Consolidated Financial Statements
In Accordance with International Financial Reporting Standards (IFRS)

Fiscal Years Ended December 31, 2012 and 2013

Rakuten, Inc. and its Consolidated Subsidiaries

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Consolidated Statement of Financial Position

(Millions of Yen)

	Note	December 31, 2012	December 31, 2013
Assets			
Cash and cash equivalents	5	¥270,114	¥384,008
Accounts receivable — trade	6	65,493	73,443
Financial assets for securities business	7	615,703	1,218,987
Loans for credit card business	8	402,418	544,314
Investment securities for banking business	9	296,326	197,897
Loans for banking business	10	189,669	239,818
Investment securities for insurance business	11	13,623	10,233
Derivative assets	12	10,674	12,588
Investment securities	13	23,411	34,025
Other financial assets	14	123,132	159,058
Investments in associates and joint ventures	16	6,601	8,189
Property, plant and equipment	17	24,143	30,408
Intangible assets	18	188,014	235,881
Deferred tax assets	25	40,546	31,594
Other assets		17,767	29,365
Total assets		2,287,634	3,209,808
Liabilities			
Accounts payable — trade		79,965	115,357
Deposits for banking business	19	809,531	959,960
Financial liabilities for securities business	20	558,055	1,077,971
Derivative liabilities	12	4,685	8,023
Bonds and borrowings	21	305,186	389,683
Other financial liabilities	22	210,048	226,771
Income taxes payable		2,873	30,191
Provisions	23	29,614	41,020
Policy reserves and others for insurance business	24	18,496	18,852
Deferred tax liabilities	25	6,416	9,123
Other liabilities		20,853	26,403
Total liabilities		2,045,722	2,903,354
Equity			
Equity attributable to owners of the Company			
Common stock	26	108,255	109,530
Capital surplus	26	116,599	116,555
Retained earnings	26	20,873	61,226
Treasury stock	26	(3,626)	(3,649)
Other components of equity		(6,159)	16,401
Total equity attributable to owners of the Company		235,942	300,063
Non-controlling interests		5,970	6,391
Total equity		241,912	306,454
Total liabilities and equity		2,287,634	3,209,808

Consolidated Statement of Income

(Millions of Yen)

	Note	Year ended December 31, 2012	Year ended December 31, 2013
Continuing operations			
Revenue	27	¥400,444	¥518,568
Operating expenses	28	319,435	420,374
Other income	29	3,365	1,831
Other expenses	29	5,581	9,781
Additional line items	30	(28,738)	—
Operating income		50,055	90,244
Financial income	31	193	197
Financial expenses	31	2,565	1,962
Share of income of associates and joint ventures	16	1,423	131
Income before income tax		49,106	88,610
Income tax expense	25	27,970	45,129
Net income		21,136	43,481
Net income attributable to:			
Owners of the Company		20,489	42,900
Non-controlling interests		647	581
Net income		21,136	43,481

(Yen)

Earnings per share attributable to owners of the Company:			
Basic	32	¥15.59	¥32.60
Diluted	32	15.56	32.41

Consolidated Statement of Comprehensive Income

(Millions of Yen)

	Note	Year ended December 31, 2012	Year ended December 31, 2013
Net income		¥21,136	¥43,481
Other comprehensive income			
Items that will not be reclassified to net income:			
Gains (losses) on financial assets measured at fair value through other comprehensive income	40	(72)	9,500
Income tax effect of gains (losses) on financial assets measured at fair value through other comprehensive income	25	(51)	(3,330)
Share of other comprehensive income of associates and joint ventures	16	28	54
Total items that will not be reclassified to net income		(95)	6,224
Items that will be reclassified to net income:			
Foreign currency translation adjustments		10,362	18,294
Gains (losses) on cash flow hedges recognized in other comprehensive income	35	(447)	(407)
Income tax effect of gains (losses) on cash flow hedges recognized in other comprehensive income	25 35	176	145
Gains (losses) on cash flow hedges reclassified from other comprehensive income to net income	35	713	227
Income tax effect of gains (losses) on cash flow hedges reclassified from other comprehensive income to net income	25 35	(271)	(83)
Total items that will be reclassified to net income		10,533	18,176
Other comprehensive income, net of tax		10,438	24,400
Comprehensive income		31,574	67,881
Comprehensive income attributable to:			
Owners of the Company		30,907	67,253
Non-controlling interests		667	628
Comprehensive income		31,574	67,881

Consolidated Statement of Changes in Equity

(Millions of Yen)

	Note	Common stock	Capital surplus	Retained earnings	Treasury stock	Other components of equity				Total equity attributable to owners of the Company	Non-controlling interests	Total equity
						Foreign currency translation adjustments	Financial instruments measured at fair value through other comprehensive income	Cash flow hedges	Total other components of equity			
As of January 1, 2012		¥107,959	¥116,864	¥3,641	¥(3,626)	¥(18,123)	¥2,026	¥(374)	¥(16,471)	¥208,367	¥3,979	¥212,346
Comprehensive income												
Net income				20,489						20,489	647	21,136
Other comprehensive income, net of tax						10,341	(94)	171	10,418	10,418	20	10,438
Total comprehensive income		–	–	20,489	–	10,341	(94)	171	10,418	30,907	667	31,574
Transactions with owners												
Contributions by and distributions to owners												
Issuance of common stock	26, 37	296	296							592		592
Cash dividends paid	26, 38			(3,284)						(3,284)		(3,284)
Reclassification from other components of equity to retained earnings	39			106			(106)		(106)	–		–
Others	26		334	(79)	(0)					255		255
Total contributions by and distributions to owners		296	630	(3,257)	(0)	–	(106)	–	(106)	(2,437)	–	(2,437)
Changes in ownership interests in subsidiaries												
Issuance of common stock											30	30
Acquisitions and disposals of non-controlling interests	46, 47		(494)							(494)	1,380	886
Others			(401)							(401)	(86)	(487)
Total changes in ownership interests in subsidiaries		–	(895)	–	–	–	–	–	–	(895)	1,324	429
Total transactions with owners		296	(265)	(3,257)	(0)	–	(106)	–	(106)	(3,332)	1,324	(2,008)
As of December 31, 2012		108,255	116,599	20,873	(3,626)	(7,782)	1,826	(203)	(6,159)	235,942	5,970	241,912
Comprehensive income												
Net income				42,900						42,900	581	43,481
Other comprehensive income, net of tax						18,273	6,198	(118)	24,353	24,353	47	24,400
Total comprehensive income		–	–	42,900	–	18,273	6,198	(118)	24,353	67,253	628	67,881
Transactions with owners												
Contributions by and distributions to owners												
Issuance of common stock	26, 37	1,275	1,275							2,550		2,550
Cash dividends paid	26, 38			(3,944)						(3,944)		(3,944)

	Note	Common stock	Capital surplus	Retained earnings	Treasury stock	Other components of equity				Total equity attributable to owners of the Company	Non-controlling interests	Total equity
						Foreign currency translation adjustments	Financial instruments measured at fair value through other comprehensive income	Cash flow hedges	Total other components of equity			
Reclassification from other components of equity to retained earnings	39			1,793			(1,793)		(1,793)	—		—
Others	26		812	(396)	(23)					393		393
Total contributions by and distributions to owners		1,275	2,087	(2,547)	(23)	—	(1,793)	—	(1,793)	(1,001)	—	(1,001)
Changes in ownership interests in subsidiaries												
Issuance of common stock											50	50
Acquisitions and disposals of non-controlling interests	47		(2,135)							(2,135)	(208)	(2,343)
Others			4							4	(49)	(45)
Total changes in ownership interests in subsidiaries		—	(2,131)	—	—	—	—	—	—	(2,131)	(207)	(2,338)
Total transactions with owners		1,275	(44)	(2,547)	(23)	—	(1,793)	—	(1,793)	(3,132)	(207)	(3,339)
As of December 31, 2013		109,530	116,555	61,226	(3,649)	10,491	6,231	(321)	16,401	300,063	6,391	306,454

Consolidated Statement of Cash Flows

(Millions of Yen)

	Note	Year ended December 31, 2012	Year ended December 31, 2013
Cash flows from operating activities			
Income before income tax		¥49,106	¥88,610
Depreciation and amortization		21,227	26,086
Other loss		30,010	5,509
Decrease (Increase) in operating receivables		(9,379)	(3,035)
Decrease (Increase) in loans for credit card business		(96,287)	(141,895)
Increase (Decrease) in deposits for banking business		66,941	150,429
Decrease (Increase) in call loans for banking business		42,000	(32,000)
Decrease (Increase) in loans for banking business		(35,113)	(50,149)
Increase (Decrease) in operating payables		14,284	29,464
Increase (Decrease) in accounts payable — other and accrued expenses		10,852	6,768
Decrease (Increase) in financial assets for securities business		(200,103)	(603,284)
Increase (Decrease) in financial liabilities for securities business		193,565	519,916
Others		24,501	16,374
Income tax paid		(6,917)	(11,308)
Net cash flows from operating activities		104,687	1,485
Cash flows from investing activities			
Increase in time deposits		(6,349)	(8,089)
Decrease in time deposits		12,431	5,155
Purchase of property, plant and equipment		(5,162)	(10,018)
Purchase of intangible assets		(18,949)	(22,412)
Acquisition of subsidiaries	46	(35,076)	(30,198)
Purchase of investment securities for banking business		(253,991)	(150,512)
Proceeds from sales and redemption of investment securities for banking business		385,115	251,178
Purchase of investment securities for insurance business		(750)	(6,228)
Proceeds from sales and redemption of investment securities for insurance business		1,034	9,591
Purchase of investment securities		(15,637)	(4,728)
Proceeds from sales and redemption of investment securities		3,324	5,654
Other payments		(3,450)	(10,418)
Other proceeds		4,900	1,609
Net cash flows from investing activities		67,440	30,584

(Millions of Yen)

	Note	Year ended December 31, 2012	Year ended December 31, 2013
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings		6,607	62,305
Increase (Decrease) in commercial papers		14,000	23,000
Proceeds from long-term debt		30,100	63,210
Repayment of long-term debt		(90,168)	(66,966)
Cash dividends paid		(3,286)	(3,962)
Others		(14,073)	(2,335)
Net cash flows (used in) from financing activities		(56,820)	75,252
Effect of change in exchange rates on cash and cash equivalents		2,006	6,573
Net increase (decrease) in cash and cash equivalents		117,313	113,894
Cash and cash equivalents at beginning of the year	5	152,801	270,114
Cash and cash equivalents at end of the year	5	270,114	384,008

[Notes to the Consolidated Financial Statements]

1. General Information

(1) Reporting Entity

Rakuten, Inc. (hereinafter referred to as the “Company”) is a company located in Japan. The Company and its subsidiaries (hereinafter referred to as the “Group Companies”), providers of a wide-range of internet-related services, have aligned their businesses along two main axes: internet services and internet finance. The activities in the “Internet Services” segment consist of the operation of EC (e-commerce) sites, including the “Rakuten Ichiba” internet shopping mall, travel booking sites, portal sites and digital content sites, etc., as well as services based on these sites, such as advertising. The activities in the “Internet Finance” segment involve internet banking and securities services via the internet, credit card services, life insurance, e-money services and other financial services. Activities in the “Others” segment consist of communication services and the management of a Japanese professional baseball team. Please refer to Note 4. Segment Information for more details.

(2) Basis of Preparation

The Group Companies’ consolidated financial statements meets the requirements set out under Article 1-2 of the Rules on Terminology, Formats and Compilation Methods of Consolidated Financial Statements (Cabinet Office Ordinance No. 28 of 1976; hereinafter referred to as the “Rules on Consolidated Financial Statements”) under which the Group Companies are qualified as a “specified company” and duly prepares such consolidated financial statements under IFRS based on the provisions of Article 93 of the Rules on Consolidated Financial Statements.

The consolidated financial statements were approved by the Representative Director on March 27, 2014.

(3) Functional Currency and Presentation Currency

Items included in the financial statements of each consolidated subsidiary and associate are measured using the currency of the primary jurisdiction in which they conduct their business operations (“functional currencies”). The consolidated financial statements are presented in Japanese yen, the functional currency of the Company and the presentation currency of the Group Companies. The amounts in the consolidated financial statements are presented in millions of yen rounded to the nearest million.

(4) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis, except for those financial instruments that have been measured at fair value.

(5) Use of Estimates and Judgments

The preparation of the consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires the management of the Group Companies to exercise judgment in the process of applying the accounting policies of the Group Companies. The areas involving a higher degree of judgment or complexity, areas where assumptions and estimates are significant to the consolidated financial statements, or information in respect of uncertainties of assumptions and estimates which have a significant risk of causing material adjustment in the next year are disclosed in Note 3. Significant Accounting Estimates and Judgments.

(6) Early Adoption of Standards and Interpretations

The Group Companies have early adopted the following standards prior to the mandatory effective date since the fiscal year ended December 31, 2012.

- IFRS 9, “Financial instruments” (issued Nov. 2009, amended Oct. 2010 and Dec. 2011)

(7) New Standards and Interpretations Not Yet Applied

As of December 31, 2013, the Group Companies have not applied the following standards, interpretations and amendments to standards or interpretations issued before the approval date of the consolidated financial statements but which are not yet effective. The Group Companies are currently analyzing the estimated impact of adopting such standards on the results of operations, financial position or cash flows.

IFRS		Mandatory adoption (effective date)	Group Companies' adoption period (reporting period ended)	Description
IAS 32	Financial instruments: presentation (Amended in Dec. 2011: offsetting financial assets and financial liabilities)	January 1, 2014	December 31, 2014	Clarification of the meaning of a current legally enforceable right, and clarification of the requirements for offsetting in systems with gross settlement mechanisms where such settlement is not simultaneous
IAS 36	Impairment of assets (Revised in May 2013: recoverable amount disclosures for non-financial assets)	January 1, 2014	December 31, 2014	Clarification of the disclosure guidelines related to the recoverable amount of CGUs including significant goodwill or intangible assets with indefinite useful lives
IFRS 9	Financial instruments (Revised in Nov. 2013: hedge accounting)	January 1, 2018 Tentative decision	Not determined	Revision on hedge accounting

2. Accounting Policies

(1) Basis of Consolidation

1) Subsidiaries

A subsidiary is an entity (including structured entities) that is controlled by the Group Companies. The Group Companies control an entity when they are exposed, or have rights, to variable returns from involvement with the entity and have the ability to affect those returns through power over that entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group Companies control another entity or not. Between the date of obtaining control and the date of losing control, the consolidated financial statements of the Group Companies include the financial statements of each controlled subsidiary.

The Group Companies apply the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred by the Group Companies to the former owners of the acquiree and the equity interests issued by the Group Companies. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs incurred by the Group Companies, such as agent commissions, legal fees, due diligence costs, other professional fees and other consulting costs, are recognized as expenses in the period in which they are incurred. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The acquisition date is the date when control is transferred to the acquirer. Judgments may be required in deciding the acquisition date and whether control is transferred from one party to another. Further, the Group Companies recognize any non-controlling interest in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the acquiree’s net assets in the event of liquidation, on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest’s proportionate share of the recognized amounts of acquiree’s identifiable net assets.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the fair value of non-controlling interest and the fair value of any pre-existing interest in the acquiree at the acquisition date over the net identifiable assets acquired and liabilities assumed. Whereas if the aggregate of the consideration transferred, the fair value of non-controlling interest in the acquiree and the fair value of pre-existing interest in the acquiree at the acquisition date is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the Consolidated Statement of Income as a bargain purchase transaction.

Changes in the ownership interest in subsidiaries are accounted for as equity transactions if the Group Companies retain control over the subsidiaries. Any difference between the adjustment to the non-controlling interests and the fair value of the consideration transferred or received is recognized directly in equity attributable to owners of the Company.

Intercompany balances and transactions are eliminated in consolidation. Unrealized gains or losses included in assets resulting from transactions within the Group Companies are also eliminated. The financial statements of each subsidiary are adjusted, if necessary, to comply with the accounting policies of the Group Companies.

2) Associates and Joint Arrangements

Associates are entities over which the Group Companies have significant influence but do not have control over the financial and operating policies of such entities. Significant influence is presumed to exist when the Group Companies hold 20% to 50% of the voting power of another entity. The factors considered in determining whether or not the Group Companies have significant influence include representation on the board of directors. The existence of these factors can lead to the determination that the Group Companies have significant influence, even though the investment of the Group Companies is less than 20% of the voting stock.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the activities that have significant influence on variable returns from arrangements require the unanimous consent of the parties sharing control. Investments in a joint arrangement are classified as a joint operation or a joint venture depending upon the rights and obligations of the parties to the arrangement. A joint operation is a joint arrangement whereby parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investments in associates and joint ventures are accounted for using the equity method, except where they are classified as assets held for sale in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” and accordingly accounted for in accordance with IFRS 5. The Group Companies’ share of the operating results of associates and joint ventures is adjusted to conform with the accounting policies of the Group Companies, and is reported in the Consolidated Statement of Income as “Share of income of associates and joint ventures.” The Group Companies’ share of investees’ gains or losses resulting from intercompany transactions is eliminated on consolidation. Under the equity method of accounting, the investment of the Group Companies in associates and joint ventures are initially recorded at cost, and subsequently increased (or decreased) to reflect both the Group Companies’ share of the post-acquisition net income and other movements included directly in equity of the associates and joint ventures.

Goodwill arising on the acquisition of associates or joint ventures is included in the carrying value of the investment, and the Group Companies carry out any impairment testing on the entire interest in an associate. The Group Companies assess whether there is any objective evidence that the investments in associates and joint ventures are impaired at each reporting date. If there is any objective evidence of impairment, an impairment test is performed by comparing the investment’s recoverable amount, which is the higher of its value in use or fair value less costs of disposal, to its carrying amount. An impairment loss recognized in prior periods is only reversed if there has been a change in the estimates used to determine the investment’s recoverable amount since the last impairment loss was recognized. The impairment loss is reversed to the extent that the carrying amount of the investment equals the recoverable amount.

For investments in joint operations, the Group Companies recognize their share of the revenues, expenses, assets and liabilities of each joint operation.

(2) Business Combinations

The Group Companies use the acquisition method to account for business combinations. In accordance with the recognition principles of IFRS 3 “Business Combinations,” the identifiable assets, liabilities and contingent liabilities of the acquiree are measured at their fair values at the acquisition date except:

- Deferred tax assets or liabilities and liabilities (or assets) related to employee benefit arrangements are recognized and measured in accordance with IAS 12 “Income taxes” and IAS 19 “Employee benefits,” respectively; and liabilities related to share-based payments are recognized and measured in accordance with IFRS 2 “Share-based Payment;” and
- Non-current assets and operations classified as held for sale are measured in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations.”

If the initial accounting for business combinations is incomplete by the end of the reporting period in which the business combinations occur, the Group Companies report provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are retrospectively adjusted during the measurement period to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized as of that date. Additional assets or liabilities are recognized if new information, if known, would have resulted in the additional recognition of assets or liabilities. The measurement period does not exceed one year.

Goodwill relating to acquisitions prior to the date of transition to IFRSs is reported in accordance with the previous generally accepted accounting principles (“GAAP”).

(3) Foreign Currencies

1) Foreign Currency Transactions

Foreign currency transactions are translated into the functional currencies of individual foreign subsidiaries using the spot exchange rate at the date of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currencies using the spot exchange rate at the end of each reporting period. Non-monetary assets and liabilities measured at fair value that are denominated in foreign currencies are retranslated using the spot exchange rates at the date when the fair value was determined.

Exchange differences arising from settlement and translation of foreign currency denominated monetary assets and liabilities at the period end closing rate are recognized in the Consolidated Statement of Income. However, when profits or losses related to non-monetary items are recognized in comprehensive income, any exchange differences are also recognized in other comprehensive income.

2) Foreign Operations

Assets and liabilities of foreign operations (including goodwill and fair value adjustments arising on the acquisition of foreign operations) are translated into Japanese yen using the spot exchange rate at the reporting date. Income and expenses are translated into Japanese yen at the average exchange rates for the period.

Exchange differences arising from translation of financial statements of foreign operations are recognized in other comprehensive income.

These differences are presented as “Foreign currency translation adjustments” in other components of equity. On disposal of the entire interest of foreign operations, and on the partial disposal of an interest which involves loss of control, significant influence or joint control, the cumulative amount of the exchange differences is reclassified to income as a part of gains or losses on disposal.

(4) Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less and insignificant risk of changes in value. However, short-term highly liquid investments in the banking business are excluded.

(5) Financial Instruments

1) Non-derivative Financial Assets

The Group Companies recognize trade and other receivables at the time they arise. All other financial assets are recognized at the contract dates when the Group Companies become a party to the contractual provisions of the instrument.

The following is a summary of the classification and measurement model of non-derivative financial assets.

Financial Assets Measured at Amortized Cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- The asset is held within the Group Companies' business model with the objective of holding assets in order to collect contractual cash flows; and
- The contractual terms of the instrument give rise on a specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are initially measured at fair value plus directly attributable transaction costs. Subsequently, the carrying amount of the financial assets measured at amortized cost is calculated using the effective interest method, less impairment loss when necessary.

Impairment of Financial Assets Measured at Amortized Cost

For financial assets measured at amortized cost, on a quarterly basis, the Group Companies assess whether there is any objective evidence that financial assets are impaired. Financial assets are impaired and impairment losses are incurred if:

- There is any objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the assets and up to the reporting date; and
- The loss event had an impact on the estimated future cash flows of the financial assets and a reliable estimate can be made.

Objective evidence that a financial asset is impaired includes:

- A breach of contract, such as a default or delinquency in interest or principal payments;
- Extension of the collection period of a receivable under specific conditions, which would not have been given in the absence of such circumstances;
- Indication of borrower's bankruptcy; and
- The disappearance of an active market.

The Group Companies review the evidence of impairment for financial assets measured at amortized cost individually or collectively. For significant financial assets, the Group Companies assess the evidence of impairment individually. If it is not necessary to impair significant financial assets individually, the Group Companies collectively assess whether or not any incurred but not yet reported impairment exists. Financial assets are grouped based on similar credit risk characteristics and collectively assessed for impairment.

In collectively assessing for impairment, the Group Companies adjust the impairment loss if it is determined that the actual loss, which reflects the current economic and credit conditions, differs from historical experience, estimated timing of recovery, and expected amount of loss.

The amount of the impairment loss for financial assets is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The carrying amount of the financial assets is reduced through the use of an allowance account and the amount of the loss is recognized in the Consolidated Statement of Income. The allowance for doubtful accounts is written off when there is no realistic prospect of recovery and all collateral has been realized or has been transferred to the Group Companies. If, in a subsequent period, the amount of the estimated impairment loss decreases and the decrease can be objectively linked to an event occurring after the impairment was recognized, the impairment loss shall be reversed by adjusting the allowance account in the Consolidated Statement of Income. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

Financial Assets at Fair Value through Profit or Loss ("FVTPL")

Financial assets other than equity instruments that do not meet the conditions for amortized cost are measured at fair value with gains or losses on remeasurement recognized in the Consolidated Statement of Income. Those financial assets include financial assets held for trading.

Equity investments are measured at fair value with gains or losses on re-measurement recognized in the Consolidated Statement of Income unless the Group Companies make an irrevocable election to measure equity investments as at fair value through other comprehensive income ("FVTOCI") on initial recognition.

Financial assets measured at FVTPL are initially measured at fair value and transaction costs are recognized in the Consolidated Statement of Income when they are incurred.

Financial Assets at FVTOCI

On initial recognition, the Group Companies may make an irrevocable election to measure investments in equity instruments as at FVTOCI. The election is made only for equity investments other than those held for trading.

Financial assets measured at FVTOCI are initially measured at their fair value (including directly attributable transaction costs). Subsequently, they are measured at fair value, and gains and losses arising from changes in fair value are recognized in other comprehensive income and presented as "Gains (losses) on financial assets measured at fair value through other comprehensive income" in other components of equity.

