt as of March 31, 2014, were as follows:

Year ending March 31	**(Millions of yen) 2014**	**(Thousands of U.S. dollars) 2014**
2015	**¥ 24,156**	**$ 234,706**
2016	**5,300**	**51,496**
2017	**-**	**-**
2018	**-**	**-**
2019	**-**	**-**
Total	**¥ 29,456**	**$ 286,202**

8. Assets pledged as collateral

(1) Assets pledged as collateral for borrowings as of March 31, 2014 and 2013, were summarized as follows:

(Millions of yen)

2014	Obligations secured by pledged assets	Pledged assets				
		Cash and deposits	Trading securities	Investment securities	Other assets (Other)	Total
Short-term borrowings	¥ 86,200	-	¥ 91,707	-	-	¥ 91,707
Long-term debt	200	-	-	¥ 476	-	476
Cash received on securities loaned	15,669	-	2,422	-	-	2,422
Borrowings under repurchase agreements	104,258	-	1,039	-	-	1,039
Payables related to margin transactions	14,754	-	220	-	-	220
Total	¥ 221,081	-	¥ 95,388	¥ 476	-	¥ 95,864

(Millions of yen)

2013	Obligations secured by pledged assets	Pledged assets				
		Cash and deposits	Trading securities	Investment securities	Other assets (Other)	Total
Short-term borrowings	¥ 94,730	-	¥ 97,306	-	-	¥ 97,306
Long-term debt	3,840	¥ 160	-	¥ 415	¥ 4,384	4,959
(Current portion of long-term debt)	(80)					
Cash received on securities loaned	38,910	-	9,855	-	-	9,855
Borrowings under repurchase agreements	114,507	-	8,198	-	-	8,198
Payables related to margin transactions	14,351	-	400	-	-	400
Total	¥ 266,338	¥ 160	¥ 115,759	¥ 415	¥ 4,384	¥ 120,718

2014	(Thousands of U.S. dollars) Obligations secured by pledged assets	Pledged assets: Cash and deposits	Trading securities	Investment securities	Other assets (Other)	Total
Short-term borrowings	**$ 837,544**	**-**	**$ 891,052**	**-**	**-**	**$ 891,052**
Long-term debt	**1,943**	**-**	**-**	**$ 4,622**	**-**	**4,622**
Cash received on securities loaned	**152,242**	**-**	**23,536**	**-**	**-**	**23,536**
Borrowings under repurchase agreements	**1,013,002**	**-**	**10,092**	**-**	**-**	**10,092**
Payables related to margin transactions	**143,352**	**-**	**2,137**	**-**	**-**	**2,137**
Total	**$ 2,148,083**	**-**	**$ 926,817**	**$ 4,622**	**-**	**$ 931,439**

(*1) In addition to the above, the following are pledged as collateral for the above obligations:

	(Millions of yen) 2014	2013	(Thousands of U.S. dollars) 2014
Stocks received as collateral from customers under self-financing margin transactions	**¥ 894**	¥ 1,040	**$ 8,683**
Securities borrowed for collateralized short-term financing agreements	**112,277**	124,821	**1,090,912**
Securities purchased under resell agreements	**40,573**	60,665	**394,223**

(*2) The following assets are pledged as initial margin for futures transactions and as collateral for other transactions:

	(Millions of yen) 2014	2013	(Thousands of U.S. dollars) 2014
Trading securities	**¥ 9,014**	¥ 8,564	**$ 87,583**
Property and equipment	**86**	86	**839**
Stocks received as collateral from customers under self-financing margin transactions	**-**	37	**-**

(*3) "Cash and deposits" and "Other assets (Other)" pledged as collateral for "Long-term debt" are beneficiary trust certificates, which include "Accrued and other liabilities (Other)" of ¥45 million at March 31, 2013.

(2) The fair values of securities pledged and received as collateral at March 31, 2014 and 2013, were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2014	2013	**2014**
Pledged securities:			
Securities loaned to customers for margin transactions	¥ **2,084**	¥ 2,532	$ **20,247**
Securities pledged as collateral to securities finance companies or securities exchange brokers for borrowings under margin transactions	**15,186**	16,782	**147,553**
Securities loaned for collateralized short-term financing agreements	**15,952**	39,394	**154,993**
Securities sold under repurchase agreements	**103,676**	114,997	**1,007,350**
Securities pledged as collateral for short-term guarantees	**16,711**	15,982	**162,371**
Received securities:			
Securities received as collateral from customers for loans under margin transactions	¥ **38,731**	¥ 28,730	$ **376,326**
Securities borrowed from finance companies or securities exchange brokers for margin transactions	**4,799**	2,280	**46,628**
Securities borrowed for collateralized short-term financing agreements	**177,295**	210,798	**1,722,645**
Securities purchased under resell agreements	**43,007**	60,699	**417,871**
Securities received as collateral for short-term guarantees	**40,160**	34,847	**390,203**
Other	**832**	394	**8,086**

9. Property and equipment

Property and equipment as of March 31, 2014 and 2013, consisted of the following:

	(Millions of yen)		(Thousands of U.S. dollars)
	2014	2013	**2014**
Land	¥ **5,201**	¥ 5,210	$ **50,531**
Buildings	**6,097**	5,853	**59,244**
Fixtures and furniture	**5,694**	5,821	**55,327**
Total	**16,992**	16,884	**165,102**
Accumulated depreciation	**(7,597)**	(8,096)	**(73,821)**
Net property and equipment	¥ **9,395**	¥ 8,788	$ **91,281**

10. Investment property

In November 2008, the ASBJ issued ASBJ Statement No. 20, "Accounting Standard for Investment Property and Related Disclosures," and issued ASBJ Guidance No. 23, "Guidance on Accounting Standard for Investment Property and Related Disclosures."

The Company and certain subsidiaries own rental properties, such as office buildings in Aichi Prefecture and other areas. The net of rental income and operating expenses for those rental properties was ¥189 million ($1,841 thousand) and ¥274 million for the years ended March 2014 and 2013, respectively, which was included in "Other income, net." Gain on sales of rental properties for the years ended March 31, 2014 and 2013, were ¥554 million ($5,379 thousand) and ¥45 million, respectively, and was included in "Other income, net."

