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Exchange Rates

We maintain our accounts in yen. The following table sets forth for the indicated periods the median exchange rates for buying and selling spot dollars by telegraphic transfer against yen as determined by the Bank, expressed in Japanese yen per \$1.00.

	High	Low	Period end	Average ⁽¹⁾
	(Yen per dollar)			
Fiscal year ended March 31,				
2008	¥123.95	¥97.05	¥ 100.19	¥114.13
2009	110.29	87.47	98.23	100.68
2010	100.76	86.31	93.05	92.61
2011	94.43	79.31	83.15	85.22
2012	85.47	75.99	82.13	78.98
Most recent six months:				
January	77.80	76.38	76.38	76.99
February	81.30	76.13	80.68	78.41
March	83.97	80.75	82.13	82.45
April	83.20	80.56	81.19	81.56
May	80.40	78.94	78.94	79.77
June	80.40	78.17	79.28	79.30
July (through July 10, 2012)	79.99	79.51	79.53	79.72

(1) Average exchange rates have been calculated by using the average of the exchange rates on the last day of each month during a fiscal year, except for the monthly average rate, which represents the average of the exchange rates for each day of that month.

The median exchange rate quotation by the Bank for buying and selling spot dollars by telegraphic transfer against yen on July 10, 2012 was ¥79.53 = \$1.00.

These exchange rates are reference rates and are neither necessarily the rates used to calculate ratios nor the rates used to convert dollars to yen in the consolidated financial statements included elsewhere in this annual report.

3.B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

3.C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

3.D. RISK FACTORS

Investing in our securities involves risks. You should carefully consider the risks described below as well as all the other information in this annual report, including, but not limited to, our consolidated financial statements and related notes included elsewhere in this annual report and "Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk." Our business, operating results and financial condition could be adversely affected by any factors, including, but not limited to, those discussed below. The trading prices of our securities could also decline due to any of these factors including, but not limited to, those discussed below. Moreover, this annual report contains forward-looking statements that involve risks and uncertainties. Our actual results could also differ from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, the risks faced by us described below and elsewhere in this annual report. See "Cautionary Statement Regarding Forward-Looking Statements." Forward-looking statements in this section are made only as of the filing date of this annual report.

Risks Related to the Economic and Financial Environment

We may be adversely affected if Japanese and global economic conditions and financial markets deteriorate.

Our financial condition and results of operations are materially affected by general economic conditions and financial markets in Japan and foreign countries.

In the aftermath of the Great East Japan Earthquake, a magnitude 9.0 earthquake which occurred in March 2011, and collateral events, the Japanese economy contracted due to a combination of supply chain disruptions, electricity shortages and the consequential slowdown in exports. It gradually recovered as supply chains and lost output from the earthquake and collateral events were restored. In the second half of the fiscal year ended March 31, 2012 there were some visible signs of improvement in the unemployment rate, and private consumption remained firm. The rate of recovery of the Japanese economy slowed due to the persistent strength of the Japanese yen against other currencies and a weak recovery of the global economies.

In the second half of the fiscal year ended March 31, 2012, the U.S. economy began to recover. However, financial market anxiety owing to the European sovereign debt crisis continued and some European nations experienced recessionary conditions. The growth rate of China, India and other emerging economies in Asia began declining. Geopolitical instability in various parts of the world, including North Africa, the Middle East and Asia, could contribute to economic instability in those and other regions.

Future deterioration of general economic conditions in Japan or other countries, or financial market turmoil, could adversely affect our business, financial condition and operating results. Such adverse effects could include a worsening of our liquidity and capital conditions, an increase in our credit costs, and an increase in impairment of our investment securities.

Risks Related to Our Business

Failure to satisfy capital adequacy requirements could constrain our and the Bank's operations.

We and the Bank are subject to capital adequacy requirements set by the Financial Services Agency of Japan ("FSA"). At March 31, 2012, our risk-weighted consolidated capital ratio was 16.93% compared to the minimum required risk-weighted capital ratio of 8.0%, and our Tier I risk-weighted capital ratio was 12.28% compared to the minimum required Tier I risk-weighted capital ratio of 4.0%. Our and the Bank's capital ratios could decline as a result of decreases in Tier I and Tier II capital or increases in risk-weighted assets. The following circumstances, among others, could reduce our risk-weighted capital ratio and that of the Bank:

- increases in risk-weighted assets resulting from business growth, strategic investments, borrower downgrades or changes in parameters such as probability of default;
- declines in the value of securities; and
- an inability to refinance subordinated debt obligations.

Furthermore, our Tier II capital cannot exceed our Tier I capital. If our Tier I capital is reduced, then amounts that may be credited as Tier II capital may be reduced as well because at least half of our capital must consist of Tier I capital. Failure by us or the Bank to maintain the minimum risk-weighted capital ratios may result in administrative actions or sanctions, which may indirectly affect our or the Bank's ability to fulfill our and the Bank's contractual obligations or may result in restrictions on our and the Bank's businesses.

