

1. Features of Trust Banks' Balance Sheets

Financial statements of trust banks include two balance sheets, one for the banking account and the other for the trust account (Statement of Trust Account). They are classified by whether businesses are conducted based on trust agreements or not. The balance sheet for the banking account is similar to those of ordinary commercial banks, whereas that for the trust account is unique to trust banks.

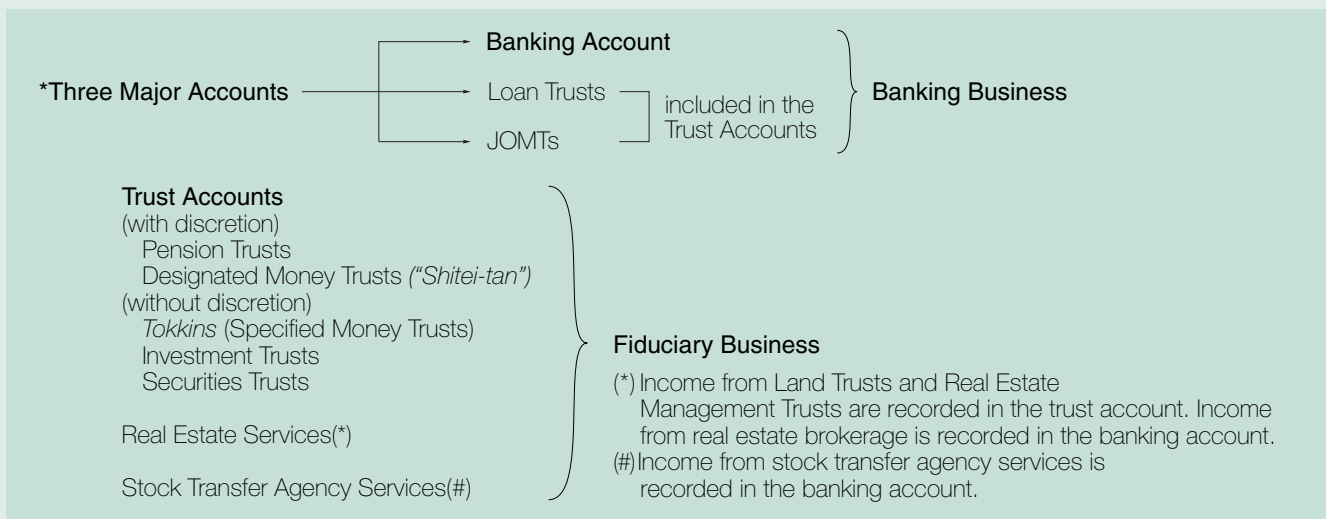
Among various trust accounts, Loan trusts and Jointly-operated money trusts ("JOMTs") are subject to principal-guaranteed contracts provided by trust banks and covered by deposit insurance. From the viewpoint that the banking account bears contingent liability by virtue of principal-guaranteed contracts attached to these two types of trusts, these trusts are included in banks' risk assets for the purpose of calculating the BIS capital adequacy ratio. At present, the total principal amount after deduction of the loan amount lent from the trust accounts to the banking account is counted as risk assets.

Those Loan trusts and JOMTs are booked and administrated separately from the banking account. The Sumitomo Trust and Banking Company, Limited ("the Bank"), though, refers to the banking account, Loan trusts, and JOMTs as the "Three Major Accounts" and manages them as a part of the banking business. We manage profits and losses, conduct asset liability management, and control the default risks of the three major accounts in an integrated manner. As a case in point, our data for the loan-deposit

margin on a "Three Major Account" basis are calculated through the aggregation of assets and liabilities in the banking account, Loan trusts, and JOMTs.

On the other hand, various trust accounts other than Loan trusts and JOMTs are referred to as "Fiduciary Accounts" since their principals are not guaranteed and all returns and losses are attributed to beneficiaries. Broadly speaking, there are two types of fiduciary accounts: those in which trust banks have discretion over investments (including Pension trusts, Designated money trusts, etc.), and those in which they do not have discretion acting as custodians (including Investment trusts, Tokkins (Specified money trusts), Securities trusts, etc.). The statement of trust account discloses balances of all trust accounts including Loan trusts and JOMTs. Separate balance sheets are also disclosed for Loan trusts and JOMTs.