The carrying amounts, changes in such balances and market prices of such properties were as follows:

(Millions of yen)

Carrying amount			**Fair value**
April 1, 2013	**Increase/(Decrease)**	**March 31, 2014**	**March 31, 2014**
¥ 6,100	**¥ (4,452)**	**¥ 1,648**	**¥ 1,282**

(Millions of yen)

Carrying amount			Fair value
April 1, 2012	Increase/(Decrease)	March 31, 2013	March 31, 2013
¥ 6,791	¥ (691)	¥ 6,100	¥ 5,939

(Thousands of U.S. dollars)

Carrying amount			**Fair value**
April 1, 2013	**Increase/(Decrease)**	**March 31, 2014**	**March 31, 2014**
$ 59,272	**$(43,260)**	**$ 16,012**	**$ 12,461**

Notes:

1) Carrying amount recognized in the consolidated balance sheet is net of accumulated depreciation and accumulated impairment losses, if any.
2) Decrease during the fiscal year ended March 31, 2014, primarily represents the sales of certain properties of ¥4,339 million ($42,160 thousand) and the depreciation of ¥118 million ($1,145 thousand).
3) Fair value of properties as of March 31, 2014, is measured by the Group in accordance with its Real-Estate Appraisal Standard.

11. Retirement benefits

The Company and its domestic subsidiaries have a defined benefit corporate pension plan as a main defined benefit plan and have a defined contribution pension plan. There are some cases in which extra retirement benefits are paid to employees when they retire. Tokai Tokyo Securities contributed the retirement benefit trust for its pension plan. Certain consolidated companies apply the simplified method to state the liability based on the amount that would be paid if employees retired at the consolidated balance sheet date.

In addition, retirement benefits to directors and Audit & Supervisory Board members of ¥82 million ($794 thousand) and ¥70 million at March 31, 2014 and 2013, respectively, were included in "Liability for retirement benefits" on the consolidated balance sheets.

Year ended March 31, 2014

1. Defined benefit plans excluding the plans to which the simplified method is applied

(1) The changes in defined benefit obligation for the year ended March 31, 2014, were as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Balance at beginning of year	**¥ 10,325**	**$ 100,322**
Current service cost	**548**	**5,326**
Interest cost	**207**	**2,006**
Actuarial gains	**(115)**	**(1,117)**
Benefits paid	**(413)**	**(4,011)**
Balance at end of year	**¥ 10,552**	**$ 102,526**

(2) The changes in plan assets for the year ended March 31, 2014, were as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Balance at beginning of year	**¥ 10,069**	**$ 97,830**
Expected return on plan assets	**196**	**1,908**
Actuarial gains	**1,113**	**10,818**
Contributions from the employer	**811**	**7,878**
Benefits paid	**(413)**	**(4,011)**
Balance at end of year	**¥ 11,776**	**$ 114,423**

(3) Reconciliation between the liability and asset recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets

	(Millions of yen)	(Thousands of U.S. dollars)
Funded defined benefit obligation	**¥ 10,552**	**$ 102,526**
Plan assets	**(11,776)**	**(114,423)**
Net asset arising from defined benefit obligation	**¥ (1,224)**	**$ (11,897)**

	(Millions of yen)	(Thousands of U.S. dollars)
Asset for retirement benefits	**¥ (1,224)**	**$ (11,897)**
Net asset arising from defined benefit obligation	**¥ (1,224)**	**$ (11,897)**

(4) The components of net periodic benefit costs for the year ended March 31, 2014, were as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Service cost	**¥ 548**	**$ 5,326**
Interest cost	**207**	**2,006**
Expected return on plan assets	**(196)**	**(1,908)**
Amortization of prior service cost	**(51)**	**(494)**
Recognized actuarial losses	**23**	**231**
Net periodic benefit costs	**¥ 531**	**$ 5,161**

(5) Accumulated other comprehensive income on defined retirement benefit plans as of March 31, 2014

	(Millions of yen)	(Thousands of U.S. dollars)
Unrecognized prior service cost	**¥ (344)**	**$ (3,338)**
Unrecognized actuarial gains	**(1,489)**	**(14,470)**
Total	**¥ (1,833)**	**$ (17,808)**

(6) Plan assets

(a) Components of plan assets

Plan assets consisted of the following:

Equity investments	**63.64 %**
Debt investments	**26.49**
General account	**5.40**
Others	**4.47**
Total	**100.00 %**

(*1) The retirement benefit trust contributed to the pension plan is included in the plan assets and constitutes 37.16% of the total plan assets.

(b) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering current and future asset portfolio and the long-term rates of return which are expected currently and in the future from the variety of asset portfolio in plan assets.

(7) Assumptions used for the year ended March 31, 2014, were set forth as follows:

	2014
Discount rate	**2.00%**
Expected rate of return on plan assets	**1.95%**

(*1) These percentages are based on weighted average.

2. Defined benefit plans to which the simplified method is applied

(1) The changes in liability for retirement benefits for the year ended March 31, 2014, were as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Balance at beginning of year	**¥ 590**	**$ 5,733**
Net periodic benefit costs	**67**	**652**
Benefits paid	**(102)**	**(993)**
Balance at end of year	**¥ 555**	**$ 5,392**

(2) Reconciliation between the liability and asset recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets

	(Millions of yen)	(Thousands of U.S. dollars)
Unfunded defined benefit obligation	**¥ 555**	**$ 5,392**
Net liability arising from defined benefit obligation	**¥ 555**	**$ 5,392**

	(Millions of yen)	(Thousands of U.S. dollars)
Liability for retirement benefits	**¥ 555**	**$ 5,392**
Net liability arising from defined benefit obligation	**¥ 555**	**$ 5,392**

Net periodic benefit costs based on the simplified method for the year ended March 31, 2014, were ¥67 million ($652 thousand).

3. Defined contribution pension plans

The Group's contributions to the defined contribution pension plan for the year ended March 31, 2014, were ¥470 million ($4,570 thousand).

Year ended March 31, 2013

The liability for retirement benefits at March 31, 2013, consisted of the following:

	(Millions of yen)
Projected benefit obligation	¥10,915
Fair value of plan assets including the retirement benefit trust	(10,068)
Unfunded retirement benefit obligation	847
Unrecognized prior service cost	(394)
Unrecognized actuarial gains	(237)
Net Liability	¥1,478

(*1) Certain consolidated companies apply the simplified method in determining the projected benefit obligations.