We and the Bank have adopted the advanced internal rating-based ("IRB") approach for measuring exposure to credit risk and the advanced measurement approach ("AMA") to measure exposure to operational risk. If the FSA revokes its approval of such implementation or otherwise changes its approach to measure capital adequacy ratios, our and the Bank's ability to maintain capital at the required levels may be adversely affected.

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FSA regulations limit the amount of deferred tax assets which may be included in our and the Bank's regulatory capital. The amount of net deferred tax assets established pursuant to Japanese GAAP that major banks may include in regulatory capital for capital ratio purposes is limited to 20% of Tier I capital. Where net deferred tax assets of a bank exceed this 20% limit, Tier I capital must be adjusted by deducting the amount in excess of the limit. If the percentages of our capital that consist of net deferred tax assets increase, or if the limits are further decreased, these limits could adversely affect our capital ratios. Furthermore, under the new Basel III rules text published by the Basel Committee on Banking Supervision ("Basel Committee") in December 2010, deferred tax assets that arise from timing differences will be recognized as part of the common equity component of Tier I, with recognition capped at 10% of the bank's common equity component under certain conditions, while deferred tax assets that arise from net loss carry forwards will be deducted from the common equity component of Tier I. The FSA changed its capital adequacy guidelines to generally reflect the main measures of the minimum capital requirements of the Basel Committee that are scheduled to be phased in starting January 1, 2013, and the FSA's changes will be generally applied from March 31, 2013.

On November 4, 2011, we and other organizations were identified by the Financial Stability Board ("FSB") as Global Systemically Important Financial Institutions ("G-SIFIs"). The list of G-SIFIs will be updated each year in November and from 2016, requirements for additional loss absorption capacity above the Basel III minimum requirement will apply to those banks identified in November 2014 as G-SIFIs.

If our capital ratios fall below required levels, the FSA may require us to take a variety of corrective actions, including withdrawal from all international operations or suspension of all or part of our and the Bank's operations. In addition, some of the Bank's domestic and overseas subsidiaries are also subject to local capital ratio requirements. Failure of those subsidiaries to meet local requirements may result in administrative actions or sanctions imposed by local regulatory authorities.

Future declines of securities prices on Japanese stock markets or other global markets could cause us to experience impairment losses and unrealized losses on our equity securities portfolio, which could negatively affect our financial condition, operating results and regulatory capital position.

The reported value of our available-for-sale equity instruments accounted for 2.2% of our total assets at March 31, 2012, approximately 89.0% of which were Japanese equity securities. This value depends mainly on prices of the instruments in the stock market. A listed equity security is impaired primarily based on its market price. If we conclude that a particular security is impaired, we calculate the impairment loss based on the market price of that security at the end of the relevant period. Declines in the Japanese stock markets or other global markets could result in further losses from impairment of the securities in our equity securities portfolio or sales of these securities, adversely affecting our results of operations and financial condition.

Our regulatory capital position and that of the Bank depend in part on the fair value of our equity securities portfolio, since 45% of unrealized gains are counted as Tier II capital, while unrealized losses reduce net assets and Tier I capital. Substantial declines in the Japanese stock markets or other global markets would negatively affect our and the Bank's capital positions, and limit the Bank's ability to make distributions to us.

We may further reduce our holdings of equity securities in order to reduce financial risks. Any disposal by us of equity holdings in our customers' shares could adversely affect our relationships with those customers.

Changes in the levels or volatility of market rates or prices could adversely affect our financial condition and results of operations.

We engage in trading and investing activities dealing with various kinds of financial instruments such as bonds, equities, currencies, derivatives and funds. Our financial condition and results of operations could be adversely affected by actual changes or volatility in interest rates, foreign exchange rates and market prices of other investment securities. For example, we have substantial investments in debt securities. In particular,

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Japanese government bonds represent a significant part of our fixed income portfolio. At March 31, 2012, we had ¥23 trillion of Japanese government bonds classified as available-for-sale financial assets, which accounted for approximately 15.9% of our total assets. Increases in interest rates could substantially decrease the value of our fixed income portfolio, and any unexpected changes in yield curves could adversely affect the value of our bond and interest rate derivative positions, resulting in lower-than-expected revenues from trading and investment activities. Market volatility may also result in significant unrealized losses or impairment losses on such instruments. Furthermore, the downgrading of investment securities by credit rating agencies may also cause declines in the value of our securities portfolio.

Adverse economic conditions and deterioration of the financial conditions of our customers could increase our credit costs.

We have substantial exposure to corporate customers in the following sectors: manufacturing, real estate and goods rental and leasing, wholesale and retail, transportation, communications and public enterprises, and services, including electric utilities, and to individual customers mainly through housing loans. Our non-performing loans ("NPLs") and our credit costs for corporate and individual customers may increase significantly if:

- domestic or global economic conditions worsen or do not improve;
- our customers do not repay their loans, including due to deterioration of their financial conditions; and
- the value of mortgaged property declines.