However, dividends on financial assets measured at FVTOCI are recognized in the Consolidated Statement of Income as "Revenue" or "Financial income."

Derecognition of Financial Assets

The Group Companies derecognize a financial asset when the contractual rights to the cash flows from the asset expire, or when the Group Companies transfer the contractual right to receive cash flows from financial assets in transactions in which substantially all the risks and rewards of ownership of the asset are transferred to another entity. Any interest in transferred financial asset qualifying for derecognition created or retained by the Group Companies are accounted for separately.

2) Non-derivative Financial Liabilities

Debt securities issued by Group Companies are initially recognized on the issue date. All other financial liabilities are recognized when the Group Companies become a party to the contractual provisions of the instruments.

The Group Companies derecognize financial liabilities when they are extinguished, i.e., when the obligation specified in the contract is discharged, cancelled or expired.

The Group Companies classify financial liabilities as accounts payable-trade, deposits for banking business, financial liabilities for securities business, bonds and borrowings and other financial liabilities as non-derivative financial liabilities, initially measure them at fair value, and subsequently measure them at amortized cost using the effective interest method.

To reduce differences substantially caused by measurement of assets or liabilities or recognition of income on different bases, some deposits for banking business are designated as financial liabilities at FVTPL. Among unrealized gains and losses arising from changes in the fair values of such financial liabilities, any due to changes in the credit risk of the liabilities are included in a separate component of net assets.

3) Derivatives

<u>Derivatives Qualifying for Hedge Accounting</u>

The Group Companies enter into derivative transactions to manage the risk of fair value fluctuations due to changes in interest rates, interest rate risk and foreign currency risk. The primary derivatives used by the Group Companies are interest rate swaps and foreign exchange forward contracts.

At the initial designation of the hedging relationship, the Group Companies document the relationship between the hedging instrument and the hedged item, along with their risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, the evaluation of the effectiveness of the hedging instrument in offsetting the hedged risk, and the measurement of ineffectiveness.

At the inception of the hedge and on an ongoing basis, the Group Companies assess whether the Group Companies can forecast if the hedging instrument is highly effective in offsetting changes in fair value or cash flows of the hedged item attributable to the hedged risk throughout the period for which the hedge is designated.

Derivatives are initially recognized at fair value with transaction costs recognized in the Consolidated Statement of Income as incurred. Subsequently derivatives are measured at fair value, and gains and losses arising from changes in the fair value are accounted for as follows:

- Fair Value Hedges

The changes in the fair value of the hedging instrument are recognized in the Consolidated Statement of Income. The gains or losses on the hedged items attributable to the hedged risks are recognized in the Consolidated Statement of Income, and the carrying amounts of the hedged items are adjusted.

- Cash Flow Hedges

When derivatives are designated as hedging instruments to hedge the exposure to variability in cash flows that are attributable to a particular risk associated with recognized assets or liabilities, the portion of the gain and loss on the derivative that is determined to be an effective hedge is presented as “Gains (losses) on cash flow hedges recognized in other comprehensive income” in the other components of equity. The balances of cash flow hedges are reclassified to income from other comprehensive income in the periods when the cash flows of hedged items affect income, in the same line items of the consolidated statement of comprehensive income as those of hedged items. The gain or loss relating to the ineffective portion is recognized immediately in the Consolidated Statement of Income.

Hedge accounting is discontinued prospectively when the hedge no longer qualifies for hedge accounting, or when the hedging instrument is expired, sold, terminated or exercised, or when the designation is revoked.

Derivatives Not Qualifying for Hedge Accounting

The Group Companies hold some derivatives for hedging purposes that do not qualify for hedge accounting. Derivatives may also be held for trading as opposed to hedging purposes. Any changes in fair value of these derivatives are recognized immediately in the Consolidated Statement of Income.

Embedded Derivatives

Some hybrid contracts, which contain both a derivative and a non-derivative component, are included among the financial instruments and other contracts. In such cases, the derivative component is termed an embedded derivative, with the non-derivative component representing the host contract. Where the host contract is a financial liability, if the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the hybrid contract itself is not classified as FVTPL as a financial liability, the embedded derivative is separated from the host contract and accounted for as a derivative. The financial liability component of the host contract is then accounted for in accordance with the Group Companies’ accounting policy for non-derivative financial liabilities.

4) Presentation of Financial Instruments

Financial assets and liabilities are offset, with the net amount presented in the consolidated statement of financial position, only if the Group Companies hold a currently enforceable legal right to set off the recognized amounts, and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

5) Financial Guarantee Contracts

Financial guarantee contracts are contracts that require the guarantor to make specified payments to reimburse the guarantee for losses incurred due to a debtor failing to make payments when due in accordance with the original or modified terms of a debt instrument.

Such financial guarantee contracts are measured initially at fair value on the date of the contract. Subsequent to initial recognition, the Group Companies measure the financial guarantee at the higher of the best estimate of expenditure required to settle the obligation under the financial guarantee contract, and the unamortized balance of the total amount of future guarantee charges.

(6) Property, Plant and Equipment

All property, plant and equipment are recorded at cost less any accumulated depreciation and accumulated impairment losses.

Cost includes costs directly attributable to the acquisition of and dismantling and removal of the asset, as well as any estimated costs of restoring the site on which they are located. Property, plant and equipment are subsequently carried on the historical cost basis measured using the cost model.

Depreciation is calculated based on the depreciable amount. The depreciable amount is the cost of an asset less its residual value.

Depreciation of property, plant and equipment is mainly computed under the straight-line method based on the estimated useful life of each component. The straight-line method is used because it is considered to most closely approximate the pattern in which the future economic benefits of assets are expected to be consumed by the Group Companies. Leased assets are depreciated over the shorter of the lease term and their useful lives if there is no reasonable certainty that the Group Companies will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant assets for the years ended December 31, 2012 and 2013 are as follows:

- Buildings and accompanying facilities 10–50 years
- Furniture, fittings and equipment 5–10 years

The depreciation methods, useful lives and residual values are reviewed at the end of each reporting period, and revised if necessary.

(7) Intangible Assets

1) Goodwill

Initial Recognition

Goodwill arising on the acquisition of a subsidiary is recognized as an intangible asset. Measurement of goodwill on initial recognition is described in (1) Basis of Consolidation.

Subsequent Measurement

Goodwill is measured at cost less accumulated impairment losses.

2) Capitalized Software Costs

The Group Companies incur certain costs to purchase or develop software primarily for internal-use.

Expenditures arising from research activities to obtain new scientific or technical knowledge are recognized as expenses when they are occurred. Expenditures arising from development activities are capitalized as software, if, and only if, they are reliably measurable, they are technically feasible, it is highly probable that they will generate future economic benefits, and the Group Companies intend and have adequate resources to complete their developments and use or sell them.

Capitalized software is measured at cost less accumulated amortization and any accumulated impairment losses.

3) Intangible Assets Acquired in Business Combinations

Intangible assets that are acquired in business combinations, such as trademarks and other similar items, are recognized separately from goodwill, and are initially recognized at fair value at the acquisition date.

Subsequently such intangible assets are measured at cost less any accumulated amortization and accumulated impairment losses.

4) Other Intangible Assets

Other intangible assets with finite useful lives are measured at cost less any accumulated amortization and accumulated impairment losses.

5) Amortization

Amortization is calculated based on the acquisition cost of an asset less its residual value. Within intangible assets with definite useful lives, the value of the insurance business and its customer relationships acquired through business combinations are amortized based on the ratio of actual insurance revenue occurring in a year over the total expected insurance revenue over the period. Other intangible assets are amortized under the straight-line method. These methods are used because they are considered to most closely approximate pattern in which the future economic benefits of intangible assets are expected to be consumed by the Group Companies.

Estimated useful lives of significant intangible assets with definite useful lives are as follows:

- Software mainly 5 years
- Value of the insurance business and its acquired customer relationships 30 years

The amortization methods, useful lives and residual values are reviewed at the end of each reporting period, and revised if necessary.

(8) Leases (Lessee)

Leasing Transactions

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. In the case that fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, such transactions are classified as lease transactions.

Finance Leases

Leases that transfer all risks and benefits of ownership of the leased item to the lessee are classified as finance leases.

Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. After commencement of the lease, the Group Companies' accounting policy appropriate to each asset is applied.

The discount rate used in calculating the present value of the minimum lease payments is the implicit interest rate of the lease, where this can be determined practically. Where it is impractical to determine such a rate, the lessee's incremental borrowing rate shall be used.

The minimum lease payments are apportioned between finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

A leased asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating Leases

Lease arrangements, except for finance leases that have not been capitalized in the consolidated statement of financial position, are classified as operating leases.

Under operating lease transactions, lease payments are recognized as an expense using the straight-line method over the lease term in the Consolidated Statement of Income.

(9) Impairment of Non-financial Assets

The Group Companies assess at each reporting date whether there is an indication that a non-financial asset, except for inventories and deferred tax assets, may be impaired. If any such indication exists, the Group Companies estimate the recoverable amount of the asset. For goodwill, intangible assets with indefinite useful lives, and intangible assets not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit, or group of cash-generating units (CGU) is the higher of its value in use and fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. A CGU is the smallest group of assets, which generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or group of assets.

The CGU to which goodwill is allocated is determined based on the unit by which the goodwill is monitored for internal management purposes, and in principle, each entity is considered to be a CGU for the purposes of goodwill allocation.

Since corporate assets do not generate independent cash flows, if there is an indication that corporate assets may be impaired, the recoverable amount is determined for the CGU or group of CGUs to which the corporate assets belong.

Impairment losses are recognized in the Consolidated Statement of Income when the carrying amount of an asset or CGU exceeds its recoverable amount. Such impairment losses are recognized first reducing the carrying amount of any allocated goodwill and then are allocated to the other assets of the CGU on a pro-rata basis based on the carrying amount of such assets.

Impairment losses recognized in respect of goodwill are not reversed. Assets other than goodwill are reviewed at the end of each reporting period to assess whether there is any indication that an impairment loss recognized in prior years may no longer exist or may have decreased. An impairment loss recognized is reversed if an indication of the reversal of impairment losses exists and there is a change in the estimates used to determine the asset's recoverable amount. The reversal of an impairment loss does not exceed the carrying amount, net of depreciation and amortization, which would have been determined if any impairment loss had never been recognized for the asset in prior years.

(10) Provisions

Provisions are recognized when the Group Companies have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

(11) Insurance

General Insurance Accounting

Insurance contracts issued and reinsurance contracts held by insurers are accounted for under IFRS 4 “Insurance contracts” based on the accounting policies previously applied in accordance with Japanese accounting standards for insurance companies.

Policy reserves and others for insurance business

The Group Companies apply the measurement of insurance liabilities which has been applied for insurance contracts in Japan. A liability adequacy test is performed in consideration of estimated present value of cash inflows, such as related insurance premiums and investment income, and cash outflows such as insurance claims and benefits and operating expenses. If the test shows that the liability is inadequate, the entire deficiency is recognized in the Consolidated Statement of Income.

(12) Equity

Common Stock

Proceeds from the issuance of equity instruments by the Company are included in “Common stock” and “Capital surplus.” Direct issuance costs (net of tax) are deducted from “Common stock” and “Capital surplus” proportionately based on the proceeds received.

Treasury Stock

When the Company repurchases treasury stock, the consideration paid, including direct transaction costs (net of tax), is recognized as a deduction from equity. When the Company sells treasury stock, the consideration received is recognized as an addition to equity.

(13) Share-based Payments

The Group Companies have stock option plans as incentive plans for directors, executive officers, and employees. The fair value of stock options at the grant date is recognized as an employee expense over the vesting period from the grant date as a corresponding increase in capital surplus. The fair value of the stock options is measured using the Black-Scholes model or other models, taking into account for the terms of the options granted. The Group Companies regularly review the assumptions and revise estimates of the number of options that are expected to vest, as necessary.

(14) Revenue

The Group Companies mainly provide EC (e-commerce) sites including an Internet shopping mall Rakuten Ichiba, travel booking sites, portal sites and digital contents sites, along with business for sales of advertising on these sites. The Group Companies also provide various internet finance services, such as credit card, banking, securities, insurance services and so on. Revenue is measured at the fair value of the consideration for goods sold and services provided in the ordinary course of business, less sales related taxes. The revenue of the Group Companies is recognized as follows:

Sales of Goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- The Group Companies have transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group Companies retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group Companies; and
- The cost incurred in respect of the transaction can be measured reliably.

Rendering of Services

The outcome of a transaction involving the rendering of services can be estimated reliably, and revenue is recognized by reference to the stage of completion of the transaction at the end of each reporting period, when all the following conditions are satisfied:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group Companies;
- The stage of completion of the transaction at the end of each reporting period can be measured reliably; and
- The cost incurred for the transaction and the cost to complete the transaction can be measured reliably.

Interest Income

Revenue arising from interest is recognized using the effective interest method when the following conditions are satisfied:

- The amount of revenue can be measured reliably; and
- It is probable that the economic benefits associated with the transaction will flow to the Group Companies.

(15) Financial Income and Expenses

Financial income mainly comprises interest income, dividend income and changes in the fair value of financial assets measured at FVTPL. Interest income is accrued using the effective interest method. Dividend income is recognized on the date when the right of the Group Companies to receive the dividend is established.

Financial expenses mainly comprise interest expenses and impairment losses on financial assets measured at amortized cost. Interest expenses are accrued using the effective interest method.

Financial income and expenses incurred from the finance business of the subsidiaries are included in “Revenue” and “Operating expenses.”

(16) Short-term Employee Benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed during the period when the related service is rendered. Accrued bonus and holiday pay are recognized as liabilities, when the Group Companies have present legal or constructive obligation and when reliable estimates of the obligations can be made.

(17) Additional Line Items

The Group Companies disclose certain one-off revenues and expenses separately in the Consolidated Statement of Income when the amounts are material in order to better explain the impact on results of operations.

(18) Current and Deferred Income Tax

The income taxes expense comprises current and deferred taxes. These are recognized in the Consolidated Statement of Income, except for income taxes which arise from business combinations or which are recognized either in other comprehensive income or directly in equity.

Current taxes are calculated by the expected tax payable or receivables on the taxable income, using the tax rates enacted or substantially enacted by the end of the reporting period.

Deferred tax assets and liabilities are recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and their corresponding tax bases. Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of an asset or liability in a transaction, which is not a business combination and, at the time of the transaction, affects neither income in the Consolidated Statement of Income nor taxable income.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply in the period when the related deferred tax assets is realized or the deferred tax liability is settled, based on tax laws that have been enacted or substantively enacted by the end of reporting period.

Deferred tax assets are recognized for unutilized tax losses, tax credits and deductible temporary differences, only to the extent that it is probable that future taxable income will be available against which such temporary differences can be utilized.

Deferred tax assets and liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, associates, and joint ventures. However, if the Group Companies are able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future, deferred tax liabilities are not recognized. Deferred tax assets are recognized only to the extent that it is probable that there will be sufficient taxable income against which the benefit of temporary differences can be utilized and the temporary differences will reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to settle current tax assets and liabilities on a net basis.

(19) Earnings Per Share

The Group Companies disclose basic and diluted earnings per share (attributable to the owners of the Company) related to common stock. Basic earnings per share is calculated by dividing net income (attributable to equity owners of the Company) by the weighted average number of common stock outstanding during the reporting period, adjusted for the number of treasury stock held. Diluted earnings per share are calculated, for the dilutive effects of all potential common stock by dividing net income (attributable to the owners of the Company) by the weighted average number of common stock outstanding during the reporting period, adjusted for the number of treasury stock.

Potential common stock of the Group Companies relates to the stock option plan.

On July 1, 2012, the Company implemented a 100-for-1 share split. Earnings per share (attributable to equity owners) for each reporting period are calculated by the number of common stock outstanding after incorporating the share split.

(20) Operating Segments

Operating segments correspond to business activities, from which the Group Companies earn revenues and incur expenses, including revenues and expenses relating to transactions with other operating segments. Discrete financial information for operating results of all operating segments is available, and is regularly reviewed by the Board of Directors of the Group Companies in order to determine the allocation of resources to the segment and assess its performance.

3. Significant Accounting Estimates and Judgments

(1) Significant Accounting Estimates and Assumptions

In the preparation of the consolidated financial statements in accordance with IFRS, the Group Companies make estimates and assumptions concerning future events. These accounting estimates are inherently not anticipated to equal actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the following reporting period are addressed below.

(a) Goodwill Evaluation (Note 2 “Accounting Policies” (9) and Note 18 “Intangible Assets”)

An impairment test is conducted at least once a year for goodwill recognized by the Group Companies, regardless of whether there is an indication of impairment or not. The recoverable amount of CGUs, to which goodwill is allocated, is mainly calculated based on estimated future cash flows, estimated growth rate, and discount rate. This calculation is based on judgments and assumptions that are made by the management of the Group Companies, considering business and market conditions. The Group Companies consider these assumptions to be significant because, if the assumed conditions change, the estimated recoverable amounts might be significantly different.

(b) Recoverability of Deferred Tax Assets (Note 2 “Accounting Policies” (18) and Note 25 “Deferred Income Tax and Income Tax Expense”)

For temporary differences that are differences between carrying value of an asset or liability in the consolidated statement of financial position and its tax base, the Group Companies recognize deferred tax assets and deferred tax liabilities in respect of such deferred tax assets and deferred tax liabilities calculated using the tax rates based on tax laws that have been enacted or substantively enacted by the end of the reporting period and the tax rates that are expected to apply to the period when the deferred tax asset is realized or the deferred tax liability is settled. Deferred tax assets are recognized for all deductible temporary differences, the unutilized tax losses carried forward and the unutilized tax credit carried forward to the extent that it is probable that taxable income will be available. The estimation of the taxable income for the future is calculated based on the business plan approved by the management of the Group Companies, and is based on management’s subjective judgments and assumptions. The Group Companies consider these assumptions to be significant because changes in the assumed conditions and amendments of tax laws in the future might significantly affect the calculation of the amounts of deferred tax assets and deferred tax liabilities.

(c) Methods of Determining Fair Value for Financial Instruments Measured at Fair Value Including Derivative Instruments (Note 2 “Accounting Policies” (5) and Note 41 “Fair Value of Financial Instruments”)

Financial assets and financial liabilities including derivatives, held by Group Companies are measured at the following fair values:

- Quoted prices in active markets for identical assets or liabilities;
- Fair value calculated using observable inputs other than quoted prices for the assets or liability, either directly or indirectly; and
- Fair value calculated using valuation techniques incorporating unobservable inputs.

In particular, the fair value estimated through valuation techniques that incorporate unobservable inputs is premised on the decisions and assumptions of the management of the Group Companies, such as appropriate experience assumptions, suppositions, and the model utilized. The Group Companies consider the estimations to be significant as it is probable that the changes of estimations and assumptions might have significant influence on the calculation of fair value for financial instruments.

(d) Impairment of Financial Assets Measured at Amortized Cost (Note 2 “Accounting Policies” (5) and Note 43 “Financial Risk Management”)

For financial assets measured at amortized cost, the Group Companies assess whether there is any objective evidence that financial assets are impaired each quarter. Where any such objective evidence exists, the Group Companies recognize the difference between the carrying value of the asset and the present value of estimated future cash flows as impairment losses.

When estimating future cash flows, management makes judgments considering the probability of default, time of recovery and historical experience, and whether after reflecting current economic and credit conditions, actual losses are greater than or less than such trends in the past. If these estimations and assumptions change, the amount of any impairment losses for financial assets measured at amortized cost might vary widely, therefore, the Group Companies consider these estimations to be significant.

(e) Provisions (Note 2 “Accounting Policies” (10) and Note 23 “Provisions”)

The Group Companies record certain provisions, such as provision for customer points. Regarding the provision for customer points, in preparation for the future use of points by customers, the Group Companies use historical experience to estimate the provision for the Rakuten Super Point Program. The provision is estimated on the premise of management’s decisions and the assumptions of the Group Companies. The Group Companies consider the estimation to be significant as it is probable that the changes of estimation and assumptions could have a significant influence on the calculation of the amount of the provisions.

(f) Liability Adequacy Test for Insurance Contracts (Note 2 “Accounting Policies” (11) and Note 24 “Policy reserves and others for insurance business”)

The Group Companies perform a liability adequacy test for insurance contracts in consideration of estimated present value of cash inflows such as related insurance premiums and investment income, and cash outflows such as insurance claims and benefits and operating expenses.

(2) Significant Judgment in Applying the Accounting Policies of the Group Companies

In the process of applying the accounting policies, the management of the Group Companies has made certain decisions which have a significant influence on the amounts recognized in the consolidated financial statements.

The Group Companies, mainly in the banking business and the credit card business, transact with structured entities, which are designed so that voting rights or similar rights are not the dominant factor in deciding who controls the entities. The management of the Group Companies decide whether the Group Companies are controlling the entities or not. All related facts and circumstances on the involvement with the structured entity are considered in deciding whether control over such an entity exists.

4. Segment Information

(1) General Information

As a comprehensive internet service provider engaged in the two main activities of Internet Services and Internet Finance, the Group Companies are organized into three reportable segments: “Internet Services,” “Internet Finance” and “Others.”

Discrete financial information for operating results of all operating segments is available, and is regularly reviewed by the Board of Directors of the Group Companies in order to determine the allocation of resources and assess performance.

The “Internet Services” segment comprises businesses running various EC (e-commerce) sites including an internet shopping mall Rakuten Ichiba, travel booking sites, portal sites and digital content sites, along with business for advertising and similar on these sites.

The “Internet Finance” segment engages in businesses providing services over the internet related to banking and securities, credit cards, life insurance and electronic money.

The “Others” segment comprises businesses involving provision of communication services and management of a professional baseball team.

(2) Measurement of Segment Profit and Loss

For the year ended December 31, 2012, operating segment information was reported based on generally accepted accounting principles in Japan (hereinafter referred to as “JGAAP”), and operating segment revenue and profit or loss, except for certain consolidated subsidiaries, were reported before intercompany eliminations and other consolidation adjustments. Operating segment profit or loss was based on operating income in accordance with JGAAP and included allocated corporate expenses.

However, the operating segment information reported for the year ended December 31, 2013 has been prepared in accordance with IFRS as stated in Note 2. Accounting Policies, and except for certain consolidated subsidiaries, the operating segment revenue and profit or loss is before intersegment eliminations and other consolidation adjustments. Operating segment profit or loss is based on operating income or loss in accordance with IFRS and includes allocated corporate expenses.

The segment information for the year ended December 31, 2012 reflects the retrospective application of IFRS (applied from the year ended December 31, 2013), used for the measurement of operating segment revenue and profit or loss. The Group Companies do not allocate assets and liabilities to operating segment information used by the chief operating decision maker.

For the year ended December 31, 2012

(Millions of yen)

	Internet Services	Internet Finance	Others	Total
Segment revenue	¥270,255	¥126,562	¥33,271	¥430,088
Segment profit or loss	25,305	20,284	2,825	48,414
Other items				
Depreciation and amortization	11,932	7,265	1,696	20,893

For the year ended December 31, 2013

(Millions of yen)

	Internet Services	Internet Finance	Others	Total
Segment revenue	¥315,228	¥201,494	¥35,746	¥552,468
Segment profit or loss	47,455	44,174	3,762	95,391
Other items				
Depreciation and amortization	16,032	8,223	1,665	25,920

The reconciliation of segment revenue to consolidated revenue is as follows:

(Millions of yen)

	Year ended December 31, 2012	Year ended December 31, 2013
Segment revenue	¥430,088	¥552,468
Intercompany transactions, etc.	(29,644)	(33,900)
Consolidated revenue	400,444	518,568

The reconciliation of segment profit or loss to income before income tax is as follows:

(Millions of yen)

	Year ended December 31, 2012	Year ended December 31, 2013
Segment profit	¥48,414	¥95,391
Intercompany transactions, etc.	1,641	(5,147)
Operating income	50,055	90,244
Financial income and expenses	(2,372)	(1,765)
Share of income of associates and joint ventures	1,423	131
Income before income tax	49,106	88,610

(3) Products and Services

Revenue from external customers by major products and services of the Group Companies is as follows:

(Millions of yen)

	Rakuten Ichiba	Rakuten Card	Rakuten Bank	Others	Revenue from external customers
Year ended December 31, 2012	¥106,998	¥44,474	¥32,175	¥216,797	¥400,444
Year ended December 31, 2013	129,271	60,074	36,621	292,602	518,568

(4) Geographic Information

For the year ended December 31, 2012

(Millions of yen)

	Japan	Americas	Europe	Others	Total
Revenue from external customers	¥346,264	¥29,454	¥23,573	¥1,153	¥400,444
Property, plant and equipment and intangible assets	132,638	45,943	31,753	1,823	212,157

For the year ended December 31, 2013

(Millions of yen)

	Japan	Americas	Europe	Others	Total
Revenue from external customers	¥458,973	¥39,359	¥18,421	¥1,815	¥518,568
Property, plant and equipment and intangible assets	144,030	75,480	43,006	3,773	266,289

(5) Major Customers

For the year ended December 31, 2012

Disclosure of major customers is omitted because the proportion of revenue from an individual external customer does not exceed 10% of consolidated revenue.