The components of net periodic benefit costs for the year ended March 31, 2013, were as follows:

	(Millions of yen)
Service cost	¥628
Interest cost	204
Expected return on plan assets	(106)
Amortization of prior service costs	(51)
Recognized actuarial losses	191
Net periodic expenses	866
Contributions to the defined contribution pension plan	466
Net periodic benefit costs	¥1,332

(*1) Service costs include net periodic benefit costs of certain consolidated companies which apply the simplified method.

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

Discount rate	2.00%
Expected rate of return on plan assets	2.00%
Recognition period of actuarial gains/losses	10 years
Amortization period of prior service costs	10 years

12. Equity

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit

& Supervisory Board, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to certain limitations and additional requirements. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases / decreases and transfer of common stock, reserve and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of the legal reserve and additional paid-in capital equals 25% of common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

13. Stock options

The stock options outstanding as of March 31, 2014, were as follows:

Stock option	Persons granted	Number of options granted	Date of grant	Exercise price	Exercise period
2009-1 stock option	2 directors 4 officers 13 employees 3 directors of subsidiaries 15 officers and councilors of subsidiaries 106 employees of subsidiaries	667,000 shares	August 31, 2009	¥358 ($3.48)	From September 1, 2011 to August 31, 2014
2009-2 stock option	3 officers and councilors of subsidiaries 19 employees	100,000 shares	December 29, 2009	¥378 ($3.67)	From January 1, 2012 to December 31, 2014
2011-1 stock option	2 directors 7 officers 8 employees 4 directors of subsidiaries 20 officers of subsidiaries 144 employees of subsidiaries	863,000 shares	January 5, 2011	¥332 ($3.23)	From February 1, 2013 to January 31, 2016
2012-1 stock option	2 directors 8 officers and senior councilors 9 employees 5 directors of subsidiaries 21 officers and councilors of subsidiaries 139 employees of subsidiaries	1,048,000 shares	September 30, 2011	¥249 ($2.42)	From October 1, 2013 to September 30, 2016
2013-1 stock option	3 directors 10 officers and senior councilors 10 employees 3 directors of subsidiaries 22 officers and councilors of subsidiaries 146 employees of subsidiaries	939,000 shares	September 7, 2012	¥275 ($2.67)	From October 1, 2014 to September 30, 2017
2014-1 stock option	3 directors 10 officers and senior councilors 10 employees 3 directors of subsidiaries 23 officers and councilors of subsidiaries 151 employees of subsidiaries	979,000 shares	September 6, 2013	¥797 ($7.74)	From October 1, 2015 to September 30, 2018

The stock option activity was as follows:

	2009-1 stock option (shares)	2009-2 stock option (shares)	2011-1 stock option (shares)	2012-1 stock option (shares)	2013-1 stock option (shares)	2014-1 stock option (shares)
For the year ended March 31, 2013						
Non-vested						
April 1, 2012 - Outstanding	-	-	853,000	1,043,000	-	-
Granted	-	-	-	-	939,000	-
Canceled	-	-	26,000	29,000	4,000	-
Vested	-	-	827,000	-	-	-
March 31, 2013 - Outstanding	-	-	-	1,014,000	935,000	-
Vested						
April 1, 2012 - Outstanding	641,000	100,000	-	-	-	-
Vested	-	-	827,000	-	-	-
Exercised	332,000	58,000	398,000	-	-	-
Canceled	12,000	-	4,000	-	-	-
March 31, 2013 - Outstanding	297,000	42,000	425,000	-	-	-
For the year ended March 31, 2014						
Non-vested						
March 31, 2013 - Outstanding	-	-	-	1,014,000	935,000	-
Granted	-	-	-	-	-	979,000
Canceled	-	-	-	-	4,000	-
Vested	-	-	-	1,014,000	-	-
March 31, 2014 - Outstanding	-	-	-	-	931,000	979,000
Vested						
March 31, 2013 - Outstanding	297,000	42,000	425,000	-	-	-
Vested	-	-	-	1,014,000	-	-
Exercised	241,000	34,000	329,000	838,000	-	-
Canceled	-	-	-	-	-	-
March 31, 2014 - Outstanding	56,000	8,000	96,000	176,000	-	-
Exercise price	¥ 358 ($ 3.48)	¥ 378 ($ 3.67)	¥ 332 ($ 3.23)	¥ 249 ($ 2.42)	¥ 275 ($ 2.67)	¥ 797 ($ 7.74)
Average stock price at exercise	¥ 811 ($ 7.88)	¥ 818 ($ 7.95)	¥ 836 ($ 8.12)	¥ 873 ($ 8.48)	-	-
Fair value price at grant date	¥ 84.20 ($ 0.82)	¥ 86.69 ($ 0.84)	¥ 67.59 ($ 0.66)	¥ 53.04 ($ 0.52)	¥ 53.98 ($ 0.52)	¥ 152.07 ($ 1.48)

The assumptions used to measure the fair value of the 2014-1 stock option

Estimate method:	Black-Scholes option-pricing model
Volatility of stock price:	40.12 %
Estimated remaining outstanding period:	3.57 years
Estimated dividend:	¥12 per share
Risk-free interest rate:	0.18 %

14. Income taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 38% for the years ended March 31, 2014 and 2013.

The significant components of deferred tax assets and liabilities as of March 31, 2014 and 2013, were as follows:

	(Millions of yen)				(Thousands of U.S. dollars)	
		2014		2013		**2014**
Deferred tax assets:						
Allowance for doubtful accounts	¥	**480**	¥	433	$	**4,662**
Enterprise tax payable		**551**		644		**5,357**
Provision for bonuses		**1,176**		1,828		**11,430**
Liability for retirement benefits		**1,344**		2,139		**13,061**
Retirement benefits to directors and Audit & Supervisory Board members		**63**		59		**616**
Statutory reserves		**102**		66		**990**
Loss on devaluation of investment securities		**303**		423		**2,940**
Loss on impairment of fixed assets		**841**		864		**8,171**
Other		**1,254**		1,553		**12,187**
Subtotal		**6,114**		8,009		**59,414**
Tax loss carried forward		**378**		469		**3,668**
Deferred tax assets		**6,492**		8,478		**63,082**
Valuation allowance		**(2,541)**		(2,808)		**(24,694)**
Total deferred tax assets	¥	**3,951**	¥	5,670	$	**38,388**
Deferred tax liabilities:						
Gain on contribution of securities to employees' retirement benefit trust	¥	**1,122**	¥	1,122	$	**10,905**
Unrealized gain on available-for-sale securities		**1,223**		548		**11,881**
Other		**376**		213		**3,652**
Deferred tax liabilities		**2,721**		1,883		**26,438**
Total deferred tax liabilities	¥	**2,721**	¥	1,883	$	**26,438**
Net deferred tax assets	¥	**1,230**	¥	3,787	$	**11,950**

Balance reported in the consolidated balance sheets:

	(Millions of yen)				(Thousands of U.S. dollars)	
		2014		2013		**2014**
Deferred Tax Assets	¥	**1,949**	¥	3,787	$	**18,934**
Deferred Tax Liabilities		**(719)**		-		**(6,984)**
Net Deferred Tax Assets	¥	**1,230**	¥	3,787	$	**11,950**

A reconciliation between the effective income tax rate reflected in the accompanying consolidated statement of income and the effective statutory tax rate for the year ended March 31, 2014, was as follows:

	2014
Effective statutory tax rate	38.01%
Increase (decrease) due to:	
Permanent differences, such as entertainment expenses	0.62
Permanently nontaxable items, such as dividend income	(6.93)
Tax loss carried forward	(0.22)
Inhabitants tax per capita levy	0.21
Gain on change in interest in an equity investment	(0.96)
Equity in gain of associated companies	(1.84)
Valuation allowance	(0.44)
Adjustment for unrealized profits resulting from transactions within the Group and other - net	6.73
Special tax credit for business stimulation	(2.00)
Effect of tax rate reduction	0.60
Other	(0.05)
Effective income tax rate	33.73%

Such information for the year ended March 31, 2013, is not presented as the difference is less than 5% of the effective statutory tax rate.

New tax reform laws enacted in 2014 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2014, from approximately 38.01% to 35.64%. The effect of this change was to decrease "deferred tax assets" net of "deferred tax liability," by ¥213 million ($2,070 thousand) in the consolidated balance sheet as of March 31, 2014, and to increase "income taxes-deferred" by ¥213 million ($2,070 thousand) in the consolidated statement of income for the year then ended.

15. Financial instruments and related disclosures

(1) Group policy for financial instruments

The Group is involved in the financial instruments trading business, including trading securities, acting as an intermediary of securities trading, underwriting and offering securities, soliciting and offering securities, offering private placement securities and other financial instruments trading business, and services related or incidental to financial instruments trading business. Due to the Group's involvement in the financial instruments trading business, the Group owns financial instruments.

In conducting its financial instruments trading business, the Group sets its basic policy as providing accurate information to meet its various customers' needs and products through transactions inside or outside of the stock exchange market. The Group intends to realize sound market functions and smooth execution of agency trades in the exchange market and fair price formation and smooth distribution of financial instruments for trading outside the exchange market.

To raise funds to operate the financial instruments trading business, in addition to using indirect financing such as bank loans, the Group issues commercial paper taking into account market conditions and the balance of maturities of loans.

(2) Nature and extent of risks arising from financial instruments

The financial assets and liabilities held by the Group are composed of the following:

(a) Securities, such as stocks and bonds, held for trading with customers or for proprietary trading; derivatives publicly traded on exchanges, such as futures and options, based on stock price indices and bond futures and bond options; derivatives traded on outside exchanges, such as bonds with options, OTC securities options, foreign exchange forward contracts, currency rate swaps, and interest rate swaps; and securities, such as stock held for investment;

(b) Loan receivables from customers related to margin transactions and borrowings from securities finance companies incidental to the loan receivables; and

(c) Cash collateral pledged for securities borrowed/cash received on securities loaned based on collateralized financing agreements with institutional investors and loan receivables as consideration for purchases of bonds under resell agreements/borrowings as proceed from sales of securities under repurchase agreements.

The securities held and transaction balances of derivatives are exposed to market risks triggered by changes in market values of stock and interest rate and foreign exchange rate fluctuations. Receivables related to margin transactions, cash collateral pledged for securities borrowed, loan receivables for purchases of bonds under resell agreements and OTC derivative transactions are exposed to credit risks that occur when transaction counterparties default. In addition, due to a lack of liquidity, some of these financial instruments are exposed to market liquidity risks that trigger losses due to market turmoil, which may result in the Group's inability to transact in the market or cause the Group to conduct transactions at significantly unfavorable prices.

Also, with regard to the funding side, the Group owns financial liabilities, such as commercial paper and borrowings from financial institutions. As a result of a downturn in the Group's business or other reasons, these financial instruments are exposed to funding liquidity risk, resulting in obstacles to raising funds or being forced to borrow at significantly higher interest rates than usual, leading to losses.

Besides these assets and liabilities, the Group owes financial liabilities, such as temporary deposits received from customers for their securities transactions and guarantee deposits received from customers as transaction deposits for margin transactions and derivative transactions. The financial assets attributable to customers in these transactions are segregated from our own financial assets and entrusted as segregated customer's money trust to the trust bank in accordance with the rules of Financial Instruments and Exchange Act.

(3) Risk management for financial instruments

(a) Comprehensive risk management
Due to the complexity and diversification of product lines, such as rapid advances of derivative

transactions, the Company regards market, credit, and liquidity risk management as being extremely important in conducting the Group's financial instruments trading operations, the main business line of the Group. The Company puts risk management for the entire group and each group company as one of the first priorities for the business. The Company and each group company established a risk management basic policy in order to control risks appropriately by identifying, analyzing, and managing risks as the responsibility of each group company and to maintain the soundness of business for a long period of time.

In accordance with this risk management basic policy, the Company established the Total Risk Management Committee to provide the framework for securing financial soundness and profits by gathering and controlling information on various risks inherent in the Company and each group company. The committee discusses matters concerning management of these risks. The committee meets in principle monthly to monitor implementation status and to provide the framework of reporting of necessary information to the Board of Directors.

