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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,				
2007	¥121.79	¥109.62	¥ 118.09	¥113.80
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
Most recent six months:				
January	83.36	81.80	82.13	82.67
February	83.73	81.47	81.71	82.55
March	83.15	79.31	83.15	81.82
April	85.47	81.48	82.08	83.45
May	82.15	80.33	80.88	81.24
June	81.43	80.04	80.68	80.56
July (through July 15, 2011)	81.31	78.78	79.15	80.38

(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 15, 2011 was ¥79.15 = $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 contained 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 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 Current Financial Environment

Our operations may be adversely affected by the Great East Japan Earthquake and collateral events.

On March 11, 2011, a magnitude 9.0 earthquake occurred off the eastern coast of Japan and was followed shortly thereafter by a large tsunami that struck a vast swath of Japan's Pacific coast. The earthquake and tsunami resulted in catastrophic losses of life and property in Japan, particularly in the Tohoku region.

The earthquake and collateral events have adversely affected the Japanese economy in general. In the immediate aftermath of the earthquake and tsunami, there was a significant short-term negative impact on the economy. In addition to the initial damage caused by the earthquake and tsunami, the damage to the nuclear power facilities in Fukushima resulted in electricity shortages and related rolling blackouts through much of the Tohoku and Kanto regions, which include Tokyo. It is uncertain whether other significant collateral events will happen in the future. Because the effects from the nuclear accidents at the nuclear power facilities in Fukushima remain uncertain, public sentiment, such as concerns about the safety of products from the region, including agricultural products and seafood, could adversely affect the Japanese economy. On June 14, 2011, the Government of Japan approved and submitted a bill to the National Diet of Japan, or the Diet, laying out a compensation scheme for nuclear damages. If this bill is enacted, it would provide financial support to people affected by the nuclear accidents and also provide support to electric power utilities subject to claims for consequential losses associated with the nuclear accidents, which would contribute to the stability of their operations as a result. Nevertheless, it is likely that instability in the Japanese economy will remain until the full extent of the damage from the earthquake and collateral events can be adequately assessed.

While we did not suffer severe direct losses of employees or property as a result of the earthquake, the initial and collateral effects on corporate customers with headquarters or operations in the Tohoku region may indirectly affect us in the near term. Moreover, we recently increased and 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 repairing their infrastructure, as a result of the earthquake and subsequent collateral events. It is uncertain whether our current or any future loans to such borrowers will benefit, directly or indirectly, from any government guarantees or other government support measures that may be enacted in response to the Great East Japan Earthquake. We may also record increases in our allowance for loan losses as a result of the adverse impact on the financial condition of our obligors, decreases in the value of mortgaged property in the affected regions, and decreases in the value of our equity securities portfolio. The effects of the earthquake and subsequent collateral events on the overall Japanese economy have adversely affected and may continue to adversely affect our business, financial condition and operating results. For further information on our operating environment and operations after the earthquake, see "Item 5. Operating and Financial Review and Prospects."

Recent economic recovery may be fragile and may not be sustainable, and governmental actions to stabilize the financial markets and stimulate the economy may not achieve the intended effects.

Although there have been signs of economic recovery in Japan, the United States and other major economies, partially attributable to the effects of various government economic stimulus efforts, this recovery may be fragile. The sustainability of the recovery is uncertain, particularly as the effects of these various government stimulus programs subside. Without further government action, the recovery may not continue owing to deflationary pressures and other negative factors. Concerns about European economies, triggered by uncertainty as to the ability of certain European countries to repay their sovereign debt, have caused unstable market conditions. Geopolitical instability in various parts of the world, including in North Africa, the Middle East and Asia, could also contribute to economic instability in those and other regions.

In Japan, in response to the financial instability affecting banking systems and financial markets as well as persistent vulnerabilities in investment banks and other financial institutions, in May 2009, the Diet approved a supplemental budget of ¥13.9 trillion, and the Government of Japan, led by the Democratic Party of Japan, in

August and October 2010 announced additional economic stimulus measures and measures to counter the yen's appreciation against other currencies. With regard to monetary policy, the Bank of Japan, or the BOJ, from April 2010 has been providing liquidity through funds-supplying operations and loan programs against pooled collateral. In June 2010, the BOJ announced a fund-provisioning measure to strengthen the foundations for economic growth. In addition, on October 5, 2010, the BOJ lowered its uncollateralized overnight call rate target to a range of 0% to 0.1% and on March 14, 2011 announced that it would expand its quantitative easing program with a ¥10.0 trillion increase in its asset purchase program.