Moreover, in relation to the Great East Japan Earthquake, we may be required to, or choose to, provide new or additional financing to customers who may incur unexpected liabilities, have difficulty in the future in continuing operations, encounter difficulties or need to devote significant resources to repair their infrastructures, as a result of the earthquake and collateral events. We may also be required to record increases in our allowance for loan losses as a result of the adverse impact on the financial condition of our obligors or recognize decreases in the value of mortgaged property in the affected regions and our equity securities portfolio. For certain borrowers, we may choose to engage in debt-for-equity swaps, or provide partial debt write-offs, additional financing or other forms of assistance as an alternative to exercising our full legal rights as a creditor if we believe that doing so may increase our ultimate recoverable amount of the loan. Moreover, changes in laws or government policies that have an adverse impact on the rights of creditors could also cause us to incur increased credit costs. It is unclear to what extent our current or any future loans to borrowers will benefit, directly or indirectly, from any government guarantees or other government support measures that have been or may be enacted as a result of the earthquake and collateral events.

In addition, our NPLs may increase and there may be additional credit costs if we fail to accurately estimate the incurred losses in our loan portfolio. These estimates require difficult, subjective and complex judgments such as credit evaluation of our borrowers, valuation of collateral and forecasts of economic conditions.

The ratio of impaired loans and advances to the total loans and advances, both net of allowance for loan losses, were 1.9%, 1.8% and 1.6% at March 31, 2012, 2011 and 2010, respectively. For further information, see "Item 5.A. Operating Results—Loans and Advances."

A significant downgrade of our credit ratings could have a negative effect on us.

At the date of this annual report, SMFG has the issuer credit ratings of A/A-1 from Standard & Poor's Ratings Japan K.K., ("S&P"), and the long-term foreign and local currency issuer default ratings ("IDRs") of A- and the short-term foreign and local currency IDRs of F1 from Fitch Ratings Japan Limited ("Fitch"). There can be no assurance that these ratings will be maintained.

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On August 24, 2011, Moody's Japan K.K., ("Moody's") announced that it had downgraded by one notch the Government of Japan's local and foreign currency bond ratings to Aa3. On the same date, Moody's also downgraded by one notch the long term debt ratings of many Japanese banks, including the Bank's long-term debt ratings, due to fiscal pressures on the Government of Japan that might constrain its ability to support Japan's banking system. On November 29, 2011, S&P, in connection with the application of its new ratings criteria for banks, revised downward the rating or outlook of financial institutions globally, including a revision of SMFG's and the Bank's outlook from stable to negative. On May 22, 2012, Fitch announced that it had downgraded the Government of Japan's long-term local and foreign currency IDRs to A+ with negative outlook. On July 20, 2012, Fitch downgraded by one notch the long-term foreign and local currency IDRs of the major Japanese banking groups and their subsidiaries, including SMFG and the Bank, in connection with the sovereign downgrade.

A material downgrade of our credit ratings may have various effects including, but not limited to, the following:

- we may have to accept less favorable terms in our transactions with counterparties, including capital raising activities, or may be unable to enter into certain transactions;
- foreign regulatory bodies may impose restrictions on our overseas operations;
- existing agreements or transactions may be cancelled; and
- we may be required to provide additional collateral in connection with derivatives transactions.

Any of these or other effects of a downgrade of our credit ratings could have a negative impact on the profitability of our treasury and other operations, and could adversely affect our regulatory capital position, financial condition and results of operations. For more information about our credit ratings, see "Item 5.B. Liquidity and Capital Resources."

We face significant challenges in achieving the goals of our business strategy, and our business may not be successful.

In May 2011, we and the Bank launched a new medium-term management plan through March 2014. We believe that we have targeted appropriate business areas. However, our initiatives to offer new products and services and to increase sales of our existing products and services may not succeed, if current market conditions do not stabilize, market opportunities develop more slowly than expected, our initiatives have less potential than we envisioned originally or the profitability of these products and services is undermined by competitive pressures. Consequently, we may be unable to achieve or maintain profitability in our targeted business areas.

In order to implement our business strategy successfully, we need to hire and train qualified personnel continuously and in a proactive manner, as well as to attract and retain employees with professional experience and specialized product knowledge. However, we face competition from other commercial banks, investment banks, consumer finance companies and other financial services providers in hiring highly competent employees. There can be no assurance that we will succeed in attracting, integrating and retaining appropriately qualified personnel.

We are exposed to new risks as we expand our businesses, the range of our products and services, and geographic scope of our businesses overseas.

As part of our business strategies we have expanded and may continue to expand our businesses or our range of products and services beyond our core business, commercial banking. This could expose us to new risks, such as adverse regulatory changes, more competition or a decline in the operating environments that affect those businesses, products and services. Some of those risks could be types with which we have no or only limited experience. As a result, our risk management systems may prove to be insufficient and may not be effective in all cases or to the degree required.