In addition, Tokai Tokyo Securities, a Class I financial instruments trader in the Group, established a Market Risk Committee and a Credit and Operational Risk Committee and established the related rules to facilitate the risk management system to prepare for market risk, credit risk, and liquidity risk. From the perspective of securing business and financial soundness, Tokai Tokyo Securities set the "target of controlled equity ratio" that should be maintained at a minimum and established a basic policy for the purpose of the risk management operations to keep the "target". The risk limits, led by the "target," is approved at the Board of Directors meeting after deliberation by the Market Risk Committee. Regarding risk management relating to the financial instruments trading business, which is our principal business, the risk controlling department, which is organizationally and physically independent from the trading execution department (the "Risk Controlling Department"), perform risk control by calculating risk, positions, and profit or loss on a daily basis and reports it along with the status of the capital adequacy ratio of Tokai Tokyo Securities to management and related departments every day. In addition, a discussion and report on risk management is made at the Market Risk Committee meeting which is generally held twice a month, and at the Credit and Operational Risk Committee meeting, which is generally held once a month.

(b) Management for market risk

Tokai Tokyo Securities sets basic policies relating to market risk management based on the Group's risk management rules and manages the proprietary trading operations.

The Board of Directors of Tokai Tokyo Securities sets market risk limits within the risk limits that are derived by the "target of controlled equity ratio," which should be maintained at a minimum. In addition, in order to structure a management system that checks excessive risk taking actions, Tokai Tokyo Securities also enhances the functions of overall risk management by the following: to the extent of the market risk limit of the Group, the Market Risk Committee restricts market risk by setting the value at risk ("VaR")-based position limit on each department holding proprietary trading positions taking into account the budget and profit performance of each department; setting annual and monthly loss limits and warning lines for these limits for each department in order to prevent losses from increasing; and maintaining the Group's internal rules.

The management method of market risk for the positions held by the trading department includes management based on VaR (10-day holding period with confidence interval of 99% and observation period 750 days) computed using historical simulation method; measurement of stress value (one day and 10-day holding periods and observation period 750 days); and back testing of the relationship between the VaR (holding period of one day) data and daily profit/loss data, periodically.

The department that owns positions exposed to market liquidity risk, which is triggered when it becomes impossible to execute transactions in the market because of market turmoil, etc., caused by low liquidity or which arises when the Group is forced to enter into the transactions at significantly unfavorable prices, sets an upper limit on the exposure of the market liquidity risk position.

The risk limits set and allocated to related departments, use of loss limits, profits and losses, stress value, and status of market liquidity risk positions are analyzed, managed on a daily basis, and reported to top management by the Risk Controlling Department. Also, analysis of market risk management and overall reports are made to the Market Risk Committee. In addition, the status of market risk management is reported monthly to the Board of Directors.

The estimated amount of market risk (estimated amount of loss) of proprietary trading of Tokai Tokyo Securities as of March 31, 2014 and 2013, was as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2014	2013	**2014**
Amount of Market Risk (VaR) of proprietary trading	**¥ 217**	¥ 214	**$ 2,113**

(Note) VaR measures the amount of market risk with a certain probability that is statistically calculated based on historical market fluctuations. Therefore, the risk may not be fully captured under a market environment that changes drastically.

(c) Credit risk management

Based on our risk management rules, Tokai Tokyo Securities controls the risk of incurring damages arising from the default of counterparties of transactions or other reasons within predetermined limits. The Company manages risks by setting company-level credit risk limits within the upper risk limit lead by the "target of controlled equity ratio" that should be maintained at minimum at Board of Directors meeting. Within the upper limit, the Market Risk Committee manages the risk by setting credit risk limit on each financial product. Further, credit risk limits are also set on each counterparty of a transaction.

Upon setting the credit risk limits of each counterparty of a transaction, the Risk Controlling Department evaluates the financial conditions, etc., of each counterparty of the transaction and sets the upper limit of the credit and determines the acceptability of the transaction in accordance with the authority of granting the credit limit, taking into account the net worth of the counterparty or Tokai Tokyo Securities. It also reviews the credit limit periodically.

Also, in order to control the credit balance after the transaction contract, with the cooperation of the related department, the office related to each counterparty periodically collects financial information of the counterparty and observes changes in the credit condition of the counterparty during the course of daily business operations. When the credit condition of the counterparty deteriorates, the Risk Controlling Department consults with the related department and takes measures to secure the credit, such as suspension of a new transaction, reduction of the credit limit, change of the terms of the transaction, or requiring collateral, to the extent of the approved credit limits.

Depending upon the nature of the products, the current exposure method or potential exposure method is adopted in calculating credit risks. The credit risk is analyzed and managed on a daily basis and reported to top management by the Risk Controlling Department. Also, the analysis of credit risk management status and overall reports are made to the Credit and Operational Risk Committee. In addition, the status of credit risk management is reported monthly to the Board of Directors.

(d) Liquidity risk management

Based on our liquidity risk management rules, the Company and Tokai Tokyo Securities set and operate basic policies for risk management framework for appropriate funding.

The Company develops the strategy for the liquidity risk of funding by gathering and analyzing information, such as stock prices and reputation, to identify and assess liquidity risks for funding that may impact the Company's funding. To manage funding risk, the Company will implement necessary measures, taking into account the situation in managing the funding risk, depending upon the possibility of cash flow problems of consolidated subsidiaries impacting the Company's funding based on the subsidiaries' performance.

Also, in order to secure the adequacy of funding management, the funding control department of Tokai Tokyo Securities determines the accurate funding situation based on the daily management status of various daily funding relating to funds raised and fund management and plans and controls the prospects of monthly and quarterly funding. The status and forecast of funding are reported monthly to the Board of Directors.

The funding control department conducts as-needed management relating to funding in response to movements in the market environment. Information relating to the activities is reported to the Board of Directors after promptly assessing the impact on funding.

In relation to the securing of assets for payment reserves and the fund-raising method, the funding control department secures the financing method depending upon the degree of funding ability (normal, concerned, crisis, etc.) and payment reserve assets for settlements. In addition, it secures funding methods, assuming a period of crisis by holding assets available for sale or collateral in Japan and overseas and setting borrowing facilities in order to obtain funds from commercial banks.