However, unemployment in Japan has remained at a relatively high level since the spring of 2009, and chronic unemployment could negatively affect consumer confidence, private consumption and economic activity. There also have been a number of corporate bankruptcies in Japan, particularly among companies directly affected by weak domestic demand. In addition, a persistently strong yen against currencies such as the U.S. dollar has begun to produce deflation and may negatively affect corporate earnings and exports, all of which could hamper economic recovery. The outlook for the Japanese economy is uncertain, and recovery may be delayed due to the impact of the strong yen. The resulting economic pressure on Japanese consumers and businesses, including increases in delinquencies and default rates, a general lack of confidence in the financial markets and fears of a further worsening of the economy could adversely affect our business, financial condition and operating results.

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 market are reluctant to finance our operations due to actual or perceived weaknesses in our businesses as a result of large losses, changes in our credit ratings, a general decline in the level of business activity in the financial services sector, or other factors, 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 further losses as a result of financial difficulties of other financial institutions in the banking environment.

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 credit worthiness 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 exposure due to us. Losses from or impairments to the carrying value of our investments in and loans to 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, or 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.

Risks Related to Our Business

If securities prices on Japanese stock markets or other global markets decline in the future, we may 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 equity instruments, which accounted for 2.4% of our total assets as of March 31, 2011, and approximately 89.7% of which were Japanese equity securities, 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 fiscal 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 capital position and the capital position of the Bank, 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.

We may not be able to satisfy capital adequacy requirements, which could constrain our and the Bank’s operations.

We and the Bank are subject to capital adequacy requirements established by the Financial Services Agency of Japan, or FSA. As of March 31, 2011, our risk-weighted consolidated capital ratio was 16.63% compared to the minimum required risk-weighted capital ratio of 8.0%, and our Tier I risk-weighted capital ratio was 12.47% 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, or IRB, approach for measuring exposure to credit risk and the advanced measurement approach, or AMA, to measure exposure to operational risk. If the FSA revokes its approval of such implementation or otherwise changes its approach to measure the capital adequacy ratios, our and the Bank’s ability to maintain capital at the required levels may be adversely affected.

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, or the Basel Committee, on December 16, 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. We anticipate that the FSA will change its capital adequacy guidelines to reflect the Basel Committee's package of reforms, which will adversely affect our capital ratios including the change in treatment of deferred tax assets mentioned above.

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.

Credit costs related to non-performing loans may increase if our borrowers do not repay their loans in a timely manner.

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

- domestic or global economic conditions worsen or do not improve:
- our borrowers do not repay their loans; and
- past experience, evaluations, assumptions and estimates about our borrowers, valuation of collateral and guarantees, general economic and business conditions on which our allowance for loan losses is based fail to provide an accurate estimate of actual future incurred losses.

We have exposure to housing loans at the Bank and through other subsidiaries. The continuation of the difficult employment environment or a further decline in residential property values could cause us to incur increased credit costs due to rising defaults by individual borrowers or a deterioration in the credit profile of borrowers.

Moreover, the Great East Japan Earthquake also led to an increase in credit costs due to a worsening of the financial condition of affected individuals and companies. See the risk factor captioned "Our operations may be adversely affected by the Great East Japan Earthquake and collateral events" for further details. Changes in law or government policies that have an adverse impact on the rights of creditors could also cause us to incur increased credit costs. For certain borrowers, we may choose to engage in debt-for-equity swaps, provide partial debt write-offs, provide additional financing or provide 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 ability to recover on the loan.

The ratio of impaired loans and advances to the total loans and advances, both net of allowance for loan losses, were 1.8%, 1.6% and 1.5% as of March 31, 2011, 2010 and 2009, 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 and certain of our current ratings are under review for possible downgrade.

On May 31, 2011, Moody’s announced that it had placed the Government of Japan’s Aa2 local and foreign currency bond ratings on review for possible downgrade. On the same date, Moody’s also placed on review for possible downgrade the long-term debt ratings of all 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. Accordingly, a downgrade of such ratings is possible at any time. 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 capital position, financial condition and results of operations.

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 for the coming three fiscal years. Although we believe that we have targeted appropriate business areas, 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.

Our financial condition and results of operations could be adversely affected by changes in the levels or volatility of market rates or prices.

Our financial condition and results of operations could be adversely affected by changes in interest rates, foreign exchange rates and market prices of investment securities. We have substantial investments in debt securities. In particular, Japanese government bonds represent a significant part of our fixed income portfolio. As of March 31, 2011, we had ¥20 trillion of Japanese government bonds classified as available-for-sale securities, which accounted for approximately 58.3% of our overall investment securities portfolio and 14.8% of our total assets. Increases in interest rates could substantially decrease the value of our fixed income portfolio, and any unexpected change 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, ratings downgrades of investment securities by major rating agencies may also cause declines in the value of our securities portfolio.