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In accordance with our strategy to further increase our presence in the international financial markets, we may continue to expand the scale of our overseas businesses, especially in emerging economies, notably Asian countries. The expansion of our overseas businesses may further increase our exposure to risks of adverse developments in foreign economies and markets, including interest rate and foreign exchange rate risk, regulatory risk and political risk. Our overseas expansion also exposes us to the compliance risks and the credit and market risks specific to the countries and regions in which we operate, including the risk of deteriorating conditions in the credit profile of overseas borrowers.

Failure of our business strategies through our subsidiaries, affiliates and other business alliance partners could negatively affect our financial condition and operating results, including impairment losses on goodwill or investments.

As part of our business strategies, we have made and may undertake acquisition of a subsidiary and investments in affiliates and other business alliance partners in the banking, securities, consumer finance, credit card, leasing and asset management businesses. It is uncertain whether we will receive the expected benefits from those business strategies, due to any adverse regulatory changes, worsening of economic conditions, competition or other factors that may negatively affect the related business activities. Furthermore, unanticipated costs and liabilities may be incurred in connection with those business strategies, including claims related to the businesses prior to our business alliances, and actions by regulatory authorities.

When we acquire a subsidiary, we may recognize some goodwill and intangible assets. Impairment losses on goodwill or intangible assets in connection with acquisitions must be recognized when the recoverable amount of goodwill or intangible assets of the business is lower than the carrying amount at the time of impairment testing, which is performed annually or whenever there is an indication that the goodwill or intangible assets may be impaired.

We account for some of our investments in affiliates under the equity method. Net losses by equity method investees may cause us to record our share of net losses of the affiliates. Furthermore, we may lose the capital which we have invested in business alliances or may incur impairment losses on securities acquired in such alliances. We may also be required under contractual or other arrangements to provide financial support, including credit support and equity investments, to business alliance partners in the future. We may also incur credit costs from our credit exposure to such partners.

We are exposed to the industry specific risks of the consumer finance industry.

Changes in the legal environment have severely adversely affected the business performance of consumer finance and credit card companies. We have exposures to those associated risks through our subsidiaries, including Cedyna Financial Corporation ("Cedyna") and SMBC Consumer Finance Co., Ltd. ("SMBC Consumer Finance"), formerly known as Promise Co., Ltd. and which became our subsidiary on December 7, 2011.

Consumer finance and credit card companies had offered unsecured personal loans, which included so-called "gray zone" interest on loans in excess of the maximum rate prescribed by the Interest Rate Restriction Act (ranging from 15% to 20%) up to the 29.2% maximum rate permitted under the Act Regulating the Receipt of Contributions, Receipt of Deposits and Interest Rates ("Contributions Act"). However, as a result of court decisions unfavorable to those companies, claims for refunds of amounts paid in excess of the applicable maximum allowed rate by the Interest Rate Restriction Act have increased substantially. Although SMBC Consumer Finance, Cedyna and other subsidiaries have each recorded a provision for claims for refunds of gray zone interest on loans, we may be required to recognize additional losses if such provisions are determined to be insufficient.

Amendments to laws regulating moneylenders, which were promulgated in 2006 and which became fully effective in June 2010, increased the authority of government regulators, prohibited gray zone interest and

introduced an upper limit on aggregate credit extensions to an individual by moneylenders at one-third of the borrower's annual income. After the promulgation of such amendments, SMBC Consumer Finance, Cedyne and other companies engaged in related business reduced their interest rates on loans in preparation for the prohibition of gray zone interest. As a consequence, margins earned by those companies, as well as the amounts of loans extended, have decreased.

An inability to generate sufficient future taxable profits or adverse changes to tax laws, regulatory requirements or accounting standards could have a negative impact on the recoverability of certain deferred tax assets.

We recognize deferred tax assets relating to tax losses carried forward and deductible temporary differences only to the extent that it is probable that future taxable profit will be available against which the tax losses carried forward and the temporary differences can be utilized. Net deferred tax assets amounted to ¥563 billion and ¥1,001 billion at March 31, 2012 and 2011, respectively. Net deferred tax assets are quantified on the basis of current tax rates and accounting standards and are subject to change as a result of changes to future tax rates or the rules for computing taxable profits and allowable losses. Failure to generate sufficient future taxable profits or changes in tax laws or accounting standards may reduce our estimated recoverable amount of net deferred tax assets. Such a reduction could have an adverse effect on our financial condition and results of operations.

Declines in actual returns on our plan assets or revised actuarial assumptions for retirement benefits may adversely affect our financial condition and results of operations.

The Bank and some of our subsidiaries have various defined benefit plans. We have experienced in the past, and may experience in the future, declines in actual returns on plan assets and changes in the discount rates and other actuarial assumptions. If actual returns on plan assets are lower than expected returns on plan assets or if we revise the discount rates and other assumptions, we may incur actuarial losses which may have an adverse effect on our financial condition and results of operations. Unrecognized actuarial losses may be recognized as losses in future periods. Because approximately half of our plan assets are composed of equity instruments, the plan assets are greatly affected by volatility in the prices of equity securities. Substantial declines in the prices for publicly traded Japanese stocks would negatively affect our plan assets and unrecognized losses arising from such declines may be recognized as losses in future periods. For further information, see Note 23 "Retirement Benefits" to our consolidated financial statements included elsewhere in this annual report.

