

## Status of Overseas Credit Investment

In the severe market environment, Sumitomo Trust adopted stricter processing for overseas credit-related assets in the fiscal year 2007 ended March 2008, with a view to maintaining financial soundness and avoiding carrying over risk factors into the future wherever possible. As a result, the impairment losses pertaining to overseas asset-backed securities amounted to 50.8 billion yen, and the total overseas credit-related losses, including loan loss reserves for corporate customers and losses on securities sales, marked 79.3 billion yen.

### Overseas Credit Investment Portfolio as of the End of Fiscal Year 2007.

#### 1. Securities (with Fair Value)

	Billions of Yen					
	Cost (after impairment)			Impairment loss	Valuation difference	
	North America	Europe			Unrealized loss ratio	
<b>Asset-backed securities</b> .....	<b>663.8</b>	<b>297.5</b>	<b>363.0</b>	<b>(50.8)</b>	<b>(56.5)</b>	<b>(8.5%)</b>
Securities backed by non-securitized assets .....	<b>640.4</b>	<b>275.2</b>	<b>361.9</b>	<b>(12.5)</b>	<b>(55.3)</b>	<b>(8.6%)</b>
RMBS exc. Subprime related RMBS .....	229.1	6.0	220.8	(1.7)	(16.3)	(7.1%)
CMBS .....	38.8	0.7	38.0	(0.1)	(3.2)	(8.3%)
CLO .....	205.5	143.1	62.3	(0.0)	(20.6)	(10.0%)
CARDS .....	85.2	74.7	10.4	(0.3)	(8.5)	(10.0%)
Other ABS .....	36.6	13.9	21.7	(0.9)	(1.8)	(5.0%)
Subprime related RMBS .....	13.0	13.0	—	(2.3)	(1.3)	(10.3%)
CDO mezzanine .....	18.3	15.9	2.3	(1.7)	(2.8)	(15.5%)
Synthetic CDO .....	13.7	7.6	6.0	(5.2)	(0.5)	(3.8%)
Securities backed by securitized assets .....	10.4	9.3	1.1	(2.7)	(1.0)	(10.2%)
ABS-CDO .....	10.4	9.3	1.1	(2.7)	(1.0)	(10.2%)
Equity type securities .....	12.9	12.9	—	(35.5)	(0.1)	(0.9%)
CLO equities .....	12.1	12.1	—	(10.1)	(0.1)	(1.0%)
SIV Capital notes .....	0.8	0.8	—	(25.4)	—	—
<b>International corporate bonds</b> .....	<b>355.8</b>	<b>39.0</b>	<b>152.6</b>	<b>—</b>	<b>(9.0)</b>	<b>(2.6%)</b>
Financial debt .....	92.1	18.2	46.6	—	(4.2)	(4.6%)
Other corporate bonds .....	263.6	20.8	106.0	—	(4.8)	(1.8%)

Held by the parent company

#### 2. Securities (With No Available Fair Value)

	Billions of Yen			
	Cost (after impairment)			Impairment loss
	North America	Europe		
<b>Unlisted foreign bonds</b> .....	<b>34.4</b>	<b>8.8</b>	<b>13.8</b>	<b>—</b>
Asset-backed securities (CLO equities) .....	3.7	—	3.7	—

#### 3. Corporate loans

	Billions of Yen				
	Balance			Allowance	
	North America	Europe		Reserve ratio	
<b>Corporate loans</b> .....	<b>285.5</b>	<b>162.9</b>	<b>66.1</b>	<b>10.4</b>	<b>3.6%</b>
CLO Warehousing loans .....	42.1	42.1	—	9.0	21.4%
Other .....	243.4	120.8	66.1	1.3	0.5%

#### 4. Securitization Products Held by Subsidiary STB Omega Investment Limited

	Billions of Yen					
	Cost (after impairment)			Impairment loss	Valuation difference	
	North America	Europe			Unrealized loss ratio	
<b>Unlisted foreign bonds</b> .....	<b>5.9</b>	<b>5.9</b>	<b>—</b>	<b>(5.3)</b>	<b>(0.0)</b>	<b>(0.2%)</b>
Asset-backed securities (CLO equities) .....	5.9	5.9	—	(5.3)	(0.0)	(0.2%)

Held by a subsidiary

## Accounting Processing in Fiscal Year 2007

### Securities with Fair Value (Non-consolidated)

#### 1. Measurement of Fair Value

After establishing methodologies to measure and verify fair values, we reclassified most of the asset-backed securities categorized as “Securities with No Available Fair Value” to “Securities with Fair Value,” and recognized impairment losses based on the fair value. In measuring fair values, we adopt-

ed the fair values offered by brokers. And we have confirmed the appropriateness of such values used as criteria for the above reclassification in regard to the entire overseas asset-backed securities as of the end of March 2008, based on the analysis or verification indicated in (1) and (2) below.

#### • Assets subject to Fair Value Verification as of March 31, 2008

	(1)	(2)	(3)
Verification method	Comparison with prices obtained from brokers or information vendors	Comparison with a theoretical values calculated using valuation models	Comparison with prices of similar securities*
Assets	RMBS, CMBS, CARDS, etc.	CLO, CLO equity, ABS-CDO, CDO mezzanine, Synthetic CDO, etc.	N.A.
Notes	When prices are available from other brokers or information vendors, this method is used	Obtain market inputs, such as the discount rate, for each securities category and calculate values using valuation models	Used only for securities for which methods (1) and (2) cannot be used

\*Securities with similar collateral, credit ratings, etc.

#### 2. Impairment Losses and Balance as of the End of March 2008

We uniformly applied a more conservative standard for the recognition of impairment losses by changing the rate of valuation loss to “over 30% fair value depreciation from the original cost\*.” At the same time, we wrote off all the securities that we decided to liquidate, regardless of the rate of valuation loss.

The total losses on impairment in this fiscal year were

50.8 billion yen, as posted in losses on devaluation of stocks and other securities and losses on overseas asset-backed securities. The balance of asset-backed securities stood at 663.8 billion yen, decreasing primarily due to the aforementioned impairment losses and the appreciation of the yen, while we acquired 123.3 billion yen of highly