Loan trusts and JOMTs have reserve accounts for possible losses called Reserve for possible impairment of principal. The reserve account for Loan trusts is stipulated in the Loan Trust Act. In accordance with the Act, trust banks are currently required to set no less than 2.5% and no more than 4.0% of loan trust fees aside for the reserve until it amounts to 0.5% of the total principal amount of Loan trusts. The reserve account for JOMTs is set aside at the rate of 0.3% of the balance of loans and other claims. For reference, non-performing claims of Loan trusts and JOMTs are disposed of by direct write-offs to individual loans or other claims.



Balance sheets of trust banks feature accounts for internal transactions between the banking account and the trust account. These are noted as the “Borrowed Money from Trust Account” (i.e. the banking account’s borrowing from the trust accounts), which is posted on the liability side of the banking account, and “Loans to

Banking Account,” posted on the asset side of the trust account. Assets on the balance sheets for Loan trusts and JOMTs are classified into “Loans and Bills Discounted,” “Securities,” and “Others.” “Others” accounts consist mainly of loans to banking account.

2. Features of Income Statement of Trust Banks

Main items comprising income statement of trust banks are as shown below:

Net Trust Fees (after credit costs for Loan Trusts and JOMTs)	←
+Net Interest Income	
+Net Fees and Commissions	
+Net Trading Income	
+Other	
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Gross Profit	
–General and Administrative Expenses (excluding Non-recurring expenses)	
–Net Transfer to General Reserve	
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Net Business Profit	
(– +Trust Account Credit Costs = Net Business Profit before Trust Account Credit Costs)	←
(+Net Transfer to General Reserve = Net Business Profit before Credit Costs)	
+Net Non-recurring Profit (Loss)	
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Net Operating Profit	
+Extraordinary Profit (Loss)	
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Net Income (Loss) before Income Taxes and Others	
–Current Income Taxes and Others	
–Deferred Income Taxes and Others	
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Net Income (Loss)	

3. Structure of Trust Banks’ Earnings - Trust Fees vs. Other Fees & Commissions

Among various accounts on the income statements of trust banks, “Trust Fees” and “Fees and Commissions” require special mention. For the purpose of financial statements, Fees and commissions earned based on trust agreements are booked as “Trust Fees” and those earned without trust agreements are booked as “Fees and Commissions.” Trust fees include “Trust Fees from Loan Trusts and JOMTs” and “Other Trust Fees” derived from various trust businesses such as pension and institutional asset management, securities processing services (Investment trusts and Tokkins), and real estate services (Land trusts and Real estate management trusts). “Fees and Commissions” are those derived from businesses such as custody services, stock transfer agency services, and real estate brokerage services, as well as banking businesses such as guaranty, foreign exchange, and securitization.

* Trust Fees

Trust fees from Loan trusts and JOMTs

Other trust fees

- pension asset management
(corporate and public pensions)
- securities custody with trust contract services
(Investment trusts, Tokkins and others)
- real estate services
(Land trusts and Real estate management trusts)

* Fees and Commissions

Fees from transfer agency services

Fees from real estate brokerage

Fees from securities custody services, other than trust contract etc.