Our business relies on our information technology systems, and their failure could harm our relationships with customers or adversely affect our provision of services to customers.

In all aspects of our business, we use information technology systems to deliver services to and execute transactions on behalf of our customers as well as for back-office operations. We therefore depend on the capacity and reliability of the electronic and information technology systems supporting our operations. We may encounter service disruptions in the future, owing to failures of these information technology systems. Our information technology systems are subject to damage or incapacitation as a result of quality problems, human errors, natural disasters, power losses, sabotage, computer viruses, acts of terrorism and similar events. While we have taken steps to protect information technology systems from those risks, including by establishing data recovery capability and functionality, these measures may not be sufficient. In addition, we may not be prepared to address all contingencies that could arise in the event of a major disruption of services. The failure to address such contingencies could harm our relationships with customers or adversely affect our provision of services to customers.

We handle personal information obtained from our individual and corporate customers in relation to our banking, securities, credit card, consumer finance and other businesses. The systems we have implemented to protect the confidentiality of personal information, including those designed to meet the strict requirements of the Act Concerning Protection of Personal Information, may not be effective in preventing disclosure of personal

information by unauthorized access from a third party. Leakage of personal information could expose us to demands for compensation or lawsuits for ensuing economic losses or emotional distress, administrative actions or sanctions, additional expenses associated with making necessary changes to our systems and reputational harm. As a result, our business, financial condition and results of operations could be materially and adversely affected.

Our risk management policies and procedures may not adequately address unidentified or unanticipated risks.

We are exposed to a variety of operational, legal and regulatory risks throughout our organization. Management of these risks requires, among other things, policies and procedures to properly record and verify large numbers of transactions and events. However, these policies and procedures may not be fully effective or sufficient. We have devoted significant resources to strengthening our risk management policies and procedures and expect to continue doing so in the future. Nevertheless, particularly in light of the continuing evolution of our operations and expansion into new areas, our policies and procedures designed to identify, monitor and manage risks may not be fully effective. Some of our methods of managing risks are based upon our use of observed historical market behavior and thus may not accurately predict future risks. Violations of laws including the Japanese antitrust and fair trade laws by us or by the Bank may result in administrative sanctions. Furthermore, investigations, administrative actions or litigation could commence in relation to violations, which may involve costs and may result in deterioration of our reputation.

Fraud or other misconduct by directors, officers and employees or third parties could subject us to losses and regulatory sanctions.

We are exposed to potential losses resulting from fraud, misconduct and other unlawful behavior by directors, officers and employees. Directors, officers and employees may bind us to transactions that exceed authorized limits or present unacceptable risks, hide from us and from our customers unauthorized activities, improperly use confidential information or otherwise abuse customer confidences. Third parties may engage in fraudulent activities, including fraudulent use of bank accounts or the use of false identities to open accounts for money laundering, tax evasion or other illegal purposes. Third parties could also use stolen or forged ATM cards or engage in credit card fraud, and we may be required to indemnify victims of such fraud for related losses. In the broad range of businesses in which we engage, fraud, misconduct and other unlawful behavior are difficult to prevent or detect. In addition, with or without actual fraud, misconduct and other unlawful behavior by directors, officers and employees, investigations, administrative actions or litigation could commence in relation to them. Furthermore, we may not be able to recover the losses caused by these activities, including possible deterioration of our reputation.

Transactions with counterparties in Iran and other countries designated by the U.S. Department of State as state sponsors of terrorism or that are subject to other U.S. economic sanctions may lead some potential customers and investors to avoid doing business with us or investing in our securities or may limit our business operations.

U.S. law generally prohibits or substantially restricts U.S. persons from doing business with countries designated by the U.S. Department of State as state sponsors of terrorism ("Designated Countries"), which currently are Cuba, Iran, Sudan and Syria. Under U.S. law, there are similar prohibitions or restrictions on countries that are the subject of other U.S. economic sanctions administered by the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") or other agencies (collectively with the Designated Countries, the "Restricted Countries"). We maintain a Group-wide policy designed to ensure compliance with applicable U.S. laws and regulations. This policy, which covers the Bank and our banking subsidiaries that provide financial services globally, prohibits the new extension of credit to Iranian entities. Our non-U.S. offices engage in transactions relating to the Restricted Countries on a limited basis and in compliance with applicable laws and regulations. These include remittance of Japanese yen with respect to our customers' export or import

transactions, maintenance of correspondent banking accounts and inter-bank money market transactions with Iranian banks, including those which OFAC identifies as “Specially Designated Nationals.” In addition, we maintain a representative office in Iran that mainly performs an information-collecting function.