<u>(4) Supplementary explanations of matters related to the fair value of financial instruments</u>

Fair values of financial instruments include values based on market prices and values obtained by reasonable estimates when financial instruments have no market prices. Because certain assumptions are adopted in calculating these values, they may differ when different assumptions are adopted.

(5) Fair values of financial instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead.

(a) Fair values of financial instruments

The carrying amounts, aggregate fair values, and net unrealized gain (loss) of financial instruments at March 31, 2014 and 2013, were as follows:

	(Millions of yen)		
March 31, 2014	**Carrying amount**	**Fair value**	**Unrealized gain (losses)**
Cash and deposits	**¥ 39,529**	**¥ 39,529**	**-**
Cash segregated as deposits	**27,308**	**27,308**	**-**
Cash collateral pledged for securities borrowed	**174,949**	**174,949**	**-**
Loans under resell agreements	**43,527**	**43,527**	**-**
Trading securities	**222,696**	**222,696**	**-**
Derivatives	**1,503**	**1,503**	**-**
Receivables from brokers, dealers, and clearing organizations	**15,957**	**15,957**	**-**
Receivables related to margin transactions	**49,312**	**49,312**	**-**
Investment securities	**7,322**	**7,322**	**-**
Assets total	**¥582,103**	**¥582,103**	**-**
Short-term borrowings	**¥132,296**	**¥132,296**	**-**
Commercial paper	**7,800**	**7,800**	**-**
Current portion of long-term debt	**24,156**	**24,156**	
Long-term debt	**5,300**	**5,300**	**¥ (0)**
Cash received on securities loaned	**15,669**	**15,669**	**-**
Borrowings under repurchase agreements	**104,258**	**104,258**	**-**
Trading securities	**71,970**	**71,970**	**-**
Derivatives	**4,623**	**4,623**	**-**
Payables to brokers, dealers, and clearing organizations	**42,980**	**42,980**	**-**
Payables to customers	**27,010**	**27,010**	**-**
Payables related to margin transactions	**16,746**	**16,746**	**-**
Income taxes payable	**5,621**	**5,621**	**-**
Liabilities total	**¥458,429**	**¥458,429**	**¥ (0)**

March 31, 2013	(Millions of yen) Carrying amount	Fair value	Unrealized gain (loss)
Cash and deposits	¥ 48,857	¥ 48,857	-
Cash segregated as deposits	23,289	23,289	-
Cash collateral pledged for securities borrowed	209,499	209,499	-
Loans under resell agreements	60,070	60,070	-
Trading securities	200,738	200,738	-
Derivatives	2,803	2,803	-
Receivables from brokers, dealers, and clearing organizations	8,181	8,181	-
Receivables related to margin transactions	31,817	31,817	-
Investment securities	6,292	6,292	-
Assets total	¥591,546	¥591,546	-
Short-term borrowings	¥ 142,328	¥ 142,328	-
Commercial paper	10,000	10,000	-
Current portion of long-term debt	6,283	6,283	
Long-term debt	5,684	5,684	-
Cash received on securities loaned	38,910	38,910	-
Borrowings under repurchase agreements	114,758	114,758	-
Trading securities	87,628	87,628	-
Derivatives	6,328	6,328	-
Payables to brokers, dealers, and clearing organizations	33,676	33,676	-
Payables to customers	18,207	18,207	-
Payables related to margin transactions	19,075	19,075	-
Income taxes payable	8,023	8,023	-
Liabilities total	¥490,900	¥490,900	-

March 31, 2014	(Thousands of U.S. dollars) Carrying amount	Fair value	Unrealized gain (loss)
Cash and deposits	$ 384,075	$ 384,075	-
Cash segregated as deposits	265,333	265,333	-
Cash collateral pledged for securities borrowed	1,699,858	1,699,858	-
Loans under resell agreements	422,915	422,915	-
Trading securities	2,163,776	2,163,776	-
Derivatives	14,599	14,599	-
Receivables from brokers, dealers, and clearing organizations	155,046	155,046	-
Receivables related to margin transactions	479,130	479,130	-
Investment securities	71,144	71,144	-
Assets total	$5,655,876	$5,655,876	-
Short-term borrowings	$1,285,431	$1,285,431	-
Commercial paper	75,787	75,787	-
Current portion of long-term debt	234,706	234,706	
Long-term debt	51,496	51,500	$ (4)
Cash received on securities loaned	152,242	152,242	-
Borrowings under repurchase agreements	1,013,002	1,013,002	-
Trading securities	699,280	699,280	-
Derivatives	44,922	44,922	-
Payables to brokers, dealers, and clearing organizations	417,607	417,607	-
Payables to customers	262,437	262,437	-
Payables related to margin transactions	162,709	162,709	-
Income taxes payable	54,615	54,615	-
Liabilities total	$4,454,234	$4,454,238	$ (4)

Methods for determining fair values of financial instruments for the years ended March 31, 2014 and 2013, were as follows:

Cash and deposits, Cash segregated as deposits, Cash collateral pledged for securities borrowed, Loans under resell agreements, Receivables from brokers, dealers and clearing organizations, and Receivables related to margin transactions

The carrying values of these financial instruments approximate fair values because they settle in a short period.

Trading securities, Derivatives (assets), and Derivatives (liabilities)

The fair values of these financial instruments are determined in accordance with internal rules of fair value assessment.

Investment securities

The fair value is measured at the quoted market price in active markets in accordance with internal rules of fair value assessment.

Short-term borrowings, Commercial paper, Current portion of long-term debt, Cash received on securities loaned, Borrowings under repurchase agreements, Payables to brokers, dealers and clearing organizations, Payables to customers, Payables related to margin transactions, and Income taxes payable

The carrying values of these financial instruments approximate fair values because they are settled in a short period.

Derivatives

Fair value information for derivatives is included in Note 6.

Long-term debt

Long-term debt from banks and other financial institutions

The fair value of long-term debt is set equal to book value on the basis that carrying values of long-term debt approximate fair values because the long-term debt is based on variable interest rates reflecting market interest rates in a short period of time, and credit conditions have not significantly changed since the execution.