For the year ended December 31, 2013

Disclosure of major customers is omitted because the proportion of revenue from an individual external customer does not exceed 10% of consolidated revenue.

5. Cash and Cash Equivalents

Breakdown of Cash and Cash Equivalents

(Millions of yen)

	December 31, 2012	December 31, 2013
Cash and deposits	¥266,614	¥384,008
Negotiable deposits	3,500	—
Cash and cash equivalents	270,114	384,008

Funds (cash and cash equivalents) stated in the Group Companies' Consolidated Statement of Cash Flows include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less and insignificant risk of changes in value. However, short-term highly liquid investments in the banking business are excluded.

6. Accounts Receivable — Trade

Breakdown of Accounts Receivable — Trade

(Millions of yen)

	December 31, 2012	December 31, 2013
Gross amount of notes and accounts receivable — trade	¥67,515	¥75,299
Allowance for doubtful Accounts	(2,022)	(1,856)
Net amount of notes and accounts receivable — trade	65,493	73,443

Accounts receivable — trade is mainly generated from sales related to the Internet Services business and is measured at amortized cost.

7. Financial Assets for Securities Business

Breakdown of Financial Assets for Securities Business

(Millions of yen)

	December 31, 2012	December 31, 2013
Financial assets measured at amortized cost		
Cash segregated as deposits	¥252,308	¥432,404
Accounts receivable relating to investment securities transactions	201,589	427,678
Margin transactions assets	130,165	317,956
Short-term guarantee deposits	26,664	32,743
Others	6,206	8,858
Gross amount of financial assets measured at amortized cost	616,932	1,219,639
Allowance for doubtful accounts	(1,670)	(1,406)
Net amount of financial assets measured at amortized cost	615,262	1,218,233
Financial assets measured at FVTPL	441	754
Total financial assets for securities business	615,703	1,218,987

Investment securities held for trading purposes are included in financial assets measured at FVTPL.

Derivative assets held for trading purposes are included in "Derivative assets," while operating investment securities are included in "Investment securities."

8. Loans for Credit Card Business

Breakdown of Loans for Credit Card Business

(Millions of yen)

	December 31, 2012	December 31, 2013
Gross amount of loans for credit card business	¥422,955	¥564,607
Allowance for doubtful accounts	(20,537)	(20,293)
Net amount of loans for credit card business	402,418	544,314

Loans for credit card business mainly comprise accounts receivable arising from the use of credit cards by customers based on installment contracts and similar.

Loans for credit card business are measured at amortized cost because they are classified as financial assets held as part of the Group Companies' business model with the objective of collecting contractual cash flows, and such cash flows are limited to solely repayments of principal including interest on the principal balance outstanding.

9. Investment Securities for Banking Business

Breakdown of Investment Securities for Banking Business

(Millions of yen)

	December 31, 2012	December 31, 2013
Financial assets measured at amortized cost		
Trust beneficiary rights	¥62,164	¥23,756
Domestic bonds	100,961	53,059
Foreign bonds	88,306	86,183
Gross amount of financial assets measured at amortized cost	251,431	162,998
Allowance for doubtful accounts	(247)	(55)
Net amount of financial assets measured at amortized cost	251,184	162,943
Financial assets measured at FVTPL		
Trust beneficiary rights	1,552	1,597
Domestic bonds	15,678	8,652
Foreign bonds	27,912	24,705
Total financial assets measured at FVTPL	45,142	34,954
Financial assets measured at FVTOCI	0	0
Total investment securities for banking business	296,326	197,897

Within investment securities for banking business, investment securities held as part of the Group Companies' business model with the objective of collecting contractual cash flows limited to solely payments of principal and interest on the principal amount outstanding on a specified date in accordance with the contractual terms, are classified as financial assets measured at amortized cost, while all other investment securities are classified as financial assets measured at fair value. Within financial assets measured at fair value, investments in equity instruments are designated as financial assets measured at FVTOCI.

10. Loans for Banking Business

Breakdown of Loans for Banking Business

(Millions of yen)

	December 31, 2012	December 31, 2013
Gross amount of loans for banking business	¥190,321	¥240,618
Allowance for doubtful accounts	(652)	(800)
Net amount of loans for banking business	189,669	239,818

Loans for banking business mainly comprise loan receivables from individual customers.

Loans for banking business are measured at amortized cost because they are defined as financial assets held as part of the Group Companies' business model with the objective of collecting contractual cash flows, and such cash flows are limited to repayments of principal including interest on the principal balance outstanding.

11. Investment Securities for Insurance Business

Breakdown of Investment Securities for Insurance Business

(Millions of yen)

	December 31, 2012	December 31, 2013
Domestic bonds	¥13,623	¥10,233
Total investment securities for insurance business	13,623	10,233

Investment securities for insurance business are measured at amortized cost because they are defined as financial assets held as part of the Group Companies' business model with the objective of collecting contractual cash flows, and such cash flows are limited to solely repayments of principal including interest on the principal balance outstanding.

12. Derivative Assets and Derivative Liabilities

The fair values and notional principal amounts of derivatives qualifying for hedge accounting and derivatives not qualifying for hedge accounting are as follows:

Derivatives Qualifying for Hedge Accounting

(Millions of yen)

	December 31, 2012			December 31, 2013		
	Notional principal amount	Fair value		Notional principal amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Fair value hedges						
Interest rate swap contracts	¥12,500	¥—	¥566	¥12,500	¥—	¥512
Cash flow hedges						
Interest rate swap contracts	37,324	1	378	52,274	—	538
Total	49,824	1	944	¥64,774	—	1,050

Derivatives Not Qualifying for Hedge Accounting

(Millions of yen)

	December 31, 2012			December 31, 2013		
	Notional principal amount	Fair value		Notional principal amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign currency contracts						
Foreign exchange forward contracts	¥110,130	¥3,173	¥55	¥95,446	¥1,596	¥29
Foreign exchange margin contracts	402,150	4,442	3,608	1,508,031	6,572	6,149
Subtotal of foreign currency contracts	512,280	7,615	3,663	1,603,477	8,168	6,178
Interest rate contracts						
Interest rate swaption contracts	128,353	3,035	55	184,389	4,420	795
Others	572	23	23	175	0	0
Total	641,205	10,673	3,741	1,788,041	12,588	6,973

13. Investment Securities

Breakdown of Investment Securities

(Millions of yen)

	December 31, 2012	December 31, 2013
Financial assets measured at amortized cost	¥7,639	¥8,635
Financial assets measured at FVTPL		
Listed	—	—
Unlisted	50	697
Total financial assets measured at FVTPL	50	697
Financial assets measured at FVTOCI		
Listed	3,687	11,506
Unlisted	12,035	13,187
Total financial assets measured at FVTOCI	15,722	24,693
Total investment securities	23,411	34,025

14. Other Financial Assets

Breakdown of Other Financial Assets

(Millions of yen)

	December 31, 2012	December 31, 2013
Financial assets measured at amortized cost		
Accounts receivable — other	¥38,238	¥38,246
Call loans for banking business	11,000	43,000
Security deposits	4,441	4,668
Guarantee deposits	29,224	21,800
Others	40,524	51,796
Gross amount of financial assets measured at amortized cost	123,427	159,510
Allowance for doubtful accounts	(298)	(454)
Net amount of financial assets measured at amortized cost	123,129	159,056
Financial assets measured at FVTPL	0	2
Financial assets measured at FVTOCI	3	—
Total other financial assets	123,132	159,058

15. Allowance for Doubtful Accounts

Changes in the allowance for doubtful accounts by type of financial assets measured at amortized cost are as follows:

For the year ended December 31, 2012

(Millions of yen)

	Accounts receivable — trade	Financial assets for securities business	Loans for credit card business	Investment securities for banking business	Loans for banking business	Other financial assets	Total
January 1, 2012	¥1,534	¥1,951	¥23,688	¥426	¥1,753	¥242	¥29,594
Increases during the period (allowance for doubtful accounts charged to expenses)	1,124	15	9,446	201	—	125	10,911
Increases during the period (others)	316	—	76	—	—	54	446
Decreases during the period (utilized)	(737)	(245)	(12,673)	—	(1,087)	(54)	(14,796)
Decreases during the period (reversals)	(161)	(51)	—	(380)	(14)	(69)	(675)
Decrease during the period (others)	(54)	—	—	—	—	—	(54)
December 31, 2012	2,022	1,670	20,537	247	652	298	25,426

Included within increases during the period (allowance for doubtful accounts charged to expenses) relating to accounts receivable — trade, is a charge for doubtful accounts of ¥213 million in respect of Play Holdings Limited (U.K.) incurred due to reorganization following the changes to local regulations which is presented in “Loss on business restructuring” within “Additional line items.”

Aside from the above, increases during the period doubtful accounts charged to expenses are presented in “Allowance for doubtful accounts charged to expenses” within “Operating expenses” in the Consolidated Statement of Income.

For the year ended December 31, 2013

(Millions of yen)

	Accounts receivable — trade	Financial assets for securities business	Loans for credit card business	Investment securities for banking business	Loans for banking business	Other financial assets	Total
January 1, 2013	¥2,022	¥1,670	¥20,537	¥247	¥652	¥298	¥25,426
Increases during the period (allowance for doubtful accounts charged to expenses)	910	76	11,776	—	134	226	13,122
Increases during the period (others)	145	—	655	—	14	11	825
Decreases during the period (utilized)	(1,046)	(340)	(12,675)	—	—	(20)	(14,081)
Decreases during the period (reversals)	(2)	—	—	(192)	—	—	(194)
Decrease during the period (others)	(173)	—	—	—	—	(61)	(234)
December 31, 2013	1,856	1,406	20,293	55	800	454	24,864

16. Investments in Associates and Joint Ventures

(1) Investments in Associates

The Group Companies account for investments in associates using the equity method.

The carrying amounts of investments in associates, which are all individually insignificant, are as follows:

(Millions of yen)

	December 31, 2012	December 31, 2013
Total carrying amount	¥6,175	¥7,755

Financial information on associates, which are all individually insignificant, is as follows. The following amounts represent the Group Companies' percentage of ownership.

(Millions of yen)

	Year ended December 31, 2012	Year ended December 31, 2013
Net income	¥857	¥460
Other comprehensive income	28	54
Comprehensive income	885	514

As of December 31, 2012, the recoverable amounts of investments in certain companies recovered to their carrying amounts that would have been recognized had no impairment loss had been recognized previously, and accordingly a reversal of previous impairment loss of ¥449 million was recorded and included in "Share of income of associates and joint ventures" in the Consolidated Statement of Income.

(2) Investments in Joint Ventures

For certain investments in companies, the Group Companies have entered into contracts which require unanimous consent among the counterparties for decisions that significantly affect the returns from the investment. As the Group Companies exercise joint control with such counterparties and have rights to the investee's net assets, such companies are determined to be joint ventures and are accounted for using the equity method.

The total carrying amounts of investments in individually insignificant joint ventures are as follows:

(Millions of yen)

	December 31, 2012	December 31, 2013
Total carrying amount	¥426	¥434

Aggregate financial information on individually insignificant joint ventures is as follows. The following amounts represent the Group Companies' percentage of ownership.

(Millions of yen)

	Year ended December 31, 2012	Year ended December 31, 2013
Net income	¥38	¥43
Other comprehensive income	—	—
Comprehensive income	38	43

17. Property, Plant and Equipment

(1) Schedule of Changes in Property, Plant and Equipment

(Millions of yen)

	Buildings and accompanying facilities	Furniture, fittings and equipment	Others	Total
January 1, 2012				
Cost	¥14,997	¥30,527	¥9,971	¥55,495
Accumulated depreciation and accumulated impairment losses	(4,845)	(22,134)	(6,981)	(33,960)
Carrying amount	10,152	8,393	2,990	21,535
Increase	1,827	3,703	1,862	7,392
Acquisition through business combinations	784	266	133	1,183
Disposal and sales	(34)	(264)	(24)	(322)
Impairment loss	(53)	(131)	(186)	(370)
Depreciation	(1,115)	(3,269)	(910)	(5,294)
Exchange rate differences	70	156	18	244
Other changes	42	262	(529)	(225)
December 31, 2012				
Cost	17,890	26,855	11,015	55,760
Accumulated depreciation and accumulated impairment losses	(6,217)	(17,739)	(7,661)	(31,617)
Carrying amount	11,673	9,116	3,354	24,143
Increase	1,687	5,576	4,047	11,310
Acquisition through business combinations	275	1,098	106	1,479
Disposal and sales	(65)	(242)	(210)	(517)
Impairment loss	(574)	(108)	(24)	(706)
Depreciation	(1,574)	(3,571)	(721)	(5,866)
Exchange rate differences	209	488	167	864
Other changes	0	(26)	(273)	(299)
December 31, 2013				
Cost	20,002	30,933	14,741	65,676
Accumulated depreciation and accumulated impairment losses	(8,371)	(18,602)	(8,295)	(35,268)
Carrying amount	11,631	12,331	6,446	30,408

Depreciation is presented within “Operating expenses” in the Consolidated Statement of Income.

(2) Impairment of Property, Plant and Equipment

The Group Companies assess, at each reporting date, whether there are any indications that property, plant and equipment may be impaired. If any indication exists, the Group Companies estimate the recoverable amount of the asset.

In principle, the Group Companies estimate the recoverable amount of individual assets. However if estimation of the recoverable amount of individual assets is not possible, then estimation of the recoverable amount of the CGU to which the asset belongs is made. A CGU is the smallest identifiable group of assets, which generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. As a principle, each group company is considered to be a CGU. Idle assets for which no future use is anticipated are considered individually as CGUs. The corresponding impairment loss is presented in "Other expenses."

For the year ended December 31, 2012

Impairment loss for the year ended December 31, 2012 was mainly due to the business restructuring of Play Holdings Limited.

For the year ended December 31, 2013

Impairment loss for the year ended December 31, 2013 was mainly due to the termination of contracts for certain distribution bases of Rakuten Logistics, Inc.

(3) Property, Plant and Equipment Pledged as Collateral

As of December 31, 2012

Buildings and accompanying facilities of ¥609 million are pledged as collateral for borrowings.

As of December 31, 2013

Buildings and accompanying facilities of ¥470 million are pledged as collateral for borrowings.

(4) Finance Leases (as Lessee)

Carrying amounts of leased assets under finance lease arrangements are as follows.

(Millions of yen)

	December 31, 2012	December 31, 2013
Buildings	¥5,898	¥5,935
Furniture, fittings and equipment	1,599	1,850
Others	960	1,133
Total	8,457	8,918

Included in the above is a baseball stadium facility, which has been donated to Miyagi Prefecture based on a franchise contract, and which is recognized as a finance lease as the Group Companies have the right of use the stadium facility. The related carrying amounts as of December 31, 2012 and 2013 were ¥6,053 million and ¥6,038 million, respectively. There are no lease obligations associated with this lease arrangement.

Lease obligations based on finance lease contracts as of December 31, 2012 and 2013 were ¥2,431 million and ¥2,663 million, respectively.

18. Intangible Assets

(1) Schedule of Changes in Intangible Assets

(Millions of yen)

	Goodwill	Software	Other	Total
January 1, 2012				
Cost	¥110,639	¥84,970	¥21,552	¥217,161
Accumulated amortization and accumulated impairment losses	(14,947)	(49,944)	(2,650)	(67,541)
Carrying amount	95,692	35,026	18,902	149,620
Increase	—	17,852	1,533	19,385
Acquisition through business combinations	25,128	1,683	28,248	55,059
Disposal and sales	—	(1,940)	(17)	(1,957)
Impairment loss	(18,984)	(517)	(7,925)	(27,426)
Amortization	—	(12,169)	(3,764)	(15,933)
Exchange rate differences	6,528	299	2,961	9,788
Other changes	(469)	(227)	174	(522)
December 31, 2012				
Cost	145,093	99,441	55,538	300,072
Accumulated amortization and accumulated impairment losses	(37,198)	(59,434)	(15,426)	(112,058)
Carrying amount	107,895	40,007	40,112	188,014
Increase	44	20,133	3,090	23,267
Acquisition through business combinations	25,373	3,620	5,355	34,348
Disposal and sales	—	(634)	(4)	(638)
Impairment loss	(4,557)	(1,514)	(1,354)	(7,425)
Amortization	—	(14,300)	(5,900)	(20,200)
Exchange rate differences	12,343	661	4,063	17,067
Other changes	1,128	440	(120)	1,448
December 31, 2013				
Cost	193,008	122,851	68,161	384,020
Accumulated amortization and accumulated impairment losses	(50,782)	(74,438)	(22,919)	(148,139)
Carrying amount	142,226	48,413	45,242	235,881

Software under intangible assets mainly comprises internally generated software.

Amortization of intangible assets is presented in “Operating expenses” in the Consolidated Statement of Income.

Research and development expenses recognized as expenses for the years ended December 31, 2012 and 2013 were ¥614 million and ¥856 million, respectively.

The acquisition through business combinations in goodwill for the year ended December 31, 2012 is mainly attributable to the acquisitions of Kobo Inc. and AIRIO Life Insurance Co., Ltd. (currently Rakuten Life Insurance Co., Ltd.). Please refer to Note 46. Business Combinations.

The acquisition through business combinations in goodwill for the year ended December 31, 2013 is mainly attributable to the acquisitions of VIKI, Inc. and Direct Technology Solution SAS. Goodwill of ¥16,353 million and ¥6,195 million, respectively were acquired.

Acquisitions of Other within Intangible Assets through business combinations for the year ended December 31, 2012 are mainly attributable to trademarks and technology obtained through the acquisition of Kobo Inc. of ¥11,056 million, and the value of business acquired and the value of customer relationships acquired in the acquisition of AIRIO Life Insurance Co., Ltd. (currently Rakuten Life Insurance Co., Ltd.) of ¥14,629 million.

(2) Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives

The balance of goodwill and intangible assets with indefinite useful lives of each CGU is as follows. Intangible assets with indefinite useful lives mainly comprise trademarks. These trademarks, which were acquired in business combinations, will basically continue to exist as long as the business continues and thus are considered to be intangible assets with indefinite useful lives.

(Millions of yen)

Operating segment	CGU	December 31, 2012		December 31, 2013	
		Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives
Internet Services	PRICEMINISTER S.A.S.	¥12,273	¥5,110	¥15,519	¥6,462
	Kobo Inc.	17,483	29	19,766	32
	VIKI, Inc.	—	—	17,510	—
	Others	28,980	732	39,591	926
	Total	58,736	5,871	92,386	7,420
Internet Finance	Rakuten Bank, Ltd.	34,386	—	32,886	—
	Others	11,587	—	13,731	—
	Total	45,973	—	46,617	—
Others	Others	3,186	—	3,223	—
	Total	107,895	5,871	142,226	7,420

For the year ended December 31, 2012

Following a review of the business plan in December 2012, impairment losses of ¥14,004 million relating to goodwill and ¥4,818 million relating to intangible assets with indefinite useful lives for Buy.com Inc. (CGU) were recognized. Similarly, an impairment loss of ¥4,706 million on goodwill for PRICEMINISTER S.A.S. (CGU) was recognized. These impairment losses are presented in "Additional line items" in the Consolidated Statement of Income.

For the year ended December 31, 2013

For the year ended December 31, 2013, an impairment loss of ¥4,557 million on Others relating to CGU of the Internet Services segment was recorded under "Other expenses" in the Consolidated Statement of Income. From the year ended December 31, 2013, of the amount of goodwill allocated to Rakuten Bank, Ltd. (CGU in the Internet Finance segment), ¥1,500 million was recorded as goodwill for Others (CGU) in the Internet Finance segment, following the transfer of the unit's investment trust business to Rakuten Securities, Inc.

When conducting an impairment test for goodwill and intangible assets with indefinite useful lives, the Group Companies, as a general rule, consider each company to be a CGU and allocate goodwill and intangible assets with indefinite useful lives to the CGUs expected to benefit from synergies associated with business combinations. A CGU is the smallest identifiable group of assets, which generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

The Group Companies perform impairment testing of goodwill at least annually, regardless of whether there is any indication of impairment. Intangible assets with indefinite useful lives are not amortized; instead they are tested for impairment annually. The Group Companies individually determine the timing of impairment test for goodwill and intangible assets with indefinite useful lives with consideration for the timing of the formulation of the relevant business plan. Indications of impairment are also assessed every quarter; and if any such indication exists, impairment testing is performed.

The recoverable amount of a CGU with allocated goodwill is the higher of value in use and fair value less costs of disposal. On December 2013, the recoverable amount of all CGUs to which goodwill was allocated, except for VIKI, Inc. (CGU), was determined with reference to their calculated values in use. The recoverable amount of VIKI, Inc. was determined based on its fair value less costs of disposal.

Value in use is calculated based on the business plans approved by the management of each CGU, using pre-tax, estimated future cash flows for primarily three to five years and other assumptions for a three to five year period. These business plans have been drawn up based primarily on gross merchandise sales in the Internet Services segment, and the number of accounts and the number of registered members in the Internet Finance segment. For periods beyond those covered by the business plans, the terminal value is assessed.

Terminal value is calculated using the estimated growth rate of each CGU. Also the pre-tax discount rate used in the assessment of value in use is calculated for each CGU.

The growth rates used in predicting cash flows for periods beyond those covered by the business plans of each CGU reflect the status of the country and the industry to which the CGU belongs and do not exceed the average long-term growth rate of the industry in which the CGU is active. Pre-tax discount rates used in calculating terminal value reflect the inherent risks of the relevant businesses of each CGU. Discount rates are determined based on comparable companies of each CGU, incorporating market interest rates, the size of the subsidiary comprising the CGU, and other factors.

Fair value less costs of disposal is based on an estimated fair value less costs of disposal based on the discounted cash flow method for a ten-year period. This measurement of fair value is classified as Level 3 in the fair value hierarchy due to the unobservable inputs used in this valuation technique.

Additionally, the business plan, which forms the basis for the measurement of the recoverable amount in the impairment tests of goodwill and intangible assets with indefinite useful lives, is compared with past performance and consideration is made as to whether the business plan is a reasonable basis for predicting future cash flows.

Significant assumptions used in the calculation of the recoverable amount as of December 31, 2012 and 2013 are as follows. The following estimates have been used in the analysis of each CGU.