We do not believe that our operations relating to the Restricted Countries materially affect our business, financial condition or results of operations. A limited number of the Bank’s transactions with Cuba, Iran, Sudan and certain other countries that are the subject of U.S. economic sanctions were identified and voluntarily disclosed to OFAC. These transactions resulted from inadvertent operational errors or the lack of familiarity of some Bank personnel with the requirements of the relevant regulations in the past. Since the discovery of these potential violations we have further strengthened our Group-wide OFAC compliance program in an effort to prevent the recurrence of such potential violations. We settled some of the disclosed potential violations with OFAC while others remain unsettled. However, in light of the inadvertent nature of such potential violations and the degree to which our strengthened OFAC compliance program aims to mitigate the risk of potential violations, we do not believe that our settlement with OFAC or any possible penalties that OFAC may impose with respect to the other potential violations that remain unsettled will have a material impact on our reputation, financial condition or results of operations or on the prices of our securities.

We are aware of initiatives by U.S. governmental entities and U.S. institutional investors, such as pension funds, to adopt laws, regulations or policies prohibiting transactions with or investment in, or requiring divestment from, entities doing business with Iran and other Designated Countries. It is possible that such laws and initiatives may result in our inability to enter into transactions with those entities that are subject to such prohibitions or to retain or acquire such entities as customers or investors in our securities. In addition, depending on sociopolitical developments, our reputation may suffer due to our association with the Designated Countries. The above circumstances could have a significant adverse effect on our business or the prices of our securities.

In July 2010, the U.S. government enacted legislation designed to restrict economic and financial transactions with Iran, i.e., the Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010 (“CISADA”), which may lead to the imposition of sanctions against non-U.S. financial institutions, such as us, if they are determined by the Secretary of the Treasury to have facilitated “significant transactions” or provided “significant financial services” for certain Iran-linked financial institutions or the Iranian Revolutionary Guard Corps. In addition, the U.S. government broadened the range of sanctionable transactions to include conducting or facilitating “significant financial transactions” with the Central Bank of Iran or certain other Iranian financial institutions by adopting Section 1245 of the National Defense Authorization Act for Fiscal Year 2012 (the “NDAA”), as implemented by Executive Order 13599 of February 5, 2012 and by amending the Iranian Financial Sanctions Regulations on February 27, 2012. These or similar legislative or regulatory developments may further limit our business operations. Specifically, we could lose our ability to maintain correspondent or payable-through accounts with U.S. financial institutions in case we are determined to have engaged in activities targeted by CISADA or the NDAA.

The U.S. Secretary of State announced on March 20, 2012 that Japan is among a group of countries that has significantly reduced the volume of crude oil purchases from Iran, and that therefore the NDAA sanctions would not apply to Japanese financial institutions for a period of 180 days, which period is renewable based on ongoing reductions in crude oil purchases from Iran. There is no guarantee that the U.S. Secretary of State will renew this waiver with respect to Japanese financial institutions. This or similar legislative developments may further affect our business operations.

Our business could be adversely affected by litigation and regulatory proceedings globally.

We conduct business in many locations in and outside of Japan. We face the risk of litigation and regulatory proceedings in connection with our operations. For example, if we engage in activities targeted by CISADA or the NDAA, this could result in the imposition of sanctions by the U.S. government against us. Lawsuits and regulatory actions may result in sanctions of very large indeterminate amounts or limit our operations, and costs

to defend either could be substantial. Moreover, the Bank and one of its subsidiaries contribute to financial benchmarks such as the Tokyo Interbank Offered Rate and the London Interbank Offered Rate for certain specific currencies. These benchmarks are used in jurisdictions in which we operate and do not operate. We face or may face some investigations, litigation and regulatory proceedings, and an adverse regulatory decision, judgment or ruling, including in jurisdictions we do not operate in, could have a material adverse effect on our business, operating results and financial condition.

Risks Related to Our Industry

Our liquidity could be adversely affected by actual or perceived weaknesses in our businesses and by factors we cannot control, such as a general decline in the level of business activity in the financial services sector.

We need liquidity to pay our operating expenses, pay interest on and principal of debt and dividends on capital stock, maintain our lending activities and meet deposit withdrawals. Adverse market and economic conditions in the domestic and global economies may limit or adversely affect our access to liquidity required to operate our business. If our counterparties or the markets are reluctant to finance our operations due to factors including actual or perceived weaknesses in our businesses as a result of large losses, changes in our credit ratings, or a general decline in the level of business activity in the financial services sector, we may be unable to meet our payment obligations when they become due or only be able to meet them with funding obtained on unfavorable terms. Circumstances unrelated to our businesses and outside our control, such as, but not limited to, adverse economic conditions, disruptions in the financial markets or negative developments concerning other financial institutions perceived to be comparable to us, may also limit or adversely affect our ability to replace maturing liabilities in a timely manner. Without sufficient liquidity, we will be forced to curtail our operations, and our business and our operating results and financial condition could be adversely affected.

We may incur losses as a result of financial difficulties of counterparties and other financial institutions.