Bonds Payable

The fair value is measured at the quoted market price in active markets. If a quoted price is not available, the fair value is calculated as the present value of the total amount of principal and interest estimated by applying the discount rate commensurate with the remaining period and credit risk.

(b) Carrying amount of financial instruments whose fair values cannot be reliably determined

	(Millions of yen)		(Thousands of U.S. dollars)
	2014	2013	**2014**
Investment in associated companies	**¥ 8,196**	¥ 6,438	**$ 79,638**
Available-for-sale securities:			
Stocks (nonlisted)	**3,491**	3,469	**33,920**
Other	**2,336**	1,719	**22,695**
Total	**¥ 14,023**	¥ 11,626	**$ 136,253**

The fair values of unlisted stocks are not included in "Investment securities" in the table (a) as they do not have a quoted market price in active markets, the amount of future cash flows cannot be estimated, and their fair values cannot be reliably determined.

(6) Maturity analysis for financial assets and securities with contractual maturities

	(Millions of yen)			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	**¥ 2,152**	-	-	-
Investment securities				
Available-for-sale securities with maturity dates (government bonds)	-	**¥ 10**	-	-
Total	**¥ 2,152**	**¥ 10**	-	-

	(Thousands of U.S. dollars)			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	**$ 20,914**	-	-	-
Investment securities				
Available-for-sale securities with maturity dates (government bonds)	-	**$ 98**	-	-
Total	**$ 20,914**	**$ 98**	-	-

Please see Note 7 for annual maturities of long-term debt.

16. Commissions

Commissions earned for the years ended March 31, 2014 and 2013, consisted of the following:

	(Millions of yen)		(Thousands of U.S. dollars)
	2014	2013	**2014**
Brokerage	**¥ 26,301**	¥ 9,995	**$ 255,549**
Underwriting and distribution	**22,071**	20,484	**214,449**
Other	**6,567**	6,181	**63,811**
Total	**¥ 54,939**	¥ 36,660	**$ 533,809**

17. Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended March 31, 2014 and 2013, consisted of the following:

	(Millions of yen)				(Thousands of U.S. dollars)	
		2014		2013		2014
Employees' compensation and benefits	¥	**28,971**	¥	26,188	$	**281,492**
Brokerage and other commissions		**7,038**		4,691		**68,380**
Communication and transportation		**2,639**		2,526		**25,641**
Real estate expenses		**5,911**		6,074		**57,437**
Data processing and office supplies		**6,137**		5,141		**59,630**
Advertising		**2,406**		1,035		**23,379**
Taxes other than income taxes		**700**		642		**6,804**
Depreciation		**754**		685		**7,323**
Amortization		**1,188**		1,782		**11,539**
Other		**2,690**		1,939		**26,139**
Total	¥	**58,434**	¥	50,703	$	**567,764**

18. Other income and expenses

The components of "Other income, net" in the consolidated statement of income for the years ended March 31, 2014 and 2013, were as follows:

	(Millions of yen)				(Thousands of U.S. dollars)	
		2014		2013		2014
Dividend income	¥	**384**	¥	312	$	**3,735**
Rental income		**642**		680		**6,238**
Net gain on investment in partnership (*1)		**284**		42		**2,754**
Equity in gain of associated companies		**1,709**		838		**16,604**
Net gain on sales and devaluation of investment securities		**223**		22		**2,170**
Gain on sales of stocks of associated companies		**334**		-		**3,252**
Gain on change in equity		**895**		-		**8,696**
Gain on transfer of business		**-**		390		**-**
Gain on sales of fixed assets		**556**		185		**5,400**
Loss on disposal of fixed assets		**-**		(82)		**-**
Provision for statutory reserves		**(101)**		(22)		**(979)**
Other (*2)		**133**		195		**1,283**
Total	¥	**5,059**	¥	2,560	$	**49,153**

(*1) "Net gain on investment in partnership" for this year is disclosed separately as the amount increased significantly. Such amount was included in "Other" in the equivalent note to the consolidated financial statements as of and for the year ended March 31, 2013, and was reclassified in the above.

(*2) Amortization of negative goodwill included in "Other" amounted to ¥21 million ($203 thousand) and ¥113 million for the years ended March 31, 2014 and 2013, respectively.

19. Comprehensive income

The components of other comprehensive income for the years ended March 31, 2014 and 2013, were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2014	2013	**2014**
Unrealized gain on available-for-sale securities:			
Gains arising during the year	**¥ 2,339**	¥ 2,942	**$ 22,728**
Reclassification adjustments to profit or loss	**(576)**	17	**(5,601)**
Amount before income tax effect	**1,763**	2,959	**17,127**
Income tax effect	**(675)**	(548)	**(6,553)**
Total	**¥ 1,088**	¥ 2,411	**$ 10,574**
Foreign currency translation adjustments:			
Adjustments arising during the year	**¥ 437**	¥ 218	**$ 4,250**
Reclassification adjustments to profit or loss	**-**	-	**-**
Amount before income tax effect	**437**	218	**4,250**
Income tax effect	**-**	-	**-**
Total	**¥ 437**	¥ 218	**$ 4,250**
Total other comprehensive income	**¥ 1,525**	¥ 2,629	**$ 14,824**

20. Related-Party Transactions

The material related-party transactions as of March 31, 2014, were as follows:

Type	Name	Description of business or occupation	Ownership ratio of voting rights	Description of transaction	Transaction volume
The Company director	Tateaki Ishida	President and Chief Executive Officer (Representative Director)	Direct 0.10%	Exercise of stock options	¥10 million ($102 thousand)
The Company director	Yoshimi Maemura	Deputy President (Representative Director)	Direct 0.02%	Exercise of stock options	¥10 million ($101 thousand)

Above transactions are about the exercise of stock options granted by the resolution at the shareholders' meeting on June 26, 2009, June 29, 2010, and June 29, 2011. The transaction volume represents the granted shares for the executed options during the year ended March 31, 2014, multiplied by the each exercise price.