Operating segment	CGU	December 31, 2012		December 31, 2013	
		Growth rate	Discount rate	Growth rate	Discount rate
Internet Services	PRICEMINISTER S.A.S.	2.0%	12.3%	2.0%	12.6%
	Kobo Inc.	2.0%	14.5%	3.0%	13.7%
	VIKI, Inc.	-	-	5.0%	32.3%
	Others	2.0%~5.5%	8.6%~25.3%	2.0%~5.5%	9.4%~20.2%
Internet Finance	Rakuten Bank, Ltd.	2.0%	11.8%	2.0%	10.8%
	Others	2.0%	7.4%~14.6%	2.0%	10.3%~20.5%
Others	Others	2.0%	9.1%~9.6%	2.0%	12.3%

Sensitivity Analysis

The Group Companies have recorded goodwill and intangible assets with indefinite useful lives for PRICEMINISTER S.A.S. (CGU). For the year ended December 31, 2013, since the amount by which the recoverable amount exceeds the carrying amount in PRICEMINISTER S.A.S. remains low, if the major assumptions used in impairment test were to change within a reasonably predictable range, there is a possibility that impairment would be occurred. The recoverable amount of other CGUs to which goodwill has been allocated significantly exceeds their carrying amounts, therefore the Group Companies judge that significant impairment is unlikely occurred for these CGUs, even if the major assumptions used in impairment test were to change within a reasonably predictable range.

(3) Impairment of Intangible Assets (Except for Goodwill and Intangible Assets with Indefinite Useful Lives)

The Group Companies assess, at each reporting date, whether there is an indication that intangible assets (except for goodwill and intangible assets with indefinite useful lives) may be impaired. If any indication exists, the Group Companies estimate the recoverable amount of the asset.

In principle, the Group Companies estimate the recoverable amount for the individual asset, but if estimation of the recoverable amount of individual assets is not possible, an estimation of the recoverable amount of the CGU to which the asset belongs is made. Idle assets for which future use is not anticipated are considered individually.

For the year ended December 31, 2012

An impairment loss of ¥960 million on intangible assets (except for goodwill and intangible assets with indefinite useful lives) arising from Buy.com Inc. in the year ended December 31, 2012 was recorded within “Additional line items” in the Consolidated Statement of Income, while all other impairment losses were recorded within “Other expenses” in the Consolidated Statement of Income.

For the year ended December 31, 2013

In the year ended December 31, 2013, an impairment loss of ¥2,868 million on intangible assets (except for goodwill and intangible assets with indefinite useful lives) arising in the Internet Services segment was recorded within “Other expenses” in the Consolidated Statement of Income.

19. Deposits for Banking Business

Breakdown of Deposits for Banking Business

(Millions of yen)

	December 31, 2012	December 31, 2013
Financial liabilities measured at amortized cost		
Demand deposits	¥492,395	¥556,765
Time deposits	237,055	323,977
Total financial liabilities measured at amortized cost	729,450	880,742
Financial liabilities measured at FVTPL		
Time deposits	80,081	79,218
Total deposits for banking business	809,531	959,960

20. Financial Liabilities for Securities Business

Breakdown of Financial Liabilities for Securities Business

(Millions of yen)

	December 31, 2012	December 31, 2013
Accounts payable relating to investment securities transactions	¥200,962	¥425,332
Margin transactions liabilities	41,778	44,820
Deposits received	177,516	329,307
Borrowings secured by securities	37,465	118,774
Guarantee deposits received	99,709	158,824
Others	625	914
Total financial liabilities for securities business	558,055	1,077,971

Financial liabilities for securities business are measured at amortized cost.

Derivative liabilities classified as held for trading are included in “Derivative liabilities.”

21. Bonds and Borrowings

Schedule of Bonds

(Millions of yen)

Name	Type	Interest rate	December 31, 2012	December 31, 2013
Rakuten, Inc.	The 1st unsecured bond Currency: JPY Maturity: five years	0.91%	¥—	¥1,339
Fusion Communications Corporation	The 2nd unsecured callable bond Currency: JPY Maturity: three years	0.54%	33	—
Fusion Communications Corporation	The 3rd unsecured bond Currency: JPY Maturity: five years	0.64%	720	480
	Total bonds	—	753	1,819

All bonds are measured at amortized cost.

The nominal interest rates applied for each bond in the year ended December 31, 2013 stated in the “Interest rate” column differ from the effective interest rates.

Schedule of Borrowings

(Millions of yen)

	Interest rate	December 31, 2012	December 31, 2013
Short-term debt	0.225% ~3.90%	¥84,340	¥147,399
Long-term debt			
Floating-rate debt Maturity: 1 to 10 years (JPY) (Note)	0.53% ~2.44%	184,019	161,760
Fixed-rate debt Maturity: 1 to 10 years (JPY)	0.528% ~4.38%	2,274	21,905
Commercial paper	0.28% ~0.65%	33,800	56,800
Total borrowings	—	304,433	387,864

All borrowings are measured at amortized cost.

The nominal interest rates applied for each borrowing in the year ended December 31, 2013 stated in the “Interest rate” column differ from the effective interest rates.

(Note) The above borrowings include the underlying hedged items of cash flow hedges where floating rate debt is swapped for fixed rate debt, and the interest rates stated in the “Interest rate” column incorporate the effect of the cash flow hedges.

22. Other Financial Liabilities

Breakdown of Other Financial Liabilities

(Millions of yen)

	December 31, 2012	December 31, 2013
Other payables	¥63,575	¥71,973
Accrued expenses	21,234	23,835
Deposits received	73,535	83,781
Margin deposits received	36,867	32,068
Others	14,837	15,114
Total other financial liabilities	210,048	226,771

Other financial liabilities are measured at amortized cost.

23. Provisions

(1) Schedule of Changes in Provisions

(Millions of yen)

	Provision for customer points	Others	Total
January 1, 2012	¥20,341	¥2,840	¥23,181
Increases during the period (provisions made)	25,672	2,030	27,702
Increases during the period (others)	16	185	201
Decreases during the period (provisions used)	(20,350)	(1,096)	(21,446)
Decreases during the period (others)	(3)	(21)	(24)
December 31, 2012	25,676	3,938	29,614
Increases during the period (provisions made)	34,641	2,526	37,167
Increases during the period (others)	60	1,370	1,430
Decreases during the period (provisions used)	(25,591)	(1,182)	(26,773)
Decreases during the period (others)	(206)	(212)	(418)
December 31, 2013	34,580	6,440	41,020

(2) Provision for Customer Points

The Group Companies operate points programs, including the Rakuten Super Points program, and grant points to customers as part of product sales, provisioning of services, and based on customer usage of the Group Companies' assets, the completion of various membership registrations, customer referrals and limited-time promotions. Customers are able to exchange accumulated points for products and services, obtain discounts, or transfer their points to point programs of other companies. Points have an expiry date and once they expire a customer forfeits the right to use them.

In anticipation of the future use of such points by customers, the Group Companies recorded a provision for customer points at an estimated amount based on historical experience as the majority of points granted to customers are borne by the registered retailers, which are not related to the Group Companies, in Rakuten Ichiba. These are estimates and there is an inherent uncertainty regarding the extent of usage of such points by customers.

(3) Other Provisions

Other provisions include asset retirement obligations and provision for loss on interest repayments.

These provisions are attributable to transactions in the ordinary course of business, and, are not individually significant.

24. Policy Reserves and Others for Insurance Business

(1) Breakdown of policy reserves and others for insurance business

(Millions of yen)

	December 31, 2012	December 31, 2013
Reserve for outstanding claims	¥1,658	¥1,796
Liability reserves	16,838	17,056
Total policy reserves and others for insurance business	18,496	18,852

Regarding the funding method for liability reserves, the method stipulated in the Notification No. 48 of the Ministry of Finance, 1996 is applied for contracts subject to standard liability reserves, and the level premium method is applied for contracts not subject to standard liability reserves. Mortality rates based on Standard Mortality Table 2007 (Standard Mortality Table 1996 for contracts with an effective date on or before March 31, 2007) and a product crediting rate of 1.0% (1.5% for contracts with an inception date of policy on or before March 31, 2013 and 2.0% for contracts with an effective date on or before March 31, 2001) are used for the funding of liability reserves.

The breakdown of changes in policy reserves is as follows.

(Millions of yen)

		December 31, 2012	December 31, 2013
Balance at the beginning of the year		¥—	¥18,496
Insurance premium (net)	(Note 1)	2,229	13,849
Insurance claims and other payments		(1,700)	(10,859)
Changes from changes in scope of consolidation		18,344	—
Other changes	(Note 2)	(377)	(2,634)
Balance at the end of the year		18,496	18,852

(Notes) 1 The amount is calculated by deducting costs allocated to the operation of the insurance business from insurance revenue, etc.

2 The amount includes interest on liability reserves, mortality gain, etc.

(2) Liability Adequacy Test for Insurance Contracts

The Group Companies perform a liability adequacy test for insurance contracts taking into consideration estimated present value of cash inflows, such as related insurance premiums and investment income, and cash outflows, such as insurance claims and benefits and operating expenses. As a result of testing, the amount of the liability was considered to be adequate, and no additional recognition of liability and expense was recognized.

(3) Insurance Risk

For sound and appropriate insurance business operations, it is important to accurately comprehend and adequately manage increasingly diversified and complex risks. Therefore, a cross-organizational risk management framework was developed, and the role and process at departments responsible for risk management were clarified. The Group Companies ensure appropriate business operation by having all employees and officers fully understand the importance of risk management. Specifically, the Group Companies established a cross-organizational "Risk Management Committee," and undertake the following overall risk management activities: appointing departments responsible for risk management according to the type of risk; developing a risk management framework; comprehending, analyzing and assessing risk status; and instructing operational departments.

Concerning insurance underwriting risk as a major risk in the insurance business, the Group Companies have identified and analyzed risks through regular monitoring of the frequency of insured events and surrender ratio. In developing new products, risk analysis is carried out in consideration of an appropriate balance with profitability.

Under Japanese laws and regulations, life insurance companies are required to calculate risks associated with payments of insurance claims and benefits and risks associated with asset management in preparation for the occurrence of various risks to which life insurance companies are exposed on a scale beyond a normally predictable level. The amounts equivalent to risks before tax are as follows, which are recognized as representing the impact on the Consolidated Statement of Income in the event of occurrence of such risks. The confidence level of risk quantity is generally assumed to be 95%, with variance depending on the type of risk.

(Millions of yen)

	December 31, 2012	December 31, 2013
Insurance risk impact amount	¥955	¥1,100
Third-sector insurance risk impact amount	949	1,099
Product crediting rate risk impact amount	3	3
Minimum guarantee risk impact amount	—	—
Investment risk impact amount	378	1,051
Minimum business risk impact amount	46	65

The Group Companies only handle standard insurance products, and insured events are mainly death (first sector product), hospitalization and surgery, etc. (third sector product). The policy period of insurance products is mainly 10 years and lifetime, and the insurance liabilities vary with the acquisition of new contracts, occurrence of insured events and contract cancellations, etc.

In future periods covered by the liability adequacy test it is expected that insurance revenues will exceed the associated insurance costs.

25. Income Tax Expense

The deferred tax assets and liabilities as of December 31, 2012 and 2013 include the following:

(Millions of yen)

	December 31, 2012	December 31, 2013
Deferred tax assets		
Tax losses carried forward	¥26,362	¥17,380
Depreciation	1,730	1,616
Allowance for doubtful accounts	3,474	4,032
Enterprise tax payable	388	2,184
Provision for customer points	9,786	13,113
Taxable goodwill	4,916	3,626
Accrued bonus	1,132	1,366
Investments in subsidiaries	3,161	83
Provision for compensated absences	959	1,037
Asset retirement obligations	823	1,011
Others	6,147	7,431
Total	58,878	52,879
Deferred tax liabilities		
Tax deductible losses due to transfer of shares	(7,568)	(7,568)
Gains and losses of financial assets measured at FVTOCI	(1,233)	(3,555)
Intangible assets	(12,199)	(14,926)
Others	(3,748)	(4,359)
Total	(24,748)	(30,408)
Net amount of deferred tax assets		
Deferred tax assets	40,546	31,594
Deferred tax liabilities	(6,416)	(9,123)
Net	34,130	22,471

Deferred tax assets related to tax losses carried forward as of December 31, 2012 were mainly recognized by the Company and one of its subsidiaries, Rakuten Bank, Ltd. The Company's tax losses resulted from unusual factors, the disposal of assets in the restructuring of businesses and past organizational restructuring. Such tax losses carried forward were partially utilized by taxable income of the year ended December 31, 2012, and it is highly probable that taxable income will be available in the future. Future tax losses are not expected to be generated from unusual factors. In Rakuten Bank, Ltd., due to non-performing loans and investment securities, which gave rise to tax losses carried forward in the past, being reduced to controllable levels, and an environment supporting steadily continuous and stable earnings made possible through various initiatives aimed toward capturing customers and ensuring stable performance as a result of joining the Group Companies, tax losses carried forward were partially utilized by Rakuten Bank's taxable income for the previous year. It is considered to be highly probable that future taxable income will be available.

Deferred tax assets related to tax losses carried forward as of December 31, 2013 are mainly recognized by one of the Company's subsidiaries, Rakuten Bank, Ltd. In Rakuten Bank, Ltd., due to non-performing loans and investment securities, which gave rise to tax losses carried forward in the past, being reduced to controllable levels, and an environment under which it can steadily produce continuous and stable earnings made possible through various initiatives aimed toward capturing customers and ensuring stable performance as a result of joining the Group Companies, tax losses carried forward were partially utilized by Rakuten Bank's taxable income for the current year. It is considered to be highly probable that future taxable income will be available.

The changes in net deferred tax assets and liabilities were as follows:
For the year ended December 31, 2012

(Millions of yen)

	January 1, 2012	Recognized in profit or loss	Recognized in other comprehensive income	Changes in scope of consolidation	Others	December 31, 2012
Tax losses carried forward	¥49,569	¥(28,185)	¥—	¥4,625	¥353	¥26,362
Depreciation and amortization	1,612	91	—	15	12	1,730
Allowance for doubtful accounts	5,486	(2,018)	—	1	5	3,474
Enterprise tax payable	338	36	—	14	—	388
Provision for customer points	7,879	1,907	—	—	—	9,786
Taxable goodwill	6,566	(1,650)	—	—	—	4,916
Accrued bonus	1,016	64	—	52	—	1,132
Investments in subsidiaries	—	3,161	—	—	—	3,161
Provision for compensated absences	1,015	(56)	—	—	—	959
Asset retirement obligations	449	373	—	1	—	823
Tax deductible losses due to transfer of shares	(7,568)	—	—	—	—	(7,568)
Gains and losses of financial assets measured at FVTOCI	(1,483)	—	250	—	—	(1,233)
Intangible assets	(6,732)	3,089	—	(7,721)	(835)	(12,199)
Others	378	1,761	(481)	773	(32)	2,399
Total	58,525	(21,427)	(231)	(2,240)	(497)	34,130

For the year ended December 31, 2013

(Millions of yen)

	January 1, 2013	Recognized in profit or loss	Recognized in other comprehensive income	Changes in scope of consolidation	Others	December 31, 2013
Tax losses carried forward	¥26,362	¥(9,204)	¥222	¥—	¥—	¥17,380
Depreciation and amortization	1,730	(128)	14	—	—	1,616
Allowance for doubtful accounts	3,474	558	—	—	—	4,032
Enterprise tax payable	388	1,796	—	—	—	2,184
Provision for customer points	9,786	3,327	—	—	—	13,113
Taxable goodwill	4,916	(1,290)	—	—	—	3,626
Accrued bonus	1,132	198	36	—	—	1,366
Investments in subsidiaries	3,161	(3,078)	—	—	—	83
Provision for compensated absences	959	78	—	—	—	1,037
Asset retirement obligations	823	188	—	—	—	1,011
Tax deductible losses due to transfer of shares	(7,568)	—	—	—	—	(7,568)
Gains and losses of financial assets measured at FVTOCI	(1,233)	—	(2,322)	—	—	(3,555)
Intangible assets	(12,199)	645	(853)	(2,519)	—	(14,926)
Others	2,399	206	29	—	438	3,072
Total	34,130	(6,704)	(2,874)	(2,519)	438	22,471

The breakdown of deductible temporary differences, tax losses carried forward and tax credits carried forward for which no deferred tax asset is recognized in the consolidated statement of financial position is as follows:

(Millions of yen)

	December 31, 2012	December 31, 2013
Deductible temporary differences	¥5,151	¥11,031
Unused tax losses carried forward	25,134	27,178
Tax credits carried forward	—	215
Total	30,285	38,424

Deferred tax assets associated with the above are not recognized, as it is unlikely that future taxable income necessary for the Group Companies to utilize their benefits would be generated.

Tax losses carried forward for which no deferred tax asset is recognized in the consolidated statement of financial position, if unutilized, will expire as follows:

(Millions of yen)

	December 31, 2012	December 31, 2013
1st year	¥2,198	¥309
2nd year	2,220	3,107
3rd year	3,948	179
4th year	1	247
5th year and thereafter	16,767	21,908
No term of expiry date	—	1,428
Total	25,134	27,178

There are no deductible temporary differences with an expiry date or significant temporary differences associated with investments in subsidiaries and associates accounted for using the equity method for which there are unrecognized deferred tax liabilities. There will be no significant impact on the Group Companies' tax payment, even if the retained earnings of the subsidiaries or associates are remitted to the Group Companies in the future.

Breakdown of income tax expense recognized through income is as follows:

(Millions of yen)

	Year ended December 31, 2012	Year ended December 31, 2013
Income before income tax	¥49,106	¥88,610
Current tax expense		
Income tax expense for net income	6,543	38,425
Subtotal	6,543	38,425
Deferred tax expense		
Generation and reversal of temporary difference	(6,758)	(2,500)
Changes in unused tax losses carried forward	28,185	9,204
Subtotal	21,427	6,704
Total income tax expense	27,970	45,129

Reconciliation between income before income tax and income tax expense is as follows:

	Year ended December 31, 2012		Year ended December 31, 2013	
	(Millions of yen)	(%)	(Millions of yen)	(%)
Income before income tax	¥49,106		¥88,610	
Income tax expense based on statutory income tax rate (Note 1)	20,133	41.0	33,672	38.0
(Reconciliations)				
Permanent non-deductible items	970	2.0	1,643	1.9
Permanent non-taxable items	(315)	(0.6)	(485)	(0.5)
Inhabitant tax, etc. on per capita basis	128	0.3	79	0.1
Changes in unrecognized deferred tax assets (Note 2)	(833)	(1.7)	5,499	6.2
Difference due to statutory income tax rate of subsidiaries (Note 3)	2,026	4.1	2,950	3.3
Impairment loss on goodwill (Note 4)	7,784	15.9	1,332	1.5
Gain on step acquisition	(976)	(2.0)	—	—
Share of income of associates and joint ventures	(583)	(1.2)	(50)	(0.1)
Others	(364)	(0.8)	489	0.5
Income tax expense	27,970	57.0	45,129	50.9

(Notes)
1 Income tax expense based on the statutory income tax rate refers to income tax expense based on the effective statutory tax rate of Japan, where the Company is domiciled. The effective statutory tax rate has changed to 38.0% from 41.0% following revisions to the taxation system.
2 This is mainly the amount of previously unrecognized tax losses carried forward used to reduce deferred tax expense, and benefits from temporary differences in prior periods.
3 The difference is due to difference in the effective tax rate of Japan, where the Company is located, and that of the jurisdictions where certain subsidiaries are located.
4 Please refer to Note 18. (2) Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives.

26. Common Stock, Capital Surplus, Retained Earnings and Treasury Stock

Common Stock

Schedule of shares authorized to be issued and total number of shares issued

(Thousands of shares)

	Total number of authorized shares (Common stock with no par value)	Total number of shares issued (Common stock with no par value)
January 1, 2012	3,941,800	1,319,458
Changes during the period: Increases due to issuance of common stock	—	1,169
December 31, 2012	3,941,800	1,320,627
Changes during the period: Increases due to issuance of common stock	—	3,236
December 31, 2013	3,941,800	1,323,863

(Note) On July 1, 2012, the Company implemented a 100-for-1 share split. The total number of authorized shares and the total number of shares issued as of January 1, 2012 and as of December 31, 2012 represent the total number of shares after adjustment for such share split.

Capital Surplus

The Companies Act of Japan (hereinafter referred to as the "Companies Act") requires that at least 50% of the proceeds of certain issues of common shares be credited to common stock, while the remainder of the proceeds be credited to capital reserve included in capital surplus. The Companies Act permits, upon approval at the General Shareholders' Meeting, the transfer of amounts from capital reserve to common stock.

Retained Earnings

The Companies Act requires that an amount equal to 10% of dividends of retained earnings be appropriated as capital reserve (within capital surplus) or as legal reserve (within retained earnings) until the aggregate amount of the capital reserve and the legal reserve equals to 25% of common stock. The legal reserve may be used to eliminate or reduce a deficit or be transferred to retained earnings upon approval at the General Shareholders' Meeting.

Retained earnings available for dividends under the Companies Act are based on the amount recorded in the Company's general accounting records prepared in accordance with JGAAP.

Treasury Stock

Schedule of Changes in Treasury Stock

(Thousands of shares)

	Year ended December 31, 2012	Year ended December 31, 2013
January 1	6,008	6,008
Acquisition	0	0
Disposal	—	—
December 31	6,008	6,008

(Note) On July 1, 2012, the Company implemented a 100-for-1 share split. The total number of treasury stock as of January 1, 2012 and as of December 31, 2012 is the number of shares after adjustment of such share split.

27. Revenue

Breakdown of revenue for the years ended December 31, 2012 and 2013 is as follows:

(Millions of yen)

	Year ended December 31, 2012	Year ended December 31, 2013
Sales of goods	¥54,815	¥59,072
Rendering of services (Note)	292,411	382,502
Interest income	50,805	69,366
Others	2,413	7,628
Total	400,444	518,568

(Note) Rendering of services includes revenue arising from insurance contracts for the years ended December 31, 2012 and 2013, amounting to ¥4,432 million and ¥26,838 million, respectively.

28. Operating Expenses

Breakdown of operating expenses for the years ended December 31, 2012 and 2013 is as follows:

(Millions of yen)

	Year ended December 31, 2012	Year ended December 31, 2013
Advertising and promotion expenditures	¥49,611	¥75,408
Employee benefits expenses	70,098	93,206
Depreciation and amortization	21,227	26,086
Communication and maintenance expenses	15,355	18,254
Consignment and subcontract expenses	22,666	27,959
Allowance for doubtful accounts charged to expenses	10,023	12,928
Cost of sales of merchandise	50,297	52,346
Interest expense for finance business	5,512	4,864
Commission fee expense for finance business	5,002	5,300
Insurance claims and other payments, and provision of policy reserves and others for insurance business	1,857	11,215
Others	67,787	92,808
Total	319,435	420,374

Employee expenses (employee benefits expenses) are as follows:

1) Schedule of Employee Expenses

(Millions of yen)

	Year ended December 31, 2012	Year ended December 31, 2013
Wages and salaries	¥60,834	¥79,135
Retirement benefits	3,412	3,864
Legal welfare expenses	3,631	5,497
Stock option expenses relating to directors and employees (Note)	651	1,679
Other salaries	1,570	3,031
Total	70,098	93,206

(Note) Please refer to Note 37. Share-based Payments.

2) Number of Employees

	December 31, 2012	December 31, 2013
Number of employees	9,311	10,867

(Note) Number of employees represents the number of persons employed at the Group Companies.

29. Other Income and Other Expenses

(1) Breakdown of Other Income

(Millions of yen)

	Year ended December 31, 2012	Year ended December 31, 2013
Gain on step acquisition (Note)	¥2,382	¥—
Others	983	1,831
Total	3,365	1,831

(Note) Please refer to Note 46. Business Combinations.

(2) Breakdown of Other Expenses

(Millions of yen)

	Year ended December 31, 2012	Year ended December 31, 2013
Impairment loss	¥—	¥5,485
Retired or disposed property, plant and equipment or intangible assets	1,533	908
Loss on liquidation of business (Note)	808	—
Others	3,240	3,388
Total	5,581	9,781

(Notes) This represents losses due to the liquidation of the EC service in China.

30. Additional Line Items

(Millions of yen)

	Year ended December 31, 2012	Year ended December 31, 2013
Additional line items (expenses)		
Loss on business restructuring (Note 1)	¥4,250	¥—
Impairment loss on goodwill and other (Note 2)	24,488	—
Total	28,738	—

(Notes) 1 For the year ended December 31, 2012, a loss of ¥4,250 million was recorded relating to the restructuring for the future business development for Play Holdings Limited.