We regularly execute transactions with counterparties in the financial services industry. Many of these transactions expose us to credit risk in the event of deterioration of creditworthiness of a counterparty or client. With respect to secured transactions, our credit risk may be exacerbated when the collateral cannot be foreclosed on or is liquidated at prices not sufficient to recover the full amount of the loan or other exposures due to us. Losses from our investments in and loans to other financial institutions could materially and adversely affect our business, financial condition and results of operations. We may also be requested to participate in providing assistance to distressed financial institutions that are not our consolidated subsidiaries. In addition, if the funds collected by the Deposit Insurance Corporation of Japan ("DIC") are insufficient to insure the deposits of failed Japanese banks, the insurance premiums that we pay to the DIC will likely be increased, which could adversely affect our business and operating results.

Adverse regulatory developments or changes in government policies could have a negative impact on our results of operations.

Our businesses are subject to extensive regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in Japan and the other jurisdictions in which we operate. Those changes and their effects on us are unpredictable and beyond our control.

Changes in the regulatory environment may adversely affect our financial condition and results of operations. In particular, the financial crisis has led to calls for significant financial reform measures, and various governments are at different stages of enacting legislation that will affect financial institutions.

In response to the financial and economic turmoil, regulatory authorities have been reviewing and revising capital adequacy guidelines, particularly in relation to quality of capital and accounting standards; such revisions

could adversely affect our capital ratios. In December 2010, the Basel Committee published the Basel III rules text, setting out certain changes to capital requirements which include raising the quality of banks' capital bases, enhancing risk coverage, inhibiting leverage, reducing pro-cyclicality and introducing liquidity regulation. The changes that FSA made to its capital adequacy guidelines in response to Basel III will be generally applied from March 31, 2013.

The FSA's Financial Inspection Manual for financial institutions and related guidelines are revised or amended from time to time. Our implementation of any such changes could result in an increase in our administrative expenses, which could have an adverse effect on the results of operations and financial condition of us and the Bank.

The FSA and regulatory authorities in the United States and other jurisdictions, along with the United Nations, have in recent years made sanctions as a means to promote the prevention of money laundering and terrorism financing a focus of governmental policy relating to financial institutions. Any regulatory action or change in regulatory focus, whether as a result of inspections or regulatory developments, may negatively affect our banking operations and may require expensive remediation.

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), which was enacted in July 2010, provides a broad framework for significant regulatory changes across most areas of U.S. financial regulations. The Dodd-Frank Act addresses, among other issues, systemic risk oversight, bank capital standards, over-the-counter ("OTC") derivatives, the ability of banking entities to engage in proprietary trading activities and invest in hedge funds and private equity funds (known as the "Volcker Rule") and securitization. Implementation of the Dodd-Frank Act is taking place through detailed rulemaking over multiple years by various regulators. Although the final details, impact and timing of the rules remain uncertain, it could result in additional costs, or restrict or otherwise affect the way we conduct our business.

These and similar, or any other kind of significant regulatory developments could adversely affect our capital ratios and operating results. For further details, see "Item 4.B. Business Overview—Regulation." Since those changes in regulation or fiscal or other policies and their effects are unpredictable and beyond our control, we may be unable to comply with those changes regardless of our efforts. Any such failures could result in administrative or judicial proceedings against us, including suspension of our business and financial penalties, which could materially adversely affect our business, reputation, operating results and financial condition.

We operate in the highly competitive financial services industry.

Deregulation, consolidation among financial institutions, diversification within the financial services industry and the expanded presence of foreign financial institutions and investors have made the Japanese financial services market highly competitive. Moreover, competition in overseas markets has intensified due to global consolidation, convergence and alliances among financial institutions. We compete with various types of financial services companies, including:

- banking groups, including Japan's other major banking groups;
- government-controlled and government-affiliated entities;
- regional banking institutions;
- major investment banks; and
- non-bank financial institutions.

Government actions, such as those taken to stabilize the market and to alter the regulatory framework, may affect our competitive position. In response to the recent financial crisis, the Government of Japan has taken and may adopt policies, including providing fiscal stimulus or extending credit support to other Japanese financial

institutions, which adversely affect our competitive position. For example, the National Diet of Japan (“Diet”) enacted a bill that allowed the Japan Post Bank Co., Ltd., one of the world’s largest deposit-taking financial institutions, to expand its business upon notification to and without future approval of the government. Increased competition in Japan may put downward pressure on prices for our financial services, cause us to lose market share or require us to incur additional expenses in order to remain competitive. Internationally, various forms of financial support provided by foreign governments to foreign banks and other financial institutions during the current financial crisis may reduce the cost of capital to those institutions and otherwise give them competitive advantages. There can be no assurance that we will be able to respond effectively to current or future competition.

Damage to our reputation may have an adverse effect on our business and operating results.