21. Per share information

Basic and diluted net income per share ("EPS") for the years ended March 31, 2014 and 2013, were as follows:

	(Millions of yen)	(Thousands of shares)	(Yen)	(U.S. dollars)
	Net income	Weighted-average shares	EPS	
For the year ended March 31, 2014:				
Basic EPS—Net income available to common shareholders	**¥ 23,243**	**265,102**	**¥ 87.68**	**$ 0.85**
Effect of dilutive securities:				
Warrants	**-**	**1,416**		
Diluted EPS—Net income for computation	**¥ 23,243**	**266,518**	**¥ 87.21**	**$ 0.85**
For the year ended March 31, 2013:				
Basic EPS—Net income available to common shareholders	¥ 11,273	263,766	¥ 42.74	
Effect of dilutive securities:				
Warrants	-	472		
Diluted EPS—Net income for computation	¥ 11,273	264,238	¥ 42.66	

22. Segment information

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Information about sales, profit, assets, liabilities, and other items by reportable segments

This information is not presented as the Group operates as a single reportable segment in the investment and financial service business.

(2) Information about products and services of the reportable segment

This information is not presented because operating revenues from third parties of a single product and service are over 90% of operating revenues in the consolidated statement of income.

(3) Geographical information

(a) Operating revenues

This information is not presented because the Group's revenues in Japan account for more than 90% of revenues in the consolidated statement of income.

(b) Property and equipment

This information is not presented because the Group's property and equipment in Japan account for more than 90% of property and equipment in the consolidated balance sheet.

(4) Information by major customers

This information is not presented because there are no customers for which sales account for more than 10% of revenues in the consolidated statement of income.

(5) Information about impairment loss on fixed assets, goodwill, and negative goodwill by reportable segment

This information is not presented as the Group operates as a single reportable segment in the investment and financial service business.

23. Subsequent event

(1) Appropriation of Retained Earnings

On June 27, 2014, the shareholders approved the appropriation of retained earnings as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Cash dividends, ¥14.00 ($0.14) per share	**¥ 3,723**	**$ 36,169**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Tokai Tokyo Financial Holdings, Inc.:

We have audited the accompanying consolidated balance sheet of Tokai Tokyo Financial Holdings, Inc. and its consolidated subsidiaries as of March 31, 2014, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tokai Tokyo Financial Holdings, Inc. and its consolidated subsidiaries as of March 31, 2014, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 27, 2014

Company Information

Corporate Directory (as of March 31, 2014)

Company Name	Tokai Tokyo Financial Holdings, Inc.
Head Office	6-2, Nihonbashi 3-chome, Chuo-ku, Tokyo 103-0027, Japan Tel: +81-3-3517-8100 Fax: +81-3-3517-8314
Date of Incorporation	June 19, 1929
Common Stock	¥36,000,000,000
Total Outstanding Shares	280,582,115 shares
Number of Employees (Consolidated basis)	2,214

Board of Directors and Audit & Supervisory Board Members (as of June 27, 2014)

Directors	Tateaki Ishida, President & CEO (Representative Director)
	Yoshimi Maemura, Director & Deputy President (Representative Director)
	Hiroshi Iizumi, Director & Senior Managing Executive Officer
	Ikuo Suzuki, Director
	Nobuhiro Morisue, Director
	Ichiro Mizuno, Director
	Masato Setta, Director
Audit & Supervisory Board Members	Akira Takeuchi (full-time)
	Yoshihiko Takizawa
	Shigeo Kashiwagi
	Kazuyoshi Tanaka
	Eiichiro Kinoshita

Notes: 1. Ikuo Suzuki, Nobuhiro Morisue, Ichiro Mizuno and Masato Setta are outside directors stipulated in paragraph 15, Article 2, of the Companies Act.

2. Shigeo Kashiwagi, Kazuyoshi Tanaka and Eiichiro Kinoshita are outside audit & supervisory board members stipulated in paragraph 16, Article 2 of the Companies Act.

Subsidiaries and Affiliates (as of September 2, 2014)

Overseas Subsidiaries	Tokai Tokyo Securities (Asia) LTD. Room 2708-10, 27/F., Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong Tel: +852-2810-0822 Fax: +852-2810-0394
	Tokai Tokyo Securities Europe Limited City Tower, 40 Basinghall Street, London EC2V 5DE, United Kingdom Tel: +44-207-070-4600 Fax: +44-207-070-4649
	Tokai Tokyo Securities (USA), Inc. 330 Madison Avenue 9th Floor, New York, NY 10017, USA Tel: +1-646-495-5490 Fax: +1-646-495-5491
	Tokai Tokyo Investment Management Singapore Pte. Ltd. 8 Shenton Way #40-02 AXA Tower Singapore 068811 Tel: +65-6436-4250 Fax: +65-6327-9268
Domestic Affiliates	Tokai Tokyo Securities Co., Ltd.
	Utsunomiya Securities Co., Ltd.
	Tokai Tokyo Asset Management Co., Ltd.
	Tokai Tokyo-Sumishin Wealth Partners & Consulting Co., Ltd.
	Tokai Tokyo Investment Co., Ltd.
	Tokai Tokyo Research Center Co., Ltd.
	Tokai Tokyo Academy Co., Ltd.
	Tokai Tokyo Services Co., Ltd.
	Tokai Tokyo Business Service Co., Ltd.
	YM Securities Co., Ltd.
	Hamagin Tokai Tokyo Securities Co., Ltd.
	Nishi-Nippon City Tokai Tokyo Securities Co., Ltd.
	Senshu Ikeda Tokai Tokyo Securities Co., Ltd.

Major Shareholders (as of March 31, 2014)

Shareholder Name	Percentage of Shares Outstanding (%)
Mitsui Sumitomo Insurance Co., Ltd.	6.16
Toyota Financial Services Corporation	5.09
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	4.28
Japan Trustee Services Bank, Ltd. (Trust Account)	3.98
The Master Trust Bank of Japan, Ltd. (Trust Account)	2.72
The Bank of Yokohama, Ltd.	2.50
Nippon Life Insurance Company	2.00
Sumitomo Mitsui Trust Bank, Limited	1.71
NORTHERN TRUST CO. (AVFC) ACCOUNT NON TREATY	1.63
Meiji Yasuda Life Insurance Company	1.57

Notes: In addition to the companies listed above, Tokai Tokyo Financial Holdings holds 14,685,238 shares of treasury stock, equivalent to 5.23% of the total number of shares outstanding.

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