2 For the year ended December 31, 2012, impairment losses of ¥19,782 million for Buy.com Inc. and of ¥4,706 million for PRICEMINISTER S.A.S. were recognized. For details, please refer to Note 18. Intangible Assets.

3 There are no applicable items for the year ended December 31, 2013.

31. Financial Income and Financial Expenses

(1) Breakdown of Financial Income

(Millions of yen)

	Year ended December 31, 2012	Year ended December 31, 2013
Interest income	¥162	¥140
Dividend income	31	57
Total	193	197

(2) Breakdown of Financial Expenses

(Millions of yen)

	Year ended December 31, 2012	Year ended December 31, 2013
Interest expense	¥2,220	¥1,676
Commission fee	345	286
Total	2,565	1,962

32. Earnings per Share

Basic earnings per share are calculated by dividing the net income attributable to owners of the Company by the weighted average number of common stock outstanding during the year. The weighted average number of common stock outstanding during the year does not include treasury stock.

Diluted earnings per share are calculated on the assumption of full conversion of potentially dilutive common stock, adjusted for the weighted average number of common stock outstanding.

The Company has potential common stock related to stock options. The number of shares that may be acquired through these stock options is calculated at fair value (annual average stock price of the Company) based on the value of the stock acquisition rights that would be granted to unexercised stock options.

On July 1, 2012, the Company implemented a 100-for-1 stock split. The following calculation of earnings per share includes the number of common stock outstanding after the share split.

Per share information and the weighted average number of shares used in the calculation of earnings per share are as follows:

	Year ended December 31, 2012			Year ended December 31, 2013		
	Basic	Adjustments	Diluted	Basic	Adjustments	Diluted
Net income attributable to owners of the Company (Millions of yen)	¥20,489	¥(0)	¥20,489	¥42,900	¥(7)	42,893
Weighted average number of shares (Thousands of shares)	1,313,987	3,036	1,317,023	1,315,997	7,378	1,323,375
Earnings per share (yen)	¥15.59	¥ (0.03)	¥15.56	¥32.60	¥ (0.19)	¥32.41

The following potential shares were not included in the calculation of diluted earnings per share because there would be no dilutive effects.

Year ended December 31, 2012		Year ended December 31, 2013	
Subscription Rights to Shares of the Company Stock options in accordance with the provisions of Article 280-20 and Article 280-21 of the former Commercial Code		Subscription Rights to Shares of the Company Stock options in accordance with the provisions of Article 236, Article 238 and Article 239 of the Companies Act	
March 30, 2005		March 28, 2013	
Resolution at General Shareholders' Meeting	5,641 thousand shares	Resolution at General Shareholders' Meeting	12 thousand shares
March 30, 2006			
Resolution at General Shareholders' Meeting	3,000 thousand shares		

There were no transactions during the period from December 31, 2013 to the date of approval of the consolidated financial statements that materially impacted the calculation of earnings per share.

33. Transfers of Financial Assets

The Group Companies engage in the securitization of card shopping receivables of customers arising in the course of operating the credit card business. When securitizing receivables, the Group Companies transfer such receivables to trusts and acquire senior and subordinated beneficial interests collateralized by the entrusted assets. The Group Companies then transfer the senior beneficial interests to third parties or redeem the beneficial interests for borrowings secured by the entrusted assets. Since the Group Companies continue to retain substantially all the credit risks related to the underlying receivables and the rewards through the holding of subordinated beneficial interests, the transferred receivables do not qualify for derecognition.

The carrying amount of the financial assets that did not qualify for derecognition and the corresponding liabilities, and the related fair values where such liabilities have limited recourse to only the transferred assets as of December 31, 2012 and 2013 are as follows:

(Millions of yen)

	December 31, 2012	December 31, 2013
Carrying amount of transferred assets	¥100	¥100
Carrying amount of corresponding liabilities	100	100
Fair value of transferred assets	100	100
Fair value of corresponding liabilities	100	100
Net position	—	—

Counterparties to the associated liabilities to transferred assets have recourse only to the transferred assets.

34. Assets Pledged as Collateral and Assets Received as Collateral

(1) Assets Pledged as Collateral

The Group Companies pledge assets mainly to secure debts from borrowing contracts, e-money deposits, margin trading and security lending transactions conducted under normal terms and conditions, and as monetary deposits in derivative transactions.

The carrying amounts of assets pledged as collateral for liabilities and contingent liabilities by the Group Companies are as follows:

(Millions of yen)

	December 31, 2012	December 31, 2013
Cash and cash equivalents	¥1,097	¥1,110
Loans for credit card business (Note)	47,310	45,400
Investment securities	6,836	6,831
Total	55,243	53,341

(Note) Loans for credit card business include securitized receivables.

In addition to the above, investment securities for banking business, which were pledged as collateral for foreign exchange settlements, derivative trading and other transactions, and for commitment lines as of December 31, 2012 and 2013, were ¥57,105 million and ¥50,583 million, respectively.

Within other financial assets, guarantee deposits for futures trading held by a consolidated subsidiary involved in the banking business as of December 31, 2012 and 2013, were ¥8,837 million and ¥8,014 million, respectively.

Within financial assets for securities business, short-term guarantee deposits as of December 31, 2012 and 2013, were ¥26,664 million and ¥32,743 million, respectively.

For assets pledged as collateral, the counterparty has no right to sell or to repledge the collateral.

(2) Assets Received as Collateral

The Group Companies receive securities pledged as collateral in lieu of guarantee deposits and collateral for other transactions, which are conducted under normal terms and conditions. The Group Companies hold the rights to sell or repledge the received assets, provided that the securities are returned at the time the relevant transactions are completed. The fair values of securities received by the Group Companies as collateral to which the Group Companies held the right to sell or repledge the collateral as of December 31, 2012 and 2013 were ¥384,219 million and ¥719,585 million, respectively. Within such collateral, the fair value of the collateral actually sold or pledged as of December 31, 2012 and 2013, was ¥105,968 million and ¥201,333 million, respectively.

35. Hedge Accounting

(1) Fair Value Hedges

In order to offset the risk of fair value fluctuation on certain fixed rate bonds as a result of fluctuations in interest rates, subsidiaries of the Group Companies have entered into fixed-for-floating interest rate swap contracts with financial institutions as fair value hedges. The fair values of the interest rate swaps as hedging instruments are stated in Note 12. Derivative Assets and Derivative Liabilities.

Gains or losses from remeasuring such interest rate swaps at fair value were a loss of ¥210 million for the year ended December 31, 2012 and a gain of ¥54 million in the year ended December 31, 2013. Additionally, gains or losses on the underlying hedged items due to the hedged risks were a gain of ¥210 million for the year ended December 31, 2012 and a loss of ¥54 million for the year ended December 31, 2013.

(2) Cash Flow Hedges

In order to offset the risk of fluctuations on future cash flows from floating rate borrowings, subsidiaries of the Group Companies have entered into fixed-for-floating interest rate swap contracts with financial institutions as cash flow hedges. The purpose of these hedges is to hedge the risk of future fluctuations of cash flows from borrowings by effectively converting floating rate borrowings into fixed rate borrowings. As a result of these hedges, it will become possible to offset the fluctuations of cash flows from floating rate borrowings with the fluctuations of cash flows from the interest rate swaps. Existing hedging relationships are expected to continue to the year ending December 31, 2018.

The fair values of the interest rate swaps used as the hedging instruments are stated in Note 12. Derivative Assets and Derivative Liabilities.

Schedule of changes in the amounts recognized in other comprehensive income

(Millions of yen)

	Year ended December 31, 2012	Year ended December 31, 2013
January 1	¥(374)	¥(203)
Changes for the period	(271)	(262)
Reclassification to net income	442	144
December 31	(203)	(321)

(Note) The amounts reclassified to net income are included in “Revenue” in the Consolidated Statement of Income.

36. Contingent Liabilities and Commitments

(1) Commitment Line Lending Contracts and Guarantee Obligations

A certain consolidated subsidiary is engaged in the consumer lending business through cash advances and credit card loans, which are incidental to the credit cards.

Since these contracts expire without the actual loan being drawn, in addition to the Group Companies having discretion to increase or decrease the limits on the loan amounts, the unused balance of these loans would not necessarily have a material impact on the Group Companies’ cash flows.

Certain consolidated subsidiaries are engaged in the credit guarantee business providing general customers with guarantees on liabilities corresponding to loans which such customers have received from business partners of the subsidiaries.

The balances of the unused lending commitment lines and guarantee obligations given in the credit guarantee business stated above are as follows:

(Millions of yen)

	December 31, 2012	December 31, 2013
Lending commitment lines	¥1,666,455	¥2,034,622
Financial guarantee contracts	20,839	17,523
Total	1,687,294	2,052,145

(2) Commitment Line Borrowing Contracts

The Company and certain consolidated subsidiaries have entered into commitment line borrowing contracts with multiple financial institutions and the balances of the unused portions of such commitment lines available are as follows:

(Millions of yen)

	December 31, 2012	December 31, 2013
Total commitment line borrowings	¥141,620	¥111,798
Amounts borrowed	21,583	1,607
Unused commitment lines	120,037	110,191

(3) Commitments (Contracts)

As of December 31, 2012 and 2013, there were no significant capital expenditures (commitments) for which contracts had been entered into and which were unrecognized in the consolidated financial statements.

37. Share-based Payments

Employee expenses relating to stock options recognized by the Group Companies during the years ended December 31, 2012 and 2013 were ¥651 million and ¥1,679 million, respectively. The Group Companies have elected to apply the exemption under IFRS 1 and have consequently accounted for the 2008 and 2009 stock options and 2012 and 2013 stock options 1) to 5) granted by the Company, and 2012 stock option 1) to 6) and 2013 stock option granted by Kobo Inc. in accordance with IFRS 2.

The Company has granted equity-settled stock options to its executives and employees, its subsidiaries, and associates. Kobo Inc. has granted stock options with a cash alternative option to executives and employees of Kobo Inc. and its subsidiaries. Conditions for vesting of the stock options require that those who received stock options continue to be employed by the Company, its subsidiaries or associates from the grant date to the vesting date.

On July 1, 2012, the Company implemented a 100-for-1 share split. The number of stock options issued for each year has been adjusted for the share split. The following is a summary of the Company’s stock options.

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
2003 stock option 1)	July 14, 2003	March 27, 2007	193	—	From March 28, 2007 to March 26, 2013
2003 stock option 2)	August 29, 2003	March 27, 2007	275	—	From March 28, 2007 to March 26, 2013
2004 stock option	September 7, 2004	March 30, 2008	755	1,154,000	From March 31, 2008 to March 29, 2014
2005 stock option 1)	December 15, 2005	March 30, 2009	913	2,838,800	From March 31, 2009 to March 29, 2015
2005 stock option 2)	February 13, 2006	March 30, 2009	1,038	200,000	From March 31, 2009 to March 29, 2015
2006 stock option 1)	April 20, 2006	March 30, 2010	1,010	1,666,600	From March 31, 2010 to March 29, 2016
2006 stock option 2)	December 14, 2006	March 30, 2010	559	429,900	From March 31, 2010 to March 29, 2016
2008 stock option	January 19, 2009	March 27, 2012	563	1,368,600	From March 28, 2012 to March 26, 2018
2009 stock option	February 12, 2010	March 27, 2013	707	685,400	From March 28, 2013 to March 26, 2019
2012 stock option 1) A	April 20, 2012	April 19, 2014	0.01	364,500	From April 20, 2014 to April 20, 2022
2012 stock option 1) B	April 20, 2012	April 19, 2015	0.01	364,500	From April 20, 2015 to April 20, 2022
2012 stock option 1) C	April 20, 2012	April 19, 2016	0.01	365,800	From April 20, 2016 to April 20, 2022
2012 stock option 2)	July 1, 2012	March 29, 2016	0.01	298,200	From March 30, 2016 to March 28, 2022
2012 stock option 3)	August 1, 2012	March 29, 2016	0.01	101,800	From March 30, 2016 to March 28, 2022
2012 stock option 4)	August 20, 2012	March 29, 2016	0.01	500	From March 30, 2016 to March 28, 2022
2012 stock option 5) A	November 21, 2012	November 20, 2014	0.01	34,400	From November 21, 2014 to November 21, 2022
2012 stock option 5) B	November 21, 2012	November 20, 2015	0.01	34,400	From November 21, 2015 to November 21, 2022
2012 stock option 5) C	November 21, 2012	November 20, 2016	0.01	34,500	From November 21, 2016 to November 21, 2022
2013 stock option 1)	February 1, 2013	March 29, 2016	0.01	1,351,400	From March 30, 2016 to March 28, 2022
2013 stock option 2)	March 1, 2013	March 29, 2016	0.01	276,100	From March 30, 2016 to March 28, 2022
2013 stock option 3) A	March 1, 2013	March 29, 2016	0.01	495,100	From March 30, 2016 to March 28, 2022
2013 stock option 3) B	March 1, 2013	March 29, 2016	0.01	150,000	From March 30, 2016 to March 28, 2022
2013 stock option 4)	July 1, 2013	March 28, 2017	0.01	1,045,500	From March 29, 2017 to March 27, 2023
2013 stock option 5)	December 1, 2013	March 28, 2017	0.01	12,000	From March 29, 2017 to March 27, 2023

(Note) The balance of outstanding options has been converted into the number of shares.

The following is a summary of Kobo Inc.'s stock options.

Name	Grant date	Vesting date	Exercise price (Canadian dollars)	Balance of outstanding options (Note)	Exercise period
Kobo Inc. 2012 stock option 1) A	January 11, 2012	January 10, 2014	$1.00	5,218,842	From January 11, 2014 to January 11, 2018
Kobo Inc. 2012 stock option 1) B	January 11, 2012	January 10, 2015	1.00	5,218,840	From January 11, 2015 to January 11, 2018
Kobo Inc. 2012 stock option 1) C	January 11, 2012	January 10, 2016	1.00	5,218,842	From January 11, 2016 to January 11, 2018
Kobo Inc. 2012 stock option 2) A	February 27, 2012	February 26, 2014	1.00	158,333	From February 27, 2014 to February 27, 2018
Kobo Inc. 2012 stock option 2) B	February 27, 2012	February 26, 2015	1.00	158,334	From February 27, 2015 to February 27, 2018
Kobo Inc. 2012 stock option 2) C	February 27, 2012	February 26, 2016	1.00	158,333	From February 27, 2016 to February 27, 2018
Kobo Inc. 2012 stock option 3) A	April 9, 2012	April 8, 2014	1.00	121,667	From April 9, 2014 to April 9, 2018
Kobo Inc. 2012 stock option 3) B	April 9, 2012	April 8, 2015	1.00	121,666	From April 9, 2015 to April 9, 2018
Kobo Inc. 2012 stock option 3) C	April 9, 2012	April 8, 2016	1.00	121,667	From April 9, 2016 to April 9, 2018
Kobo Inc. 2012 stock option 4) A	April 23, 2012	April 22, 2014	1.00	—	From April 23, 2014 to April 23, 2018
Kobo Inc. 2012 stock option 4) B	April 23, 2012	April 22, 2015	1.00	—	From April 23, 2015 to April 23, 2018
Kobo Inc. 2012 stock option 4) C	April 23, 2012	April 22, 2016	1.00	—	From April 23, 2016 to April 23, 2018
Kobo Inc. 2012 stock option 5) A	July 9, 2012	July 8, 2014	1.00	647,350	From July 9, 2014 to July 9, 2018
Kobo Inc. 2012 stock option 5) B	July 9, 2012	July 8, 2015	1.00	647,349	From July 9, 2015 to July 9, 2018
Kobo Inc. 2012 stock option 5) C	July 9, 2012	July 8, 2016	1.00	647,350	From July 9, 2016 to July 9, 2018
Kobo Inc. 2012 stock option 6) A	October 5, 2012	December 30, 2013	1.00	400,000	From December 31, 2013 to October 5, 2018
Kobo Inc. 2012 stock option 6) B	October 5, 2012	December 30, 2014	1.00	400,000	From December 31, 2014 to October 5, 2018

Name	Grant date	Vesting date	Exercise price (Canadian dollars)	Balance of outstanding options (Note)	Exercise period
Kobo Inc. 2013 stock option	January 11, 2013	January 11, 2013	0.01	2,188,682	From January 11, 2013 to January 11, 2018

(Note) The balance of outstanding options has been converted into the number of shares.

The number of options and the weighted average exercise price related to stock options granted by the Company are as follows:

	Year ended December 31, 2012		Year ended December 31, 2013	
	Number of options (Note)	Weighted average exercise price (Yen)	Number of options (Note)	Weighted average exercise price (Yen)
Balance at the beginning of the year	13,883,300	¥747	13,684,400	¥687
Granted	1,670,800	0.01	3,567,300	0.01
Forfeited	700,900	774	739,200	530
Exercised	1,168,800	375	3,236,500	665
Expired	—	—	4,000	275
Outstanding balance at the end of the year	13,684,400	687	13,272,000	516
Exercisable amount at the end of the year	11,112,100	786	8,343,300	821
Weighted average remaining contract years		3.89 years		4.53 years

(Note) The number of options has been converted into the number of shares.

The number of options and the weighted average exercise price related to stock options granted by Kobo Inc. are as follows:

	Year ended December 31, 2012		Year ended December 31, 2013	
	Number of options (Note)	Weighted average exercise price (Canadian dollars)	Number of options (Note)	Weighted average exercise price (Canadian dollars)
Balance at the beginning of the year	—	$—	20,303,573	$1.00
Granted	20,303,573	1.00	2,188,682	0.01
Forfeited	—	—	1,065,000	1.00
Exercised	—	—	—	—
Expired	—	—	—	—
Outstanding balance at the end of the year	20,303,573	1.00	21,427,255	0.90
Exercisable amount at end of the year	—	—	2,588,682	0.16
Weighted average remaining contract years		5.18 years		4.16 years

(Note) The number of options has been converted into the number of shares.

The weighted average stock prices of the Company as of the exercise date were ¥779 and ¥1,231 for the years ended December 31, 2012 and 2013, respectively.

The expiration dates and the exercise prices of the outstanding options for stock options granted by the Company are as follows:

	Exercise price (Yen)	Number of options (Note)	
		December 31, 2012	December 31, 2013
2013	¥193~275	351,000	—
2014	755	1,978,000	1,154,000
2015	913~1,038	3,771,500	3,038,800
2016	559~1,010	2,641,400	2,096,500
2018	563	2,370,200	1,368,600
2019	707	933,100	685,400
2022	0.01	1,639,200	3,871,200
2023	0.01	—	1,057,500
Balance at end of the period	—	13,684,400	13,272,000

(Note) The number of options has been converted into the number of shares.

The expiration dates and the exercise prices of the outstanding options related to stock options granted by Kobo Inc. are as follows:

	Exercise price (Canadian dollars)	Number of options (Note)	
		December 31, 2012	December 31, 2013
2018	$0.01~1.00	20,303,573	21,427,255
Balance at end of the period	—	20,303,573	21,427,255

(Note) The number of options has been converted into the number of shares.

The Company granted equity-settled stock options to its executives and employees, its subsidiaries, and associates during the year ended December 31, 2013. Kobo Inc. granted stock options with a cash alternative option to the executives of Kobo Inc. during the year ended December 31, 2013. The fair value of the options granted has been calculated using the Black-Scholes model adjusted for dividends. The fair value and assumptions used in the calculation are as follows.

Expected volatility of the Company has been calculated as an annual rate based on the historical period of stock prices corresponding to the expected remaining period and weekly data (weekly closing price versus volatility of the previous week), assuming 52 weeks in a year.

Expected volatility of Kobo Inc. is based on the stock price volatility of a comparable company as Kobo Inc. is not listed.

	December 31, 2013		
	The Company 2013 stock option 1)	The Company 2013 stock option 2), 3) A, B	The Company 2013 stock option 4)
Weighted average stock prices (Yen)	¥844	¥800	¥1,198
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	26.9	26.7	29.5
Remaining term (Years)	3.20	3.08	3.75
Expected dividend (Yen)	¥2.50	¥2.50	¥3.00
Risk-free rate (%)	0.1	0.1	0.2
Fair value per option (Yen)	¥835	¥792	¥1,187

	December 31, 2013
	The Company 2013 stock option 5)
Weighted average stock prices (Yen)	¥1,585
Exercise price (Yen)	¥0.01
Expected volatility (%)	33.8
Remaining term (Years)	3.33
Expected dividend (Yen)	¥3.00
Risk-free rate (%)	0.1
Fair value per option (Yen)	¥1,575

	December 31, 2013
	Kobo Inc. 2013 stock option
Weighted average stock prices (Canadian dollars)	$1.08
Exercise price (Canadian dollars)	$0.01
Expected volatility (%)	56.8
Remaining term (Years)	2.50
Expected dividend (Canadian dollars)	$—
Risk-free rate (%)	1.2
Fair value per option (Canadian dollars)	$1.07

38. Dividends

	Year ended December 31, 2012		Year ended December 31, 2013	
	Dividends per share (Yen)	Amount of dividends (Millions of yen)	Dividends per share (Yen)	Amount of dividends (Millions of yen)
Dividends paid				
Dividends by resolution at the Board of Directors in the previous year	¥250	¥3,284	¥3	¥3,944
Dividends paid during the current year	—	—	—	—
Total dividends paid applicable to the year	250	3,284	3	3,944

(Note) On July 1, 2012, the Company implemented a 100-for-1 share split of common stock.

The Company continues to make stable dividend payments under the principle of returning profits with the maximization of corporate value in mind, while maintaining a sound financial position and enhancing retained earnings to prepare for proactive business development.

Furthermore, the Board of Directors of the Company determines the payment of dividends. In principle, the Company distributes dividends once a year at year-end. For dividend distributions pursuant to Article 459, Paragraph 1 of the Companies Act, the Company makes its determination taking into consideration the business environment and other factors.

(Note) Cash dividends paid with record date during the year ended December 31, 2013 are as follows:

Date of resolution	Total dividends (Millions of yen)	Dividends per share (Yen)
Resolution at the Board of Directors on November 26, 2013 Resolution at the Board of Directors on February 14, 2014	¥5,271	¥4

39. Classification of Financial Instruments

The Group Companies' financial instruments are classified as follows:

As of December 31, 2012

(Financial Assets)

(Millions of yen)

	Financial assets measured at fair value		Financial assets measured at amortized cost	Total
	Financial assets measured at FVTPL	Financial assets measured at FVTOCI		
Cash and cash equivalents	¥—	¥—	¥270,114	¥270,114
Accounts receivable — trade	—	—	65,493	65,493
Financial assets for securities business	441	—	615,262	615,703
Loans for credit card business	—	—	402,418	402,418
Investment securities for banking business	45,142	0	251,184	296,326
Loans for banking business	—	—	189,669	189,669
Investment securities for insurance business	—	—	13,623	13,623
Derivative assets	10,674	—	—	10,674
Investment securities	50	15,722	7,639	23,411
Other financial assets	0	3	123,129	123,132
Total	56,307	15,725	1,938,531	2,010,563

(Financial Liabilities)

(Millions of yen)

	Financial liabilities measured at fair value		Financial liabilities measured at amortized cost	Total
	Financial liabilities subject to mandatory measurement at fair value	Financial liabilities designated as being measured at FVTPL		
Accounts payable — trade	¥—	¥—	¥79,965	¥79,965
Deposits for banking business	—	80,081	729,450	809,531
Financial liabilities for securities business	—	—	558,055	558,055
Derivative liabilities	4,685	—	—	4,685
Bonds and borrowings	—	—	305,186	305,186
Other financial liabilities	—	—	210,048	210,048
Total	4,685	80,081	1,882,704	1,967,470

As of December 31, 2013
(Financial Assets)

(Millions of yen)

	Financial assets measured at fair value		Financial assets measured at amortized cost	Total
	Financial assets measured at FVTPL	Financial assets measured at FVTOCI		
Cash and cash equivalents	¥—	¥—	¥384,008	¥384,008
Accounts receivable — trade	—	—	73,443	73,443
Financial assets for securities business	754	—	1,218,233	1,218,987
Loans for credit card business	—	—	544,314	544,314
Investment securities for banking business	34,954	0	162,943	197,897
Loans for banking business	—	—	239,818	239,818
Investment securities for insurance business	—	—	10,233	10,233
Derivative assets	12,588	—	—	12,588
Investment securities	697	24,693	8,635	34,025
Other financial assets	2	—	159,056	159,058
Total	48,995	24,693	2,800,683	2,874,371

(Financial Liabilities)

(Millions of yen)

	Financial liabilities measured at fair value		Financial liabilities measured at amortized cost	Total
	Financial liabilities subject to mandatory measurement at fair value	Financial liabilities designated as being measured at FVTPL		
Accounts payable — trade	¥—	¥—	¥115,357	¥115,357
Deposits for banking business	—	79,218	880,742	959,960
Financial liabilities for securities business	—	—	1,077,971	1,077,971
Derivative liabilities	8,023	—	—	8,023
Bonds and borrowings	—	—	389,683	389,683
Other financial liabilities	—	—	226,771	226,771
Total	8,023	79,218	2,690,524	2,777,765

(1) Investments in Equity Instruments Designated as Measured at FVTOCI

Since shares held by the Group Companies are investments held over the long term for the purpose of strengthening business relationships or in anticipation of synergistic effects in business operations rather than only for trading purposes, such shares are designated as financial assets measured at FVTOCI.