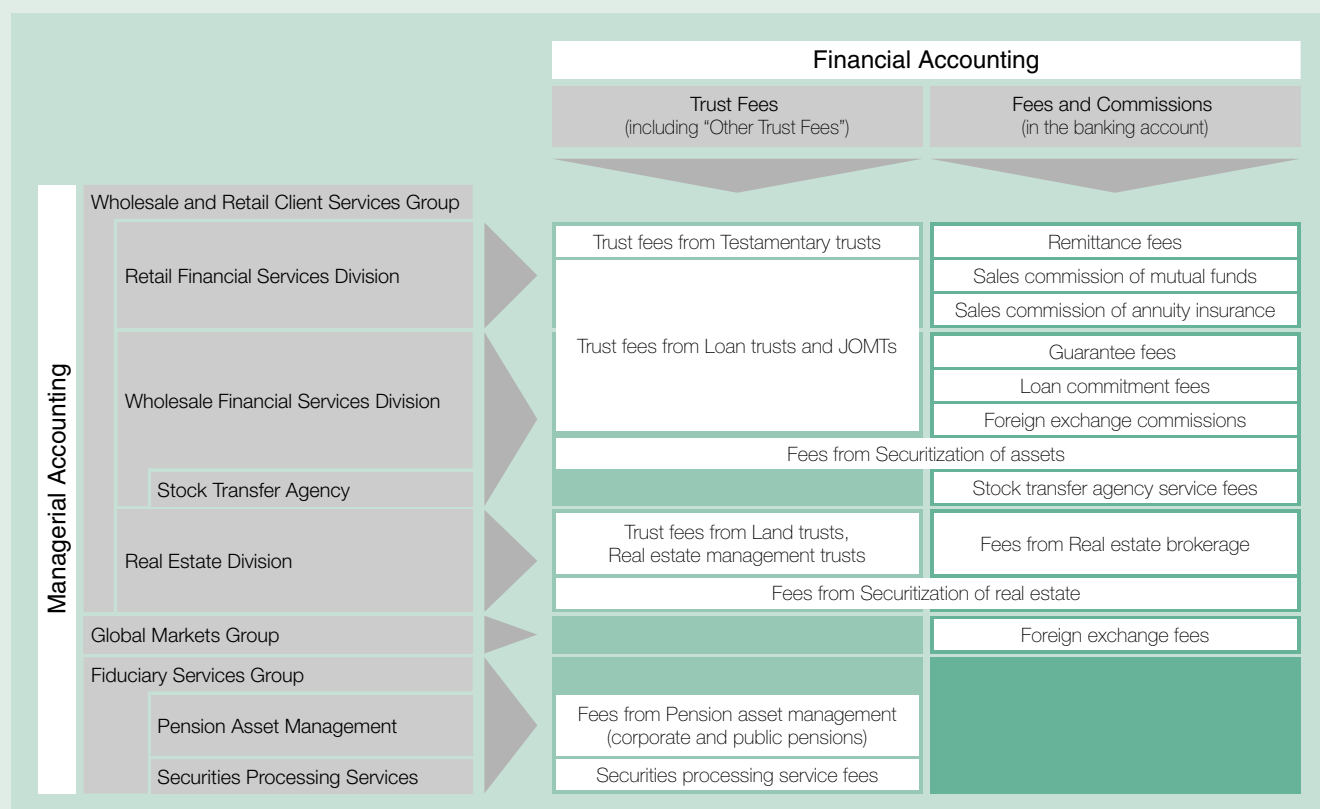
Fees from banking business (foreign exchange, securitization, etc.)

4. Managerial Accounting for Trust Banks

The Bank consists of three business groups. As of July 1, 2007, these three business groups are the “Wholesale and Retail Client Services Group,” “Global Markets Group” and “Fiduciary Services Group.” The “Wholesale and Retail Client Services Group” consists of three divisions, which are the “Wholesale Financial Services Division,” “Retail Financial Services Division” and “Real Estate Division.” Financial accounting is not designed to show the earning status of each business group and division. For the purpose of managing profitability by business, we also provide figures based on managerial accounting.

To reconcile financial accounting and managerial accounting, one should particularly note the following reallocations of income among business groups and divisions. It should be noted that fee income, recorded as either “Trust Fees” or “Fees and Commissions” in terms of financial accounting, must be allocated to each business group and division based on customer attributes.

For example, Trust fees from Loan trusts and JOMTs are allocated to the Wholesale Financial Services Division and Retail Financial Services Division in the Wholesale and Retail Client Services Group. Similarly, Fees from securitization of assets are allocated to the Wholesale Financial Services Division. Foreign exchange fees are allocated to the Wholesale Financial Services Division as well as to the Global Markets Group. Fees from pension asset management (corporate and public pensions) and those from securities processing services—both of which are recorded under “Other Trust Fees” in financial accounting—are allocated, respectively, to “Pension Asset Management” and “Securities Processing Services” to the Fiduciary Services Group. Fees from real estate brokerage and those from Land trusts and Real estate management trust (for the purpose of securitization)—recorded separately under “Fees and Commissions” and “Other Trust Fees” in financial accounting—are combined and allocated to the Real Estate Division.



In June 2007, the Bank redesigned its business groups. Former “Real Estate Group” joined “Wholesale and Retail Client Services Group” as “Real Estate Division” to closely cooperate with “Wholesale Financial Services Division” and “Retail Financial Services Division.”