We are exposed to new or increased risks as we expand the range of our products and services and the geographic scope of our business.

We are expanding our distribution channels and our range of products and services beyond our traditional commercial banking business to other services as part of our business strategy. Accordingly, we will need to develop, invest in and implement systems to manage new products and services and distribution channels. We may incur expenses necessary to address regulatory requirements that enhance consumer protections, including for improvements to information technology systems and employee training. Some of the risks associated with our new services and businesses will 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.

In particular, the Bank's acquisition of Nikko Cordial Securities Inc., which changed its trade name to SMBC Nikko Securities Inc. on April 1, 2011, has significantly expanded our exposure to the domestic retail securities business and the risks that such business entails, including intense competition as well as regulatory and compliance risks. Through the acquisition, we obtained: (i) the entire business of the former Nikko Cordial Securities, including the domestic retail and M&A advisory businesses; (ii) certain businesses of the former Nikko Citigroup, including the domestic debt and equity underwriting businesses; (iii) other related subsidiaries and associates; (iv) strategic shareholdings; and (v) other assets including the "Nikko" brand and related trademarks. Along with strengthening SMBC Nikko Securities' position as a securities and investment banking company that can provide both retail and full-line wholesale securities services, including overseas operations, we are further exposed to the risks associated with the securities business.

As we expand the scale of our overseas assets and businesses, we have entered into several investments and alliances with commercial banking institutions, particularly in Asia. This expansion of our overseas business and our strategy to further improve our presence in the international markets may further increase our exposure to risks of adverse developments in foreign economies and markets, including interest rate and foreign exchange rate risk and regulatory 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 specific national or regional economies or in the credit profile of overseas borrowers.

We may experience impairment losses on goodwill and investments in associates, which could negatively affect our financial condition and operating results.

We have entered into a number of business alliances with related companies and other financial institutions, including with entities involved in the securities, consumer finance, credit card, leasing and asset management businesses, and we may enter into additional business alliances and make additional investments and acquisitions in the future. It is uncertain whether we will receive the expected benefits from our business alliances. If our strategy with respect to an existing or future alliance changes or is unsuccessful, we may decide or be required to terminate the alliance.

We recognize some goodwill and intangible assets mainly in the securities segment and the leasing segment. Impairment losses on goodwill or intangible assets in connection with acquisitions must be recognized when the recoverable amount of the 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 alliance investments under the equity method. For the fiscal year ended March 31, 2011, we recognized net losses under the equity method in connection with some of these alliance investments. Net losses by equity method investees may cause us to recognize further losses in the future. Furthermore, we may lose the capital which we have invested in business alliances or may incur impairment losses on securities acquired in such alliances, and we may incur credit costs resulting from our credit exposure to business alliance partners if they fail or do not perform as expected.

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. Furthermore, we may incur unanticipated costs and liabilities in connection with business alliances, including claims by customers or personnel of the businesses acquired prior to business alliances, and actions by regulatory authorities.

Our consumer finance strategy exposes us to risks in that industry.

We have strategic alliances with companies engaging in the consumer finance business and have substantial exposure to the Japanese consumer finance industry through their businesses, some of which are our consolidated subsidiaries. We have substantial loans outstanding to consumer finance companies, including Promise Co., Ltd. In addition to our exposure through loans, we have a 22% equity investment in Promise and direct investments in other consumer finance companies, including the Bank's 51% stake in ORIX Credit Corporation, a consumer finance provider with a high market share among premium card loan providers.

Our strategic alliances and joint businesses with consumer finance companies have been and will continue to be adversely affected by changes in regulations in the consumer finance industry.

Changes in the legal environment and market conditions have severely adversely affected the business performance of consumer finance companies. Consumer finance 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, or the Contributions Act. However, as a result of unfavorable court decisions, claims for refunds of amounts paid in excess of the applicable maximum allowed rate by the Interest Rate Restriction Act have increased substantially. While Promise and other major companies in the consumer finance industry have recorded provisions for interest repayment, these provisions may be insufficient. The amendments to laws regulating moneylenders which were promulgated in December 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, Promise and other consumer finance companies reduced their interest rates on loans in preparation for the prohibition of gray zone interest. As a consequence, margins earned by consumer finance companies, as well as the amounts of loans extended, have decreased. Promise and our other consumer finance subsidiaries and associates are engaged in efforts to restructure their consumer finance businesses and diversify their profit structure. We may be required to provide financial support through additional loans and equity investments. However, such efforts may not be successful and could adversely affect their operations and may cause us to recognize additional losses.