Equity instruments designated as measured at FVTOCI as of December 31, 2012 mainly comprise shares in Pinterest, Inc., with a fair value of ¥7,191 million. Equity instruments designated as measured at FVTOCI as of December 31, 2013 mainly comprise shares in Pinterest, Inc. and F@N Communications, Inc., with a fair value of ¥8,757 million and ¥7,235 million.

During the year ended December 31, 2012, shares of investments from which synergistic effects could no longer be anticipated were sold. The fair value of such investments at the time of sale was ¥1,147 million, and a gain on sales of ¥157 million was recognized. Similarly, during the year ended December 31, 2013, shares of investments from which synergistic effects could no longer be anticipated were sold. The fair value of such investments at the time of sales was ¥3,388 million, and a gain on sales of ¥2,880 million was recognized.

Additionally, during the year ended December 31, 2012, dividend income recognized from shares designated as financial assets measured at FVTOCI was ¥98 million, of this, the amount of such dividends relating to shares held as of December 31, 2012 was ¥85 million. Furthermore, during the year ended December 31, 2013, dividend income recognized from shares designated as financial assets measured at FVTOCI was ¥112 million, and all of this was such dividends relating to shares held as of December 31, 2013.

During the year ended December 31, 2012, the Group Companies reclassified ¥106 million of cumulative gains in equity, related to shares designated as financial assets measured at FVTOCI, to retained earnings on the sale of such shares, etc. During the year ended December 31, 2013, the Group Companies reclassified ¥1,793 million in cumulative gains in equity, related to shares designated as financial assets measured at FVTOCI, to retained earnings on the sale of such shares, etc.

(2) Financial Liabilities Designated as Measured at FVTPL

The Group Companies classify certain time deposits with special clauses included in “Deposits for banking business” as financial liabilities measured at FVTPL.

Fair values of such deposits of the Group Companies are measured at present value calculated by discounting each portion of future cash flows, classified by period, for the corresponding remaining maturity using the applicable interest rate considering credit risk.

(Millions of yen)

	December 31, 2012			December 31, 2013		
	Carrying amount (Fair value)	Contractual obligations at maturity	Difference	Carrying amount (Fair value)	Contractual obligations at maturity	Difference
Deposits for banking business	¥80,081	¥78,630	¥1,451	¥79,218	¥77,584	¥1,634
Total	80,081	78,630	1,451	79,218	77,584	1,634

The amount of payment demanded at maturity has been calculated assuming that the liabilities will be repaid on the earliest maturity date on which the repayment can be demanded.

40. Gains and Losses Generated from Financial Instruments

The analysis of the gains and losses generated from financial instruments held by the Group Companies is as follows:

For the year ended December 31, 2012

(1) Breakdown of Net Gains and Losses Generated from Financial Assets by Type of Financial Instruments

(Millions of yen)

	Financial assets measured at fair value		Financial assets measured at amortized cost	Total
	Financial assets measured at FVTPL	Financial assets measured at FVTOCI		
Revenue	¥4,591	¥67	¥210	¥4,868
Operating expenses	—	—	¥10,243	10,243
Financial income	—	31	—	31
Other comprehensive income	266	(72)	—	194

Net gains generated from financial assets measured at fair value include interest income, dividend income and commissions received relating to such assets.

(2) Breakdown of Net Gains and Losses Generated from Financial Liabilities by Type of Financial Instruments

(Millions of yen)

	Financial liabilities measured at fair value		Financial liabilities measured at amortized cost	Total
	Financial liabilities subject to mandatory measurement at fair value	Financial liabilities designated as being measured at fair value		
Revenue	¥—	¥(359)	¥—	¥(359)
Operating expenses	—	652	—	652

(3) Total Interest Income and Interest Expenses (Calculated Using the Effective Interest Method) Associated With Financial Assets Measured at Amortized Cost or Financial Liabilities Measured at Amortized Cost

(Millions of yen)

	Total interest income from financial assets measured at amortized cost	Total interest expenses from financial liabilities measured at amortized cost
Revenue	¥48,960	¥—
Operating expenses	—	4,536
Financial income	162	—
Financial expenses	—	2,220
Total	49,122	6,756

(4) Commission Revenue and Commission Fees Expense Generated from Financial Assets Measured at Amortized Cost, Financial Liabilities Measured at Amortized Cost, and Trust and Other Trustee Operations

(Millions of yen)

	Commission revenue from financial assets measured at amortized cost	Commission fees expenses from financial assets measured at amortized cost	Commission fees expenses from financial liabilities measured at amortized cost	Commission revenue from trust and other trustee operations	Commission fees expenses from trust and other trustee operations
Financial expenses	¥—	¥—	¥344	¥—	¥—

(5) Impairment Loss (or Reversal of Impairment Loss) by Type of Financial Asset

(Millions of yen)

	Impairment loss (or reversal of impairment loss)
Accounts receivable — trade	¥963
Financial assets for securities business	(36)
Loans for credit card business	9,446
Investment securities for banking business	(179)
Loans for banking business	(14)
Other financial assets	56
Total	10,236

(6) Analysis of Gains and Losses Arising from Derecognition of Financial Assets Measured at Amortized Cost and Reason for Derecognition

(Millions of yen)

	Gains arising from derecognition of financial assets measured at amortized cost	Losses arising from derecognition of financial assets measured at amortized cost
Investment securities for banking business	¥—	¥220

Reason for Derecognition

Rakuten Bank, Ltd. has derecognized certain investment securities for banking business due to sales after the issuer was downgraded.

For the year ended December 31, 2013

(1) Breakdown of Net Gains and Losses on Financial Assets by Type of Financial Instruments

(Millions of yen)

	Financial assets measured at fair value		Financial assets measured at amortized cost	Total
	Financial assets measured at FVTPL	Financial assets measured at FVTOCI		
Revenue	¥17,112	¥54	¥(45)	¥17,121
Operating expenses	—	—	12,929	12,929
Financial income	—	58	—	58
Other comprehensive income	(180)	9,500	—	9,320

Net gains on financial assets measured at fair value include interest income, dividend income and commissions received relating to such assets.

(2) Breakdown of Net Gains and Losses on Financial Liabilities by Type of Financial Instruments

(Millions of yen)

	Financial liabilities measured at fair value		Financial liabilities measured at amortized cost	Total
	Financial liabilities which must be measured at fair value	Financial liabilities designated as measured at fair value		
Revenue	¥—	¥(183)	¥—	¥(183)
Operating expenses	—	(620)	—	(620)

(3) Total Interest Income and Interest Expenses (Calculated Using the Effective Interest Method) Associated With Financial Assets Measured at Amortized Cost or Financial Liabilities Measured at Amortized Cost

(Millions of yen)

	Total interest income associated with financial assets measured at amortized cost	Total interest expenses associated with financial liabilities measured at amortized cost
Revenue	¥66,204	¥—
Operating expenses	—	3,922
Financial income	140	—
Financial expenses	—	1,676
Total	66,344	5,598

(4) Commission Revenue and Commission Expense relating to Financial Assets Measured at Amortized Cost, Financial Liabilities Measured at Amortized Cost, and Trust and Other Trustee Operations

(Millions of yen)

	Commission revenue from financial assets measured at amortized cost	Commission expense relating to financial assets measured at amortized cost	Commission expense relating to financial liabilities measured at amortized cost	Commission revenue from trust and other trustee operations	Commission expense relating to trust and other trustee operations
Financial expenses	¥—	¥—	¥286	¥—	¥—

(5) Impairment Loss (or Reversal of Impairment Loss) by Type of Financial Asset

(Millions of yen)

	Impairment loss (or reversal of impairment loss)
Accounts receivable — trade	¥908
Financial assets for securities business	76
Loans for credit card business	11,776
Investment securities for banking business	(192)
Loans for banking business	134
Other financial assets	226
Total	12,928

(6) Analysis of Gains and Losses on Derecognition of Financial Assets Measured at Amortized Cost and Reason for Derecognition

(Millions of yen)

	Gains on derecognition of financial assets measured at amortized cost	Losses on derecognition of financial assets measured at amortized cost
Investment securities for insurance business	¥9	¥1

Reason for Derecognition

Rakuten Life Insurance Co., Ltd. derecognized certain investment securities for the insurance business due to the sale of such assets to adjust its investment portfolios to reflect the modified forecast duration.

41. Fair Value of Financial Instruments

(1) Fair Value and Carrying Amount of Financial Instruments

The following table provides a comparison between carrying amounts and fair values of the financial instruments held by the Group Companies.

(Millions of yen)

	For the year ended December 31, 2012		For the year ended December 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
(Financial assets)				
Financial assets for securities business	¥615,703	¥615,703	¥1,218,987	¥1,218,987
Loans for credit card business	402,418	412,615	544,314	554,390
Investment securities for banking business	296,326	296,829	197,897	198,238
Loans for banking business	189,669	190,663	239,818	240,896
Investment securities for insurance business	13,623	13,778	10,233	10,380
Derivative assets	10,674	10,674	12,588	12,588
Investment securities	23,411	23,425	34,025	34,104
Total	1,551,824	1,563,687	2,257,862	2,269,583
(Financial liabilities)				
Deposits for banking business	809,531	808,576	959,960	960,267
Financial liabilities for securities business	558,055	558,055	1,077,971	1,077,971
Derivative liabilities	4,685	4,685	8,023	8,023
Bonds and borrowings	305,186	305,188	389,683	388,781
Total	1,677,457	1,676,504	2,435,637	2,435,042

Measurement of Fair Values

- Financial assets for securities business

  As financial assets for securities business are subject to short-term settlement, their fair values approximate their carrying amounts.
- Loans for credit card business and loans for banking business

  The fair value of loans for credit card business and loans for banking business is measured at present value calculated by discounting each portion of future cash flows classified by period, for the corresponding remaining maturity using the applicable interest rate considering credit risk.
- Investment securities, investment securities for banking business and investment securities for insurance business

  Of these investment securities, fair value of listed shares is measured at the year-end closing market price, while fair value of unlisted shares is measured by using an appropriate valuation technique, such as a method of comparison with similar sectors. The fair value of bonds is measured by reasonable valuation methods based on available information, including reference trading statistics and brokers' quotes.
- Derivative assets and liabilities

  Within derivative assets and liabilities, forward exchange contracts are measured at fair value at the end of year based on forward exchange rates. Fair value of interest rate swaps is measured at the present value calculated by discounting future cash flows for the remaining maturity using the rate of the interest rate swap at the end of year. Since counterparties of interest rate swap contracts are limited to financial institutions with superior credit ratings, consideration of credit risk is not incorporated in the calculation of fair value as it is minimal.
- Deposits for banking business

  For demand deposits of the deposits for banking business, amounts payable on request at the year-end closing date (carrying amount) are considered to represent fair value. Fair value of time deposits is measured at the present value calculated by discounting each portion of future cash flows classified by period, for the corresponding remaining maturity, using the applicable interest rate considering credit risk. For time deposits with short remaining maturities (one year or less), the carrying amount is deemed as fair value as such fair value approximates the carrying amount.
- Financial liabilities for securities business

  As financial liabilities for securities business are subject to short-term settlement, their fair values approximate their carrying amounts.
- Bonds and borrowings

  Among bonds and borrowings, fair value of those with longer remaining maturities is measured at the present value calculated by discounting each portion of future cash flows classified by period, for the corresponding remaining maturity, using the applicable interest rate considering credit risk.

  As other financial assets and liabilities are subject to short-term settlement, their fair values approximate their carrying amounts.

(2) Fair Value Hierarchy

The following table shows the fair value measurement classified into one of three levels from Level 1 to Level 3 based on *the fair value hierarchy.*

[Definition of Each Level of Hierarchy]

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Fair value calculated by using inputs that are directly or indirectly observable for assets or liabilities, other than quoted prices included within Level 1

Level 3: Fair value calculated by using the valuation technique including inputs that are unobservable

The Group Companies recognize transfers between each level in hierarchy at the year-end closing date.

Classification by level of assets and liabilities measured at fair value in the Consolidated Statement of Financial Position

For the year ended December 31, 2012

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets for securities business	¥—	¥441	¥—	¥441
Investment securities for banking business	—	6,283	38,859	45,142
Investment securities	3,687	1,736	10,349	15,772
Deposits for banking business	—	80,081	—	80,081
Derivative assets/liabilities	—	6,007	(18)	5,989

There were no significant transfers between Level 1 and Level 2 during the year ended December 31, 2012.

For the year ended December 31, 2013

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets for securities business	¥—	¥754	¥—	¥754
Investment securities for banking business	—	—	34,954	34,954
Investment securities	11,506	—	13,883	25,389
Deposits for banking business	—	79,218	—	79,218
Derivative assets/liabilities	—	4,565	—	4,565

There were no significant transfers between Level 1 and Level 2 during the year ended December 31, 2013.

Classification by level of assets and liabilities not measured at fair value in the consolidated statement of financial position

For the year ended December 31, 2013

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets for securities business	¥—	¥1,218,155	¥78	¥1,218,233
Loans for credit card business	—	—	554,390	554,390
Investment securities for banking business	41,405	—	121,879	163,284
Loans for banking business	—	—	240,896	240,896
Investment securities for insurance business	10,380	—	—	10,380
Investment securities	6,899	1,800	16	8,715
Deposits for banking business	—	881,049	—	881,049
Financial liabilities for securities business	—	1,077,971	—	1,077,971
Bonds and borrowings	—	388,781	—	388,781

(3) Reconciliation of Level 3 of the Hierarchy

The following reconciliation table indicates changes in the balances, from the beginning to the end of each year, of the financial instruments classified as Level 3, with one or more significant inputs not supported by observable market data.

For the year ended December 31, 2012

(Millions of yen)

	Investment securities for banking business	Investment securities	Derivative assets/liabilities	Total
January 1, 2012	¥39,470	¥3,117	¥(8)	¥42,579
Gains or losses				
Net income	1,483	0	(10)	1,473
Other comprehensive income	(31)	(422)	—	(453)
Acquisition	4,000	8,038	—	12,038
Disposal	(3,244)	(143)	—	(3,387)
Issuance	—	—	—	—
Settlement	—	—	—	—
Redemption	(3,461)	(0)	—	(3,461)
Others	642	(73)	—	569
Transfer to Level 3	—	—	—	—
Transfer from Level 3 (Note)	—	(168)	—	(168)
December 31, 2012	38,859	10,349	(18)	49,190
Total net income on financial instruments held at the end of previous year	1,304	0	(10)	1,294

(Note) Transfers were due to significant inputs used for fair value measurement becoming observable.

Gains or losses included in net income during the year ended December 31, 2012 are included in “Revenue.”

For the year ended December 31, 2013

(Millions of yen)

	Investment securities for banking business	Investment securities	Derivative assets/liabilities	Total
January 1, 2013	¥38,859	¥10,349	¥(18)	¥49,190
Gains or losses				
Net income	2,738	17	—	2,755
Other comprehensive income	0	45	—	45
Acquisition	—	1,122	—	1,122
Disposal	(704)	(15)	—	(719)
Issuance	—	—	—	—
Settlement	—	—	18	18
Redemption	(5,939)	—	—	(5,939)
Others	—	2,365	—	2,365
Transfer to Level 3	—	—	—	—
Transfer from Level 3 (Note)	—	—	—	—
December 31, 2013	34,954	13,883	—	48,837
Total net income on financial instruments held at the end of current year	2,773	17	—	2,790

Gains or losses included in net income during the year ended December 31, 2013 are included in “Revenue.”

The fair values of unlisted shares are measured in accordance with rules specified by the administrative department independent of the sales department. In measuring fair value, the Group Companies employ different valuation models that can most appropriately assess the property, characteristics and risks of each asset. The grounds for the employment of valuation models and fair value measurement processes are reported to the Risk Management Department, the Group Companies’ risk management function, with the aim of ensuring the utilization of appropriate fair value measurement policies and procedure.

The fair values of investment securities in the banking business are measured by the Risk Management Department in accordance with the office standard of market value calculation. Prices presented by transacting financial institutions and others are categorized by types of investment securities. To validate the consistency of changes in these prices, movements in important data that may affect a change in the market value of these categories of investment securities are carefully monitored. Validation results are reported to the Risk Management Committee, Management Meetings and the Board of Directors on a monthly basis.

For investment securities in the banking business classified as Level 3, if each input were to be changed to reasonable alternative assumptions, any resulting changes in fair value are not expected to be significant. Additionally, for other financial assets classified as Level 3, significant changes in fair value are not anticipated if each input were to be changed to reasonable alternative assumptions.

42. Offsetting of Financial Assets and Financial Liabilities

The Group Companies' gross amount prior to offsetting of recognized financial assets and financial liabilities that are presented on net basis after offsetting in the statement of financial position, the offsetting amount and the net balance after offsetting are as follows. Additionally, in terms of legally enforceable master netting arrangements or similar agreements relating to recognized financial assets or financial liabilities, the potential effects are disclosed even for amounts that are not presented on net basis after offsetting.

As of December 31, 2012
(Financial assets that are presented on net basis after offsetting in the statement of financial position, and legally enforceable master netting arrangements or similar agreements)

(Millions of yen)

Financial assets	Type of transaction	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offset in the statement of financial position	Net amount of financial assets presented in the statement of financial position
Derivative assets	Derivatives	¥10,800	¥(127)	¥10,673
Financial assets for securities business	Reverse repurchase agreements, investment securities borrowing agreements and similar agreements	130,165	—	130,165
	Accounts receivable, etc. relating to investment securities and other transactions, etc.	391,653	(190,012)	201,641
Other financial assets	Accounts receivable — other, etc.	15,643	(12,135)	3,508

(Millions of yen)

Type of transaction	Net amount of financial assets presented in the statement of financial position	Related amounts that are not presented on net basis after offsetting in the statement of financial position		Net amount
		Financial instruments	Collateral received	
Derivatives	¥10,673	¥(5,650)	¥(802)	¥4,221
Reverse repurchase agreements, investment securities borrowing agreements and similar agreements	130,165	(130,165)	—	—
Accounts receivable, etc. relating to investment securities and other transactions, etc.	201,641	(201,344)	—	297
Accounts receivable — other, etc.	3,508	—	—	3,508

(Financial liabilities that are presented on net basis after offsetting in the statement of financial position, and legally enforceable master netting arrangements or similar agreements)

(Millions of yen)

Financial liabilities	Type of transaction	Gross amount of recognized financial liabilities	Gross amount of recognized financial assets offset in the statement of financial position	Net amount of financial liabilities presented in the statement of financial position
Derivative liabilities	Derivatives	¥4,362	¥(127)	¥4,235
Financial liabilities for securities business	Reverse repurchase agreements, investment securities borrowing agreements and similar agreements	79,243	—	79,243
	Accounts payable, etc. relating to investment securities and other transactions, etc.	561,423	(190,012)	371,411
Other financial liabilities	Accounts payable — other, etc.	16,370	(12,135)	4,235

(Millions of yen)

Type of transaction	Net amount of financial liabilities presented in the statement of financial position	Related amounts that are not presented on net basis after offsetting in the statement of financial position		Net amount
		Financial instruments	Collateral pledged	
Derivatives	¥4,235	¥(4,221)	¥(14)	¥—
Reverse repurchase agreements, investment securities borrowing agreements and similar agreements	79,243	(78,404)	—	¥839
Accounts payable, etc. relating to investment securities and other transactions, etc.	371,411	(286,986)	—	84,425
Accounts payable — other, etc.	4,235	—	—	4,235

As of December 31, 2013

(Financial assets that are presented on net basis after offsetting in the statement of financial position, and legally enforceable master netting arrangements or similar agreements)

(Millions of yen)

Financial assets	Type of transaction	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offset in the statement of financial position	Net amount of financial assets presented in the statement of financial position
Derivative assets	Derivatives	¥13,904	¥(1,865)	¥12,039
Financial assets for securities business	Reverse repurchase agreements, investment securities borrowing agreements and similar agreements	317,956	—	317,956
	Accounts receivable, etc. relating to investment securities and other transactions, etc.	815,560	(388,268)	427,292
Other financial assets	Accounts receivable — other, etc.	20,206	(16,441)	3,765

(Millions of yen)

Type of transaction	Net amount of financial assets presented in the statement of financial position	Related amounts that are not presented on net basis after offsetting in the statement of financial position		Net amount
		Financial instruments	Collateral received	
Derivatives	¥12,039	¥(8,570)	¥(228)	¥3,241
Reverse repurchase agreements, investment securities borrowing agreements and similar agreements	317,956	(317,956)	—	—
Accounts receivable, etc. relating to investment securities and other transactions, etc.	427,292	(395,542)	—	31,750
Accounts receivable — other, etc.	3,765	—	—	3,765

(Financial liabilities that are presented on net basis after offsetting in the statement of financial position, and legally enforceable master netting arrangements or similar agreements)

(Millions of yen)

Financial liabilities	Type of transaction	Gross amount of recognized financial liabilities	Gross amount of recognized financial assets offset in the statement of financial position	Net amount of financial liabilities presented in the statement of financial position
Derivative liabilities	Derivatives	¥9,187	¥(1,865)	¥7,322
Financial liabilities for securities business	Reverse repurchase agreements, investment securities borrowing agreements and similar agreements	163,594	—	163,594
	Accounts payable, etc. relating to investment securities and other transactions, etc.	1,108,317	(388,268)	720,049
Other financial liabilities	Accounts payable — other, etc.	28,493	(16,441)	12,052

(Millions of yen)

Type of transaction	Net amount of financial liabilities presented in the statement of financial position	Related amounts that are not presented on net basis after offsetting in the statement of financial position		Net amount
		Financial instruments	Collateral pledged	
Derivatives	¥7,322	¥(7,080)	¥(242)	¥—
Reverse repurchase agreements, investment securities borrowing agreements and similar agreements	163,594	(162,117)	—	1,477
Accounts payable, etc. relating to investment securities and other transactions, etc.	720,049	(566,534)	—	153,515
Accounts payable — other, etc.	12,052	—	—	12,052

The right of offsetting recognized financial assets and liabilities subject to a legally enforceable master netting agreement or other similar agreements becomes enforceable and affects the realization or settlement of individual financial assets and liabilities only following a default or other specified circumstances not expected to arise in the normal course of business.

43. Financial Risk Management

The objective of Group Companies' investment activities is to protect the principal and ensure the efficient use of funds, fully taking into account various risks including credit risk, market risk and liquidity risk. In addition, in view of factors such as the current economic environment, the Group Companies' fund-raising activities are based on the best conceivable choice of the alternative options among direct as well as indirect financing methods.

The Group Companies' subsidiaries engage in the banking business with a primary focus on deposit-taking, foreign exchange business, and lending to individual customers, and they accept ordinary deposits from individual as well as corporate customers, and offer time deposits and foreign currency deposits to individual customers. In addition, using such financial liabilities as major resources, the subsidiaries provide unsecured card loans and residential mortgages to individual customers, as well as acquiring investment securities and monetary claims, establishing monetary trusts, engaging in market transactions such as call loans, along with derivative transactions and foreign exchange transactions associated with the sales of financial instruments to customers. The subsidiaries are always aware of the significance of a bank's social responsibility and public mission, which strictly restrains it from entering into investment transactions beyond its management capacity in the undue pursuit of profit, and emphasis is placed on investing deposits entrusted by customers with full consideration of safety. Furthermore, to ensure an optimum asset and liability structure along with appropriate capital adequacy over the entire financial operations from funding to investment, the subsidiaries engage in Asset and Liability Management (ALM) focused on interest rate sensitivity, funding liquidity and market liquidity.

The Group Companies' subsidiaries engaged in the securities business primarily focus on stock brokerage activities for individual investors, segregate the deposits and guarantee deposits received from customers in trusts for the separate management of deposit money and securities, under the Financial Instruments and Exchange Act, and invest in accordance with laws and regulations. When utilizing funds, importance is placed on the safety of investments, such as bank deposits and financial assets with high liquidity, while fund-raising is conducted mainly by borrowing from financial institutions.

The Group Companies' subsidiaries engaged in the credit card business (including the comprehensive credit purchase intermediation business, individual credit purchase intermediation business, credit guarantee business and loan business) restrict their investment of funds to short-term deposits, while obtaining funding through borrowings from banks and other financial institutions and through direct financing by issuance of commercial paper and securitization of receivables.

The Group Companies' subsidiaries engaged in the insurance business consider ensuring safety and profitability as their priority mission in asset management, in order to honor their commitment to the reliable payment of insurance claims and benefits over the years to come. Their policy in asset management is to invest mainly in domestic public and corporate bonds seeking to disperse risks, focusing primarily on government bonds and industrial bonds with superior credit ratings with an aim to receive consistent investment yields over the medium- to long-term, in an effort to develop a safety-first liquidity-oriented investment portfolio. Under the corporate policy, derivative transactions are handled responsibly, never to be treated as speculative instruments. Derivative transactions include foreign exchange margin transactions conducted by the securities business. In an effort to mitigate market risks associated with these transactions with clients, the Group Companies enter into cover deals with counterparties.

These financial assets are well diversified both in terms of the investees' types of business and their geographical locations, avoiding particular concentration of credit risk.

(1) Credit Risk

1) Outline of Credit Risk Associated with Financial Instruments

Financial assets held by the Group Companies are mainly accounts receivable — installment, operating loans, investment securities, banking business-related assets held by the subsidiaries engaged in the banking business, securities business-related assets held by the subsidiaries engaged in the securities business and insurance business-related assets held by the subsidiaries engaged in the insurance business.

Accounts receivable — installment and operating loans include credit card receivables, loan receivables, consumer loans and secured loans held by the subsidiaries engaged in the credit card business, all of which are presented as loans for credit card business. These are exposed to credit risk associated with respective debtors.

Investment securities include debt instruments, which are exposed to credit risk.

Banking business-related assets include investment securities for banking business and loans for banking business. Investment securities for banking business mainly include securities in shares, domestic bonds and foreign bonds, as well as trust beneficiary rights. Such securities are exposed to credit risk subject to the financial position of issuers, while trust beneficiary rights are exposed to credit risk of the issuers as well as underlying assets. Loans for banking business include unsecured card loans and residential mortgages for individual customers that are exposed to credit risk of individual customers. Securities business-related assets include cash segregated as deposits for securities business and margin transaction assets, which are presented as financial assets for securities business. Cash segregated as deposits for securities business are primarily trust segregated for customer's money, which are invested in bank deposits, thus exposed to the credit risk of the deposit-taking financial institutions. Margin transaction assets are exposed to customers' credit risk.

Insurance business-related assets include investment securities for insurance business. Investment securities for insurance business mainly include government bonds, municipal bonds and corporate bonds, and are exposed to credit risk related to the financial position of issuers.

2) Management System of Credit Risks Associated with Financial Instruments

Specific methods and systems to manage various risks within the Group Companies are set out under various risk management regulations established at each Group Company.

Credit risks are managed under the above regulations, through establishing individual credit limits, understanding the credit status of individual customers, and controlling due dates and loan balances on a regular basis, while efforts are made on early detection and mitigation of the risk of default resulting from deterioration of borrowers' financial conditions and other factors. Meanwhile, derivative transactions are managed based on "the Detailed Regulations for Hedge Trading Management." Derivative transactions are exposed to the risk of financial loss resulting from a counterparty's contractual default, though credit risk is deemed to be minimal, because counterparties are mainly financial institutions with superior credit ratings.

3) Exposure to Credit Risks

The Group Companies' maximum exposure to credit risk is as follows:

The maximum credit risk exposure (gross) represents the maximum exposure to credit risk without taking into account the collateral held by the Group Companies and any other credit enhancement. The maximum credit risk exposure (net) represents the maximum credit risk exposure, after reflecting the amount of credit risk mitigation through the collateral held by the

Group Companies and any other credit enhancement. The amount of credit risk mitigation through the collateral held by the Group Companies and any other credit enhancement does not include part of the amount of collateral and others stated in “Note 42. Offsetting of Financial Assets and Financial Liabilities.”

The maximum exposure to credit risk (gross) associated with financial assets stated as on-balance sheet items in the following table, are the same as their carrying amounts. The maximum exposure to credit risk associated with the provision of financial guarantees stated as off-balance sheet items in the following table, are the maximum amount payable in the event that exercise of the guarantee is requested. Meanwhile, the maximum exposure to credit risk associated with commitment line agreements is the unused portion of such commitment lines.

As of December 31, 2012

(Millions of yen)

	Classification by creditworthiness							
	Financial assets neither past due nor impaired	Financial assets past due but not impaired	Financial assets impaired	Total	Allowance for doubtful accounts	Maximum credit risk exposure (gross)	Total amount of collateral and credit enhancement	Maximum credit risk exposure (net)
Items recognized in the Statement of Financial Position:								
Cash and cash equivalents	¥270,114	¥—	¥—	¥270,114	¥—	¥270,114	¥—	¥270,114
Accounts receivable — trade	63,947	1,140	2,428	67,515	(2,022)	65,493	—	65,493
Financial assets for securities business	615,525	59	1,789	617,373	(1,670)	615,703	130,165	485,538
Loans for credit card business	391,853	10,206	20,896	422,955	(20,537)	402,418	—	402,418
Investment securities for banking business	296,573	—	—	296,573	(247)	296,326	—	296,326
Loans for banking business	190,163	158	—	190,321	(652)	189,669	—	189,669
Investment securities for insurance business	13,623	—	—	13,623	—	13,623		13,623
Derivative assets	10,674	—	—	10,674	—	10,674	—	10,674
Investment securities	7,639	—	—	7,639	—	7,639	—	7,639
Other financial assets	123,114	31	285	123,430	(298)	123,132	—	123,132
Total of items recognized in the Consolidated Statement of Financial Position:	1,983,225	11,594	25,398	2,020,217	(25,426)	1,994,791	130,165	1,864,626
Items not recognized in the Statement of Financial Position:								
Commitment lines	—	—	—	—	—	1,666,455	—	1,666,455
Financial guarantee agreements	—	—	—	—	—	20,839	—	20,839
Total of items not recognized in the Consolidated Statement of Financial Position:	—	—	—	—	—	1,687,294	—	1,687,294
Total	1,983,225	11,594	25,398	2,020,217	(25,426)	3,682,085	130,165	3,551,920

As of December 31, 2013

(Millions of yen)

	Classification by creditworthiness: Financial assets neither past due nor impaired	Financial assets past due but not impaired	Financial assets impaired	Total	Allowance for doubtful accounts	Maximum credit risk exposure (gross)	Total amount of collateral and credit enhancement	Maximum credit risk exposure (net)
Items recognized in the Statement of Financial Position:								
Cash and cash equivalents	¥384,008	¥—	¥—	¥384,008	¥—	¥384,008	¥—	¥384,008
Accounts receivable — trade	65,675	7,255	2,369	75,299	(1,856)	73,443	—	73,443
Financial assets for securities business	1,218,812	111	1,470	1,220,393	(1,406)	1,218,987	317,956	901,031
Loans for credit card business	532,016	10,021	22,570	564,607	(20,293)	544,314	—	544,314
Investment securities for banking business	197,952	—	—	197,952	(55)	197,897	—	197,897
Loans for banking business	240,202	406	10	240,618	(800)	239,818	—	239,818
Investment securities for insurance business	10,233	—	—	10,233	—	10,233	—	10,233
Derivative assets	12,588	—	—	12,588	—	12,588	—	12,588
Investment securities	9,332	—	—	9,332	—	9,332	—	9,332
Other financial assets	158,595	439	478	159,512	(454)	159,058	—	159,058
Total of items recognized in the Consolidated Statement of Financial Position:	2,829,413	18,232	26,897	2,874,542	(24,864)	2,849,678	317,956	2,531,722
Items not recognized in the Statement of Financial Position:								
Commitment lines	—	—	—	—	—	2,034,622	—	2,034,622
Financial guarantee agreements	—	—	—	—	—	17,523	—	17,523
Total of items not recognized in the Consolidated Statement of Financial Position:	—	—	—	—	—	2,052,145	—	2,052,145
Total	2,829,413	18,232	26,897	2,874,542	(24,864)	4,901,823	317,956	4,583,867

In respect of the credit characteristics of loans for banking business and investment securities for banking business, borrowers are classified after a determination of their repayment capability based on their financial conditions, cash flow and earnings capacity, and such financial assets are then managed based on the probability of recovery of each borrower as well as extent of associated impairment risk.

In respect of the credit characteristics of loans for credit card business, the financial assets are classified in consideration of the delinquency status and repayment capability of each borrower.

4) Aging Analysis of Past Due But Not Impaired Financial Assets

Aging analysis of past due but not impaired financial assets is as follows.

In the following aging analysis, amounts of financial assets, for which the payment terms have been extended or payment has not been made since the contractual due dates, are classified according to the length of the overdue period from the due dates to the end of the year.

As of December 31, 2012

(Millions of yen)

	Six months or less	Over six months to one year	Over one year
Accounts receivable — trade	¥1,053	¥61	¥26
Financial assets for securities business	20	8	31
Loans for credit card business (Note)	7,014	3,192	—
Loans for banking business	158	—	—
Other financial assets	30	—	1
Total	8,275	3,261	58

(Note) Among the loans for credit card business, those past due for three months or less is ¥5,023 million, while those past due between three and six months is ¥1,991 million.

As of December 31, 2013

(Millions of yen)

	Six months or less	Over six months to one year	Over one year
Accounts receivable — trade	¥7,201	¥44	¥10
Financial assets for securities business	44	37	30
Loans for credit card business (Note)	7,229	2,792	—
Loans for banking business	406	—	—
Other financial assets	41	1	397
Total	14,921	2,874	437

(Note) Within loans for credit card business, those past due for three months or less is ¥5,386 million, while those past due between three months and six months is ¥1,843 million.

5) Financial Assets Individually Assessed as Impaired

Analysis of the financial assets individually assessed as impaired is as follows:

As of December 31, 2012

(Millions of yen)

	Carrying amount	Allowance for doubtful accounts	Carrying amount less allowance for doubtful accounts
Accounts receivable — trade	¥2,428	¥(1,112)	¥1,316
Financial assets for securities business	1,789	(1,667)	122
Loans for credit card business	20,896	(13, 922)	6,974
Loans for banking business	—	—	—
Other financial assets	285	(279)	6
Total	25,398	(16,980)	8,418

As of December 31, 2013

(Millions of yen)

	Carrying amount	Allowance for doubtful accounts	Carrying amount less allowance for doubtful accounts
Accounts receivable — trade	¥2,369	¥ (1,028)	¥1,341
Financial assets for securities business	1,470	(1,372)	98
Loans for credit card business	22,570	(13,411)	9,159
Loans for banking business	10	(10)	—
Other financial assets	478	(306)	172
Total	26,897	(16,127)	10,770

(2) Liquidity Risk

1) Outline of Liquidity Risk Associated with Financial Instruments

Within financial liabilities held by the Group Companies, borrowings are mainly exposed to market risks, and banking business-related liabilities are exposed to liquidity risk.

2) Management of Liquidity Risk Associated with Financial Instruments

Methods to control liquidity risk associated with funding include a cash management plan to ensure adequate liquidity on hand in accordance with regulations established by each Group Company. Liquidity risk arising from factors, such as holding investment securities, is managed by limiting the acquisition of securities to the amount necessary from a business standpoint, and carefully evaluating the financial conditions of issuers.

3) Analysis of Maturity of Financial Liabilities

The balances by maturity of financial liabilities (including derivatives) are as follows:

As of December 31, 2012

(Millions of yen)

	One year or less	Over one year to two years	Over two years to three years	Over three years to four years	Over four years to five years	Over five years
Financial liabilities other than derivatives						
Accounts payable — trade	¥79,965	¥—	¥—	¥—	¥—	¥—
Deposits for banking business	674,270	22,517	8,498	4,765	9,158	99,000
Financial liabilities for securities business	558,055	—	—	—	—	—
Bonds and borrowings	181,638	47,010	31,147	26,672	23,696	405
Other financial liabilities	203,867	3,339	1,899	707	228	8
Derivative liabilities	3,996	232	167	142	120	420
Derivative associated with cover deals of special time deposits	(90)	(301)	(956)	(421)	(548)	(3,929)
Off-balance sheet items						
Commitment lines	1,666,455	—	—	—	—	—
Financial guarantee agreements	20,839	—	—	—	—	—

(Note) Financial liabilities payable on demand are classified as "One year or less." "Deposits for banking business" include ¥492,395 million of demand deposits.

"Derivative associated with cover deals of special time deposits" are related to "Deposits for banking business."

As of December 31, 2013

(Millions of yen)

	One year or less	Over one year to two years	Over two years to three years	Over three years to four years	Over four years to five years	Over five years
Financial liabilities other than derivatives						
Accounts payable — trade	¥115,357	¥—	¥—	¥—	¥—	¥—
Deposits for banking business	807,485	11,422	6,065	8,558	14,556	132,614
Financial liabilities for securities business	1,077,971	—	—	—	—	—
Bonds and borrowings	265,323	45,221	45,415	30,092	7,747	142
Other financial liabilities	220,939	3,711	1,254	565	180	121
Derivative liabilities	6,634	298	220	151	124	347
Derivative associated with cover deals of special time deposits	(605)	(1,210)	(701)	(815)	(295)	(5,174)
Off-balance sheet items						
Commitment lines	2,034,622	—	—	—	—	—
Financial guarantee agreements	17,523	—	—	—	—	—

(Note) Financial liabilities payable on demand classified as "One year or less." "Deposits for banking business" include ¥556,765 million of demand deposits.

"Derivative associated with cover deals of special time deposits" are related to "Deposits for banking business."

(3) Market Risk

1) Outline of Market Risk Associated with Financial Instruments

The Group Companies' activities are exposed mainly to risks associated with changes in the economic environment and the financial market environment. Risks associated with changes in the financial market environment are specifically, exchange rate risk, interest rate risk and price fluctuation risk.

Financial assets held by the Group Companies exposed to market risks are mainly investment securities, investment securities for banking business, and investment securities for insurance business. Investment securities include shares that are exposed to price fluctuation risk. Investment securities for banking business mainly include investment securities such as shares, government bonds, municipal bonds and foreign securities as well as various trust beneficiary rights, with exposure to interest rate risk and exchange rate risk, along with exposure to price fluctuation risk which, however, is minimal as the Group Companies do not hold any listed shares. Investment securities for insurance business mainly include government bonds, municipal bonds and corporate bonds, for which exposure to price fluctuation risk is minimal.

Within the financial liabilities held by the Group Companies, those exposed to market risks are mainly borrowings and banking business-related liabilities, which are exposed primarily to interest rate risk. Banking business-related liabilities include ordinary deposits for individual and corporate customers, general time deposits for individual customers, new types of time deposits, as well as ordinary foreign currency deposits and foreign currency time deposits. Although new types of time deposits are exposed to interest rate risk, such risk is hedged by entering into corresponding interest rate swap transactions. Although ordinary foreign currency deposits and foreign currency time deposits are exposed to exchange rate risk, such risk is hedged by entering into corresponding forward exchange contracts.

2) Management of Market Risks Associated with Financial Instruments

Within the financial instruments associated with market risks, investment securities are subject to investment decisions based on consultation with the Board of Directors, as part of the management to ensure that such investment securities are appropriately evaluated according to internal regulations. With regard to foreign currency receivables arising from sales to customers, the Group Companies' own positions are regulated by establishing position limits and maximum allowable losses for the prevention of any loss in excess of certain levels, in addition to the monitoring of daily sales conditions. With regard to financial assets held by subsidiaries engaged in the banking business, such financial assets and liabilities are measured at fair value assuming certain fluctuations in interest rates and exchange rates, and the effects on the net balance after offsetting such financial assets and liabilities (referred to as the "present value") are used in a quantitative analysis to manage interest rate risk and exchange rate risk. In addition, the amount of capital in use as a credit risk is calculated using the standard method to calculate the capital requirements for credit risk under the First Pillar of Basel II (minimum capital requirement ratio), specified in the Notification No. 19 of the Financial Services Agency, dated March 27, 2006.

3) Interest Rate Risk (Excluding the Subsidiaries Engaged in Banking Business)

The Group Companies' main financial liabilities are borrowings from financial institutions, of which borrowings at floating interest rates are exposed to interest rate risk.

Exposures associated with the Group Companies' financial liabilities are as follows:

(Millions of yen)

	December 31, 2012	December 31, 2013
Bonds and borrowings	¥305,186	¥389,683
Floating interest rate	226,339	216,023
Fixed interest rate	78,847	173,660

In respect of the above exposures, given all the risk variables remaining constant, except for interest rate risk, if all the key interest rates increased by 10 basis points (0.1%) for the year ended December 31, 2012, income and equity would be negatively impacted by ¥189 million. Conversely, in the event of a decrease of 0.1%, income and equity would be positively impacted by ¥189 million compared to the amounts reported for the year ended December 31, 2012. Similarly, given all the risk variables remaining constant, except for interest rate risk, if all the key interest rates increased by 10 basis points (0.1%) for the year ended December 31, 2013, income and equity would be negatively impacted by ¥121 million. Conversely, in the event a decrease of 0.1%, income and equity would be positively impacted by ¥121 million compared to the amounts reported as of December 31, 2013.

Within bonds and borrowings with floating interest rates, the Group Companies have implemented interest rate swap transactions to reduce interest rate fluctuation risk, and the balances of fixed interests were ¥37,324 million and ¥52,274 million as of December 31, 2012 and 2013, respectively.

4) Price Fluctuation Risk

The Group Companies are exposed to share price fluctuation risk associated with equity instruments. Equity instruments are not held for short-term trading purposes, but for the efficient implementation of business strategies. The Group Companies regularly check the market prices of their equity instruments and financial conditions of their issuers.

The Group Companies carried out a sensitivity analysis as follows, based on the price risk of equity instruments at the end of the year.

In the event of a 5% rise in share prices, accumulated other comprehensive income (before tax effect) would increase by ¥184 million for the year ended December 31, 2012 due to changes in fair value. Conversely, in the event of a 5% fall, it would decrease by ¥184 million. Similarly, in the event of 5% rise in share prices, accumulated other comprehensive income (before tax effect) for the year ended December 31, 2013 would increase by ¥575 million due to changes in fair value. Conversely, in the event of 5% fall, it would decrease by ¥575 million.

5) Management of Market Risks for Subsidiaries Engaged in Banking Business

(Interest Rate Risk)

At the Group Companies' subsidiaries engaged in the banking business, financial assets exposed to interest rate risk, which is a significant risk variable, are mainly investment securities for banking business and loans for banking business.

Financial liabilities exposed to interest rate risk include, ordinary deposits for individual and corporate customers, general time deposits and new type of time deposits for individual customers, as well as foreign currency ordinary deposits, foreign currency time deposits and interest rate swap transactions as part of derivative transactions.

For subsidiaries engaged in the banking business, the effect of present value of these financial assets and liabilities, given certain fluctuations in interest rates, is used in quantitative analysis as part of the process to manage interest rate risk.

In calculating the effect of the present value, affected financial assets and financial liabilities are classified into a fixed rate group and a floating rate group, and then the balance of each group is allocated to an appropriate period based on maturity with a fluctuation range of the interest rate for the period. Specifically, given all other risk variables remaining constant, except for the interest rate risk, when all the key interest rates increase 10 basis points (0.1%) for the year ended December 31, 2012, the present value as of December 31, 2012 would decrease by ¥996 million. Conversely, in the case a decrease of 10 basis points (0.1%), it would increase by ¥996 million. Similarly, given all the risk variables remaining constant except for interest rate, when all the key interest rates increase 10 basis points (0.1%) for the year ended December 31, 2013, the present value as of December 31, 2013 would decrease by ¥1,483 million. Conversely, in the case of a decrease of 10 basis points (0.1%), it would increase by ¥1,483 million.

These effects do not take into account correlations between interest rates and other risk variables, further foreign currency-denominated assets and liabilities are calculated in Japanese yen as translated by the exchange rates on December 31, 2012 and 2013. Additionally, the effects of a 10 basis point decline leading to negative interest rates in certain periods have not been excluded.

(Exchange Rate Risk)

For the Group Companies' subsidiaries engaged in the banking business, financial assets exposed to exchange rate risk, which is a significant risk variable, are foreign securities and foreign exchange transactions.

Financial liabilities exposed to exchange rate risk include, foreign currency ordinary deposits and foreign currency time deposits of all deposits, and forward exchange contracts as part of derivative transactions.

For the subsidiaries engaged in the banking business, the effect of the present value of these financial assets and liabilities from exchange fluctuations is used for a quantitative analysis as part of the process to manage exchange rate risk.

In calculating the effect of the present value, the corresponding financial assets and financial liabilities are classified by currency and the respective currency's fluctuation range is used as the basis for analysis. Specifically, given all the other risk variables remaining constant, except for the exchange rate risk, in the event of a 10% appreciation in the value of the Japanese yen against each foreign currency, the present value as of December 31, 2012 would decrease by ¥21 million. Conversely, in the event of a 10% depreciation in the value of the Japanese yen against each foreign currency, the present value would increase by ¥21 million. Similarly, given all the other risk variables remaining constant, except for the exchange rate risk, in the event of a 10% appreciation in the value of the Japanese yen against each foreign currency, the present value as of December 31, 2013 would decrease by ¥14 million. Conversely, in the event of a 10% depreciation in the value of the Japanese yen against each foreign currency, the present value would increase by ¥14 million.

These effects do not take into account correlations between exchange rates and other risk variables, while the effect of the present value by currency is calculated in Japanese yen as translated by the exchange rates on December 31, 2012 and 2013.

6) Management of Market Risks for Subsidiaries Engaged in Securities Business

(Exchange Rate Risk)

For the Group Companies' subsidiaries engaged in the securities business, contracts and management structure regarding foreign exchange margin transactions have been changed from the year ended December 31, 2013. Financial assets and liabilities exposed to exchange rate risk, which is a significant risk variable, are mainly derivative assets and liabilities arising from these foreign exchange margin transactions.

The subsidiaries conduct a quantitative analysis on the effect of the present value of these financial assets and liabilities, given certain fluctuations in exchange rate.