Maintaining our reputation is vital to our ability to attract and maintain customers, investors and employees. Our reputation could be damaged through a variety of circumstances, including, among others, fraud or other misconduct or unlawful behavior by directors, officers or employees, systems failures, compliance failures, investigations, adverse litigation judgments or regulatory decisions, or unfavorable outcomes of governmental inspections. Negative media coverage of Japan’s financial services industry or us, even if inaccurate or not applicable to us, may have a materially adverse effect on our brand image and may undermine depositor confidence, thereby affecting our businesses and results of operations. For example, actual or rumored investigations of us or our directors, officers or employees, or actual or rumored litigation or regulatory proceedings, or media coverage of the same, may have a material adverse effect on our reputation and could negatively affect the prices of our securities. Actions by the financial services industry generally or by certain members in the industry can also adversely affect customers’ confidence on the financial services industry. Such reputational harm could also lead to a decreased customer base, reduced revenues and higher operating costs.

Other Risks

Our failure to establish, maintain and apply adequate internal controls over financial reporting could negatively impact investor confidence in the reliability of our financial statements.

In order to operate as a global financial institution, it is essential for us to have effective internal controls, corporate compliance functions, and accounting systems to manage our assets and operations.

As a New York Stock Exchange-listed company and a registrant with the U.S. Securities and Exchange Commission (“SEC”) under section 404 of the U.S. Sarbanes-Oxley Act of 2002, our management is required to assess the effectiveness of our internal control over financial reporting and disclose whether such internal controls are effective. Our independent registered public accounting firm has to conduct an audit to evaluate and then render an opinion on the effectiveness of our internal control over financial reporting. The Financial Instruments and Exchange Act of Japan (“FIEA”) also requires us, as a company listed on a Japanese stock exchange, to file, together with our annual securities reports required by the FIEA, audited internal control reports assessing the effectiveness of our internal controls over financial reporting.

We have established internal controls over financial reporting, as well as rules for evaluating those controls, in order to provide reasonable assurance of the reliability of our financial reporting and the preparation of financial statements. However, these controls may not prevent or detect errors. Any evaluation of effectiveness to future periods is subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. To the extent any issues are identified through the foregoing processes, there can be no assurance that we will be able to resolve them in a timely manner or at all. If this occurs, our reputation may be damaged, which could lead to a decline in investor confidence in us.

Our business operations are exposed to risks of natural disasters, terrorism, pandemics and other calamities.

Our business operations are subject to the risks of natural disasters, terrorism, pandemics, blackouts, geopolitical incidents and other calamities, any of which could impair our business operations. Despite our preparation of operation manuals and other backup measures and procedures, such calamities could cause us to suspend operations and could adversely affect our businesses, financial condition and results of operations. Massive natural disasters such as the Great East Japan Earthquake and any subsequent collateral events, may adversely affect economic conditions in general, the financial conditions of our corporate and individual customers and stock market prices, or cause other negative effects, any or all of which could materially and adversely affect our financial condition and results of operations owing to, for example, an associated increase in the amount of credit-related costs or an increase in losses related to our holdings of securities.

Sales of shares by us or the Bank may have an adverse effect on the market price of our shares and may dilute existing shareholders.

We may issue shares from the unissued portion of our authorized share capital and sell shares held as treasury stock, generally without a shareholder vote. In addition, the Bank may sell any of our shares that it holds. Sales of shares in the future may be at prices below prevailing market prices and may be dilutive.

It may not be possible for investors to effect service of process within the United States upon us or our directors, corporate auditors or senior management, or to enforce against us or those persons judgments obtained in U.S. courts predicated upon the civil liability provisions of the U.S. federal or state securities laws.

We are a joint stock corporation incorporated under the laws of Japan. Almost all of our directors, corporate auditors and senior management reside outside the United States. Many of our assets and the assets of these persons are located in Japan and elsewhere outside the United States. It may not be possible, therefore, for U.S. investors to effect service of process within the United States upon us or these persons or to enforce, against us or these persons, judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal or state securities laws. We believe that there is doubt as to the enforceability in Japan, in original actions or in actions to enforce judgments of U.S. courts, of claims predicated solely upon the U.S. federal or state securities laws mainly because the Civil Execution Act of Japan requires Japanese courts to deny requests for the enforcement of judgments of foreign courts if foreign judgments fail to satisfy the requirements prescribed by the Civil Execution Act, including requirements that:

- the jurisdiction of the foreign court be recognized under laws, regulations, treaties or conventions;
- proper service of process be made on relevant defendants, or relevant defendants be given appropriate protection if such service is not received;
- the judgment and proceedings of the foreign court not be repugnant to public policy as applied in Japan; and
- there exists reciprocity as to the recognition by a court of the relevant foreign jurisdiction of a final judgment of a Japanese court.

Judgments obtained in U.S. courts, predicated upon the civil liability provisions of the U.S. federal or state securities laws, may not satisfy these requirements.

As a holder of our American Depositary Shares ("ADSs"), you have fewer rights than a shareholder of record in our shareholder register because you must act through the depositary to exercise these rights.

The rights of our shareholders under Japanese law to take actions such as voting their shares, receiving dividends and distributions, bringing derivative actions, examining our accounting books and records and