Our strategic alliances with and investments in credit card companies expose us to risks in that industry.

Economic and regulatory trends in Japan have adversely affected the profitability of credit card companies that operate in Japan. The uncertain economic environment increases caution among consumers and contributes to a reduction in the volume of credit card transactions. Recent regulatory changes in Japan have also affected the operations and profitability of companies in the credit card industry.

The revisions to the Installment Sales Act enacted in June 2008, most of which took effect in December 2009, imposed more stringent regulations on credit card companies, including an expanded scope of regulation, measures to prevent inappropriate extensions of credit and measures to prevent excessive lending. These and subsequent revisions to the Installment Sales Act in December 2010 have had and continue to have an adverse impact on companies in the credit card industry.

Amendments to laws regulating moneylenders promulgated in December 2006 which introduced interest and credit extension limits have had and continue to have a negative effect on the profitability of certain credit card companies, including Cedyna Financial Corporation, or Cedyna. Cedyna is exposed to liabilities related to the repayment of gray zone interest and an additional increase in claims for repayment could result in further losses.

If these economic and regulatory trends continue or accelerate, our investments in credit card companies could materially and adversely affect our capital adequacy ratios, financial condition and results of operations. In addition, we may be required to provide financial support to these companies through additional loans or equity investments. However, such actions may not be successful and may cause us to recognize additional losses.

Deferred tax assets may decrease due to a reduction of our expected future taxable income.

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 ¥1,001 billion and ¥1,097 billion as of March 31, 2011 and 2010, respectively. If our current or future financial circumstances indicate that it is no longer probable that our deferred tax assets will be utilized, we will assess them for realizability and may reduce them as necessary. This 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 market prices for equity securities. Substantial declines in share prices for equity securities on Japanese stock markets 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 error, natural disasters, power loss, sabotage, computer viruses, acts of terrorism and similar events. Our information technology centers are subject to earthquake risk. While we have taken steps to protect our information in the information technology centers from earthquake risk, 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 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.

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. Violations of laws, including the Japanese antitrust and fair trade laws by us or by the Bank, may result in administrative sanctions under the Banking Act. Furthermore, investigations, administrative actions or litigation could commence in relation to violations, which may involve costs, including possible deterioration of our reputation.

We may incur additional costs for implementing and maintaining effective internal controls.

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.

The Financial Instruments and Exchange Act in Japan, or FIEA, requires the companies listed on the Japanese stock exchange to file, together with their annual securities reports required by FIEA, audited internal control reports assessing the effectiveness of their 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. If we are unable to identify and resolve any significant defects or material weaknesses by the end of a particular fiscal year, we will need to report that fact in our annual securities report. If this occurs, our reputation may be damaged, which could lead to a decline in investor confidence in us.

Moreover, under section 404 of the U.S. Sarbanes-Oxley Act of 2002, which will apply to us by reason of our status as a reporting company to the U.S. Securities and Exchange Commission, or SEC, our management will be required to assess the effectiveness of our internal control over financial reporting and disclose whether such internal controls are effective. Our accounting auditor also will have to conduct an audit to evaluate and then render an opinion on the effectiveness of our internal control over financial reporting. The requirements of section 404 will first apply to our annual report on Form 20-F for the fiscal year ending March 31, 2012.

Designing and implementing an effective system of internal control capable of monitoring and managing our business and operations requires significant management and human resources and considerable costs. If we identify any material weaknesses in our internal control system, we may incur significant additional costs for remediating such weaknesses. In addition, if we adopt a new accounting system, we may be required to incur significant additional costs, which may materially adversely affect our financial condition and results of operations.

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

Our business operations are subject to the risks of natural disasters, terrorism, pandemics, blackouts, and other calamities and geopolitical risks, any of which could impair our business operations. Despite our preparation of operation manuals and other backup measures and procedures, a calamity could cause us to suspend operations and could adversely affect our operations and financial condition.

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

We are exposed to potential losses resulting from fraud and other misconduct by our employees. Our 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 and other misconduct are difficult to prevent or detect, and we may not be able to recover the losses caused by these activities.

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, or the Designated Countries, which currently are Cuba, Iran, Sudan and Syria. Under U.S. law, there are similar prohibitions or restrictions with countries that are subject to other U.S. economic sanctions administered by the U.S. Department of the Treasury’s Office of Foreign Assets Control, or OFAC, or other agencies, collectively with the Designated Countries, the Restricted Countries. We maintain policies and procedures designed to ensure compliance with relevant U.S. laws and regulations applicable to U.S. persons and our policies include an internal credit policy which prohibits new extensions 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, including 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 subject to 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 market prices for 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 initiatives may result in our being unable 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 price of our securities. In addition, the U.S. government has recently enacted legislation designed to restrict economic and financial transactions with Iran, i.e., Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010, or CISADA. This or similar legislative developments may further limit 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 in the jurisdictions in which we operate. For example, if we fail to comply with CISADA, such failure to comply could result in sanctions 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. An adverse judgment or ruling could have a material adverse effect on our business, operating results and financial condition.

Risks Related to Our Industry

Adverse regulatory developments or changes in government policies, economic controls or accounting rules 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. The financial crisis has led to calls for significant financial reform measures, and various governments are at different stages of enacting new legislation that will affect financial institutions. Future changes in regulation or fiscal or other policies and their effects are unpredictable and beyond our control.

Changes in the regulatory environment may adversely affect our financial condition and results of operations. 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.

In response to recent financial and economic turmoil, regulatory authorities have been reviewing and revising capital adequacy guidelines, including in relation to quality of capital and accounting standards; such revisions could adversely affect our capital ratios. The new Basel III rules text published by the Basel Committee on December 16, 2010 focus on raising the quality of banks’ capital bases, enhancing risk coverage, inhibiting leverage, reducing pro-cyclicality and introducing liquidity regulation.

An increase in the risk weights of resecuritization instruments and some revisions to trading book rules will be implemented from the end of 2011. The minimum common equity and Tier I requirements under the new standards will be phased in between January 1, 2013 and January 1, 2015, and a capital conservation buffer will be phased in from January 1, 2016 and become fully effective on January 1, 2019. The countercyclical buffer requirement will be implemented according to national circumstances and, when in effect, will be introduced as an extension of the conservation buffer range. The Basel Committee has also adopted a requirement to ensure the loss absorbency of regulatory capital at the point of non-viability. On June 25, 2011, the Basel Committee agreed on a consultative document setting out measures for global systemically important banks, or G-SIBs. The assessment methodology for G-SIBs will be based on size, interconnectedness, lack of substitutability, global activity and complexity. It is not yet certain whether we will be designated as G-SIBs. Institutions designated as G-SIBs would be required to meet additional loss absorbency requirements with a progressive Common Equity

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Tier I capital surcharge ranging from 1.0% to 2.5% depending on the systemic importance of the relevant bank to be phased in between January 1, 2016 and January 1, 2019. These and further similar developments could adversely affect our capital ratios and operating results. For further details, see "Item 4.B. Business Overview—Regulation."

We have been preparing for the possible future implementation of these stricter capital adequacy guidelines through various measures. For example, we have issued our common stock, repurchased and cancelled preferred securities and perpetual subordinated debt, and reserved capital surplus and retained earnings in order to improve the quality and quantity of our regulatory capital. However, our capital policy strategy may not be successful. Such implementation could cause our capital ratios to be insufficient for regulatory purposes and could lead us to engage in capital conservation measures or may require us to raise more common equity, which may lead to dilution of earnings and lower returns on equity.

The FSA's 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.

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 market for financial services 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 finance companies.

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, that adversely affect our competitive position. For example, the Government of Japan submitted a bill to the Diet that would allow the Japan Post Bank Co., Ltd., Japan's largest deposit-taking institution, 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.

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, employee fraud or other misconduct, systems failures, compliance failures, adverse litigation judgments or regulatory decisions, or unfavorable outcomes of governmental inspections. Negative media coverage of Japan's banking 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. Actions by the financial services industry generally or by certain members in the industry in Japan can also adversely affect customers' confidence on the financial services industry. Such reputational harm can lead to a decreased customer base, reduced revenues and higher operating costs.

Risks Related to Our Shares

Sales of shares by us or the Bank may have an adverse effect on the market value 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 other management members, 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 other management members 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 the 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 the U.S. courts predicated upon the civil liability provisions of the U.S. federal or state securities laws may not satisfy these requirements.

Risks Related to Owning Our American Depositary Shares

As a holder of American Depositary Shares, or 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 exercising appraisal rights are available only to shareholders of record. Because the depositary, through its custodian, is the record holder of the shares underlying the ADSs, only the depositary can exercise shareholder rights relating to the deposited shares. ADS holders will not be able to directly bring a derivative action, examine our accounting books and records or exercise appraisal rights.