In calculating the effect of the present value, the corresponding financial assets and financial liabilities are classified by currency and the respective currency's fluctuation range is used as the basis for analysis. Specifically, given all the other risk variables remaining constant, except for the exchange rate risk, in the event of a 10% appreciation in the value of the Japanese yen against each foreign currency, the present value as of December 31, 2013 would decrease by ¥3 million. Conversely, in the event of a 10% depreciation in the value of the Japanese yen against each foreign currency, the present value would increase by ¥3 million.

These effects do not take into account correlations between exchange rates and other risk variables, while the effect of the present value by currency is calculated in Japanese yen as translated by the exchange rates on December 31, 2013.

44. Capital Management

The Group Companies' capital structure is as follows:

(Millions of yen)

	December 31, 2012	December 31, 2013
Total liabilities	¥2,045,722	¥2,903,354
Less: Cash and cash equivalents	270,114	384,008
Net liabilities	1,775,608	2,519,346
Total equity	241,912	306,454

The Company's subsidiaries, Rakuten Bank, Ltd., Rakuten Securities, Inc. and Rakuten Life Insurance Co., Ltd. are subject to regulations by the Financial Services Agency over their equity ratio, capital-to-risk ratio and solvency margin ratio, which are duly complied with.

45. Related Parties

Related party transactions and their corresponding outstanding balances of receivables and payables between the Group Companies and other related parties are as follows. Although the Group Companies' subsidiaries are related parties of the Company, such transactions and the corresponding outstanding balances with subsidiaries are not subject to disclosure as they are eliminated for the purpose of consolidated financial statements.

(1) Related Party Transactions

(Millions of yen)

	December 31, 2012			December 31, 2013		
	Associates	Executives	Group Total	Associates	Executives	Group Total
Revenue	¥1,845	¥51	¥1,896	¥2,209	¥19	¥2,228
Operating expenses	1,111	—	1,111	1,893	—	1,893
Accounts receivable — trade (Note 1)	—	—	—	104	—	104
Deposits for banking business	—	201	201	—	3,770	3,770
Financial liabilities for securities business	—	16	16	—	25	25
Common stock	—	39	39	—	235	235
Capital reserve	—	39	39	—	235	235

(Notes) 1. An allowance for doubtful accounts of ¥35 million has been recorded against accounts receivable–trade at December 31, 2013.

2. There are no transactions involving collateral and guarantees.

(2) Transactions with Companies in which Majority of Voting Rights are Held by the Group Companies' Principal Shareholders (Individuals) and their Close Relatives

(Millions of yen)

	December 31, 2012	December 31, 2013
Revenue (Note 1)	¥24	¥16
Operating expenses (Note 2)	329	342
Other assets (Note 3)	21	21
Deposits for banking business	74	47
Accounts payable — trade (Note 4)	2	2

(Notes) 1 Revenue is from commissions on ticket sales, and the ticket sales are entrusted by Crimson Football Club, Inc. Commissions on ticket sales are determined in a similar manner as general business terms and conditions. Chairman and President and Representative Director of the Company, Hiroshi Mikitani indirectly owns 100% of the voting rights in Crimson Football Club, Inc.

2 Operating expenses are sponsorship fees payable to Crimson Football Club, Inc. for planning and organizing football matches and other events. The amount of sponsorship fees is determined in view of the past transactions at other football clubs.

3 Other assets are prepaid expenses resulting from advertising transactions. These receivables are unsecured in effect, charging no interest. Allowance for doubtful accounts is not recorded for the receivables from related parties.

4 Accounts payable — trade is accounts payable resulting from advertising transactions, due one month after the purchase date. No interest is charged to these payables.

(3) Executive Compensation

Executive compensation is as follows:

(Millions of yen)

	Year ended December 31, 2012	Year ended December 31, 2013
Short-term employee benefits (Note)	¥883	¥856
Share-based payments	25	48
Total	908	904

(Note) Short-term employee benefits include salaries and bonuses for those employees who serve concurrently as employees and Directors.

46. Business Combinations

For the year ended December 31, 2012

Business Combination with Kobo Inc.

(1) Outline of the business combination is as follows:

1) Name of the Acquiree and Business Description

Name of the Acquiree: Kobo Inc.

Description of the Business: Sales of e-book readers and contents, etc.

2) Reason for the Business Combination

By making Kobo Inc. its subsidiary as part of its full-scale measures for the future e-book era, the Company has not only a proprietary brand of e-book readers named "Kobo eReader," but also obtains a network with rights holders, including overseas publishing companies mainly in North America and Europe, as well as retailers who sell the e-book readers and ODMs. As a result, Kobo Inc. will be able to seek further growth and business expansion, and to integrate with the Group Companies' global services, such as the EC business. By making Kobo Inc. a subsidiary, the Group Companies aim to provide digital contents to global users, as well as new e-commerce services applicable to various mobile devices.

3) Acquisition Date: January 11, 2012

4) Type of the Business Combination: Acquisition of shares

5) Name after the Business Combination: No change in the name of the company after the business combination

6) Ratio of Acquired Voting Rights: 100.0%

7) Rationale for determining that the Company is the Acquirer

The Company acquired all the shares in Kobo Inc. in exchange for cash consideration.

(2) Information on Consideration Paid for Acquiree

	(Millions of yen)
Consideration paid:	
Payment in cash	¥24,390
Total consideration paid	24,390

(3) Costs directly associated with the acquisition were ¥188 million presented as "Operating expenses."

(4) The amount of, and reason for goodwill recognized are as follows:

1) Amount of Goodwill: 201 million Canadian dollars

2) Reason for goodwill recognized: Goodwill has been recognized based on a reasonable estimation of the excess earnings power anticipated in association with future business development.

(5) Assets acquired and liabilities assumed at the acquisition date are as follows:

(Millions of Canadian dollars)

	Fair Value
Assets	
Cash and cash equivalents	$34
Intangible assets	152
Others	77
Total assets	263
Liabilities	
Accounts payable — trade	39
Others	54
Total liabilities	93

(6) Revenue of the acquiree after the acquisition date, as recognized in the Consolidated Statement of Income was ¥20,659 million, while net loss was ¥8,481 million.

(7) The impact on the Group Companies' revenue and net income on the assumption that the business combination had taken place on January 1 would be insignificant, and thus the description is omitted.

Business Combination with AIRIO Life Insurance Co., Ltd. (currently Rakuten Life Insurance Co., Ltd.)

(1) Outline of the business combination is as follows:

1) Name of the Acquiree and the Description of its Business

Name of the Acquiree: AIRIO Life Insurance Co., Ltd. (currently Rakuten Life Insurance Co., Ltd.)

Description of the Business: Life insurance business

2) Reason for the Business Combination

The insurance business of the Group Companies is expanding steadily and 133 life and non-life insurance products are handled by 44 companies (as of September 30, 2012). AIRIO Life Insurance Co., Ltd. (currently Rakuten Life Insurance Co., Ltd.), which was an associate accounted for using the equity method, and the Company, have engaged in the development of new internet-based products, and have established a close collaboration framework to mutually utilize their various expertise and functions.

On the other hand, while marketing and transactions are becoming more diversified and technology is improving, the use of the internet in the life insurance business is expected to grow further. Given this business environment, the Group Companies insurance business area will be enhanced by making AIRIO Life Insurance Co., Ltd. a subsidiary, aiming at enhancing the financial services to be provided by the Group Companies.

3) Acquisition Date: October 31, 2012

4) Type of Business Combination: Acquisition of shares

5) Name after Business Combination: No change in the name of the company after the business combination

AIRIO Life Insurance Co., Ltd. changed its name to Rakuten Life Insurance Co., Ltd. on April 1, 2013.

6) Ratio of Acquired Voting Rights:

Voting rights ratio held before the business combination	33.9%
Voting rights ratio acquired on the acquisition date	53.9%
Total voting rights ratio	87.8%

The voting rights ratio as of December 31 is 99.9% as a result of the additional acquisition.

7) Rationale for determining that the Company is the Acquirer

The Company acquired shares of AIRIO Life Insurance Co., Ltd. in exchange for cash consideration.

(2) Information on Consideration Paid for Acquiree

	(Millions of yen)
Consideration paid:	
Payment in cash	¥11,516
Total consideration transferred	11,516
Fair value of pre-existing equity interest in AIRIO Life Insurance Co., Ltd. (currently Rakuten Life Insurance Co., Ltd.) prior to business combination	7,250
Total consideration paid	18,766

(3) Costs directly associated with the acquisition were ¥12 million presented as "Operating expenses."

(4) The amount of, and reason for goodwill recognized are as follows:

1) Amount of Goodwill: ¥3,719 million

2) Reason for goodwill recognized: Goodwill has been recognized based on a reasonable estimation of excess earning power anticipated in association with the future business development.

(5) Assets acquired and liabilities assumed at the acquisition date are as follows:

	(Millions of yen) Fair Value
Assets	
Cash and cash equivalents	¥3,903
Other receivable	3,929
Investment securities for insurance business	13,914
Intangible assets	15,685
Others	4,600
Total assets	42,031
Liabilities	
Policy reserves and others for insurance business	18,344
Others	6,557
Total liabilities	24,901

(6) The carrying amount of non-controlling interests in the acquiree recognized as of the acquisition date was ¥2,083 million. This carrying amount is calculated by multiplying the ratio of non-controlling interests after the acquisition with the identifiable net assets acquired on the acquisition date. Furthermore, non-controlling interests in the acquiree measured at fair value were ¥2,598 million. This fair value is estimated based on the purchase amount paid upon additional acquisition of shares in AIRIO Life Insurance Co., Ltd. (currently Rakuten Life Insurance Co., Ltd.).

(7) As a result of measuring the fair value of the 33.9% pre-existing equity interest in AIRIO Life Insurance Co., Ltd. (currently Rakuten Life Insurance Co., Ltd.) prior to the acquisition, the Group Companies have recognized a resulting gain on the step acquisition of ¥2,382 million. This income is included in “Other income” in the Consolidated Statement of Income.

(8) Revenue of the acquiree after the acquisition date, as recognized in the Consolidated Statement of Income was ¥4,454 million, while net income was ¥110 million.

(9) Revenue of the Group Companies on the assumption that the business combination had taken place on January 1 would have been ¥423,032 million, while net income would have been ¥22,540 million.

(10) As a result of the additional acquisition on December 18, 2012, ¥2,595 million in cash was paid to non-controlling shareholders, and the carrying amount of the additionally acquired equity interest was ¥2,089 million. As a result, capital surplus decreased by ¥506 million, this is the difference between the consideration for the additionally acquired equity interests and their carrying amounts.

For the year ended December 31, 2013
There are no significant business combinations to be disclosed.

47. Major Subsidiaries

(1) Major Subsidiaries

Major subsidiaries of the Group Companies are as follows:

Name	Location	Capital (Millions of yen)	December 31, 2012		December 31, 2013		Notes
			Voting rights ratio	Ownership	Voting rights ratio	Ownership	
Internet Services Segment:							
Rakuten Travel, Inc.	Tokyo	¥213	100%	100%	100%	100%	
LinkShare Corporation	U.S.	1 U.S. dollar	100%	100%	100%	100%	
Buy.com Inc.	U.S.	0.01 U.S. dollar	100%	100%	100%	100%	
PRICEMINISTER S.A.S.	France	356 thousand euros	100%	100%	100%	100%	
Rakuten Auction, Inc.	Tokyo	¥1,650	60.0%	60.0%	60.0%	60.0%	
LinkShare Japan K.K.	Tokyo	¥259	100%	100%	100%	100%	
Kobo Inc.	Canada	728 million Canadian dollars	100%	100%	100%	100%	
Kenko.com, Inc.	Tokyo	¥2,051	51.8%	51.4%	51.2%	50.8%	(Note 5)
Rakuten Logistics, Inc.	Tokyo	¥2,250	100%	100%	100%	100%	
VIKI, Inc.	U.S.	1 U.S. dollar	—	—	100%	100%	(Note 4)
Internet Finance Segment:							
Rakuten Card Co., Ltd.	Tokyo	¥19,324	100%	100%	100%	100%	
Rakuten Securities, Inc.	Tokyo	¥7,496	100%	100%	100%	100%	
Rakuten Bank, Ltd.	Tokyo	¥25,954	100%	100%	100%	100%	
Rakuten Edy, Inc.	Tokyo	¥1,840	85.0%	85.0%	85.0%	85.0%	(Note 1)
Rakuten Life Insurance Co., Ltd.	Tokyo	¥2,500	99.9%	99.9%	100%	100%	(Note 2)
Dot Commodity, Inc.	Tokyo	¥1,900	97.1%	94.8%	97.1%	94.8%	(Note 6)
Others Segment:							
Fusion Communications Corporation	Tokyo	¥2,026	54.8%	55.0%	54.8%	55.0%	(Note 3)
Rakuten Baseball, Inc.	Miyagi	¥400	100%	100%	100%	100%	

(Notes)
1. bitWallet, Inc. was renamed Rakuten Edy, Inc. on June 1, 2012.
2. AIRIO Life Insurance Co., Ltd. was renamed Rakuten Life Insurance Co., Ltd. on April 1, 2013.
3. The discrepancy between the voting rights ratio and ownership of Fusion Communications Corporation is due primarily to the fact that Fusion Communications Corporation has issued preferred shares.
4. VIKI, Inc. became a consolidated subsidiary from the year ended December 31, 2013.
5. The discrepancy between the voting rights ratio and ownership of Kenko.com, Inc. is due primarily to the fact that Kenko.com, Inc. holds treasury stock.
6. The discrepancy between the voting rights ratio and ownership of Dot Commodity, Inc. is due primarily to the fact that Dot Commodity, Inc. holds treasury stock.

(2) Changes in Ownership

For the year ended December 31, 2012

The Group Companies acquired control over Kobo Inc. on January 11, 2012 and AIRIO Life Insurance Co., Ltd. (currently Rakuten Life Insurance Co., Ltd.) on October 31, 2012, making them subsidiaries. The transactions associated with these acquisitions are described in Note 46. Business Combinations. Other changes in ownership are as follows.

On June 29, 2012, the Group Companies additionally acquired 36.2% of voting shares in a subsidiary, LinkShare Japan K.K. for a cash consideration of ¥4,125 million. As a result, the Group Companies' equity interest in LinkShare Japan K.K. increased to 100%. Put options have been granted to non-controlling interests in LinkShare Japan K.K., and prior to the additional acquisition of equity interest, the Group Companies recognized them as financial liabilities in accordance with IAS 32 "Financial instruments: presentation." Therefore, there was no impact on capital surplus from the additionally acquired equity interest.

For the year ended December 31, 2013

In February 2013, with the approval of the French authorities, Rakuten Europe S.à r.l., a wholly owned subsidiary of the Company, acquired 41.2% of shares in Alpha Direct Services S.A.S., a French logistics company, as well as the entire shares of Direct Technology Solutions S.A.S. which held 58.8% of the shares in Alpha Direct Services S.A.S., making Alpha Direct Services S.A.S. a wholly owned subsidiary.

In September 2013, Rakuten USA, Inc., a wholly owned subsidiary of the Company, made VIKI, Inc. its wholly owned subsidiary through the merger of VIKI with another wholly owned subsidiary that had been established for the purpose of this merger.

48. Sale of Subsidiary through Business Restructuring

There are no applicable items for the years ended December 31, 2012 and 2013.

49. Structured Entities

Consolidated Structured Entities

In the credit card business, the Group Companies consolidate certain structured entities as trusts for securitizing their own credit card shopping receivables. In addition, the Group Companies engage in activities related to offering investment trust funds as part of their banking business in the year ended December 31, 2012. The Group Companies consolidate certain investment trusts, which are set up and managed by the Group Companies and an investment trust, which is set up for the Group Companies.

These investment trust funds and trusts for securitization are structured entities, which have been designed so that voting or similar rights are not the dominant factor in deciding who controls these entities.

The Group Companies have the right to direct the investment or servicing activities of these structured entities. In addition, the Group Companies, by holding subordinated beneficial interests collateralized by entrusted assets and by holding interests in investment trust funds, will be exposed to variability of investment returns. Accordingly, it is determined that the Group Companies have control over these structured entities.

In accordance with the contractual arrangements with the structured entities, use of assets and settlement of liabilities of these consolidated structured entities are restricted to the purposes for which they are structured.

The carrying amounts of assets and liabilities of the consolidated structured entities are as follows:

Carrying amounts of assets and liabilities of the consolidated structured entities

(Millions of yen)

	December 31, 2012	December 31, 2013
Assets		
Loans for credit card business	¥25,791	¥27,200
Investment securities for banking business	733	—
Others	581	551
Total assets	27,105	27,751
Liabilities		
Bonds and borrowings	11,080	11,000
Others	26	—
Total liabilities	11,106	11,000

Unconsolidated Structured Entities

The Group Companies engage in investment activities involving structured entities as part of their banking business. These structured entities handle securitized products that are set up by third parties and collateralized assets including various real estates, monetary claims such as auto loans and consumer loans, credit derivatives, and other bonds. The Group Companies have interests in these structured entities as a result of holding bonds issued by such entities and through trust beneficiary interests. The risks of these products are managed regularly on an individual basis under the group management regulations for the banking business, for early recognition and mitigation of the risk of default resulting from deterioration of the debtors' financial conditions and other factors.

Additionally, the Group Companies set up investment trust funds that are provided to meet the needs of investors as part of their investment management business. However, the Group Companies do not hold interests in such investment trust funds.

The Group Companies do not provide any guarantee or commitment to these structured entities. As a result, the maximum exposure to loss associated with the Group Companies' interests in these unconsolidated structured entities is limited to the carrying amount of the investments in bonds and trust beneficiary interests held therein. The maximum exposure to loss represents the potential maximum loss the Group Companies could incur and does not reflect the likelihood of such a loss being incurred.

The following table shows the summary of the Group Companies' maximum exposure to loss from its interests in these structured entities by class of asset held therein.

Carrying amount of unconsolidated structured entities and maximum exposure to loss from interests in such entities

(Millions of yen)

Consolidated statement of financial position	Class of asset held by structured entities	December 31, 2012	December 31, 2013
Investment securities for banking business	Securitization products set up by third parties		
	Public and corporate bonds	¥14,498	¥9,500
	Real estates	2,371	1,597
	Monetary claims for individual customers	72,073	31,150
	Others	521	516
Total		89,463	42,763

50. Subsequent Events

Acquisition of shares of Viber Media Ltd. and significant borrowings for financing thereof

At an Extraordinary Board of Directors Meeting on February 14, 2014 the Company resolved to execute a contract to acquire all the shares of Viber Media Ltd. (head office: Cyprus) which operates a mobile messaging service and VoIP service on a global scale for the purpose of making Viber Media Ltd. a subsidiary. The acquisition was completed by the payment made on March 11, 2014.

(1) Details of name of company and main business, main reasons for the acquisition, closing date, legal structure, and company name after acquisition.

1) Name: Viber Media Ltd.

2) Main business: Mobile messaging service and VoIP service operator

3) Main reasons for the acquisition

The Company operates three main businesses on a global scale: E-commerce, financial services, and digital contents. Viber Media Ltd. has approximately 300 million registered users globally, and more than 100 million of whom are monthly active users of its mobile messaging and VoIP services called “Viber.” Through making Viber Media Ltd. a subsidiary, the Company aims to utilize the wide customer base of the Viber and to strengthen its platform for providing EC services and digital contents which operates worldwide.

4) Closing date: March 11, 2014

5) Legal structure of acquisition: Acquisition of shares

6) Name of company after acquisition: The company name will not change after acquisition

(2) Acquisition amount of the acquired firm

Value of the shares acquired: Approximately 905 million U.S. dollars

* The payment for the above value of shares may be partially adjusted to include compensation. Regarding the acquisition amount, the Company finances it through bank borrowings, and the details are as follows.

Lender	Mizuho Bank, Ltd., Sumitomo Mitsui Banking Corporation * The above two Banks plan to transfer the part of loans receivable to Sumitomo Mitsui Trust Bank, Limited and Development Bank of Japan.
Amount of borrowings	¥90,000 million
Interest rate	Basic interest rate + Spread
Date of borrowings	March 7, 2014
Repayment date	December 31, 2021
Method of repayment	Fixed quarterly repayments of ¥3,750 million from March 31, 2016

(3) The amount of, and reason for goodwill arising from the acquisition and the value of assets and liabilities of Viber Media Ltd. to be transferred to the company as of the closing date

Not yet decided.

51. Classification of Current and Non-current

As of December 31, 2012

(Millions of yen)

	Collection or settlement period		Total
	12 months or less	Over 12 months	
Assets			
Cash and cash equivalents	¥270,114	¥—	¥270,114
Accounts receivable — trade	64,177	1,316	65,493
Financial assets for securities business	615,580	123	615,703
Loans for credit card business	284,672	117,746	402,418
Investment securities for banking business	141,268	155,058	296,326
Loans for banking business	23,911	165,758	189,669
Investment securities for insurance business	3,060	10,563	13,623
Derivative assets	7,350	3,324	10,674
Investment securities	800	22,611	23,411
Other financial assets	82,697	40,435	123,132
Investments in associates and joint ventures	—	6,601	6,601
Property, plant and equipment	—	24,143	24,143
Intangible assets	—	188,014	188,014
Deferred tax assets	—	40,546	40,546
Other assets	14,579	3,188	17,767
Total assets	1,508,208	779,426	2,287,634
Liabilities			
Accounts payable — trade	79,965	—	79,965
Deposits for banking business	673,126	136,405	809,531
Financial liabilities for securities business	558,055	—	558,055
Derivative liabilities	3,913	772	4,685
Bonds and borrowings	179,253	125,933	305,186
Other financial liabilities	204,230	5,818	210,048
Income taxes payable	2,873	—	2,873
Provisions	26,167	3,447	29,614
Policy reserves and others for insurance business	—	18,496	18,496
Deferred tax liabilities	—	6,416	6,416
Other liabilities	20,192	661	20,853
Total liabilities	1,747,774	297,948	2,045,722

As of December 31, 2013

(Millions of yen)

	Collection or settlement period		Total
	12 months or less	Over 12 months	
Assets			
Cash and cash equivalents	¥384,008	¥—	¥384,008
Accounts receivable — trade	72,197	1,246	73,443
Financial assets for securities business	1,218,863	124	1,218,987
Loans for credit card business	403,188	141,126	544,314
Investment securities for banking business	114,768	83,129	197,897
Loans for banking business	3,497	236,321	239,818
Investment securities for insurance business	2,512	7,721	10,233
Derivative assets	8,679	3,909	12,588
Investment securities	1,852	32,173	34,025
Other financial assets	149,241	9,817	159,058
Investments in associates and joint ventures	—	8,189	8,189
Property, plant and equipment	—	30,408	30,408
Intangible assets	—	235,881	235,881
Deferred tax assets	—	31,594	31,594
Other assets	25,406	3,959	29,365
Total assets	2,384,211	825,597	3,209,808
Liabilities			
Accounts payable — trade	115,357	—	115,357
Deposits for banking business	829,604	130,356	959,960
Financial liabilities for securities business	1,077,971	—	1,077,971
Derivative liabilities	6,546	1,477	8,023
Bonds and borrowings	263,455	126,228	389,683
Other financial liabilities	220,939	5,832	226,771
Income taxes payable	30,191	—	30,191
Provisions	36,944	4,076	41,020
Policy reserves and others for insurance business	—	18,852	18,852
Deferred tax liabilities	—	9,123	9,123
Other liabilities	25,816	587	26,403
Total liabilities	2,606,823	296,531	2,903,354

(2) [Others]

Quarterly Information for the current fiscal year

(Millions of yen, unless otherwise stated)

(Cumulative period)	1Q	2Q	3Q	Year ended December 31, 2013
Revenue	¥113,148	¥240,880	¥369,725	¥518,568
Income before income tax	22,412	46,347	69,601	88,610
Net income	14,275	25,793	36,801	43,481
Basic earnings per share (yen)	¥10.83	¥19.48	¥27.62	¥32.60

(Each quarter)	1Q	2Q	3Q	4Q
Basic earnings per share (yen)	¥10.83	¥8.65	¥8.14	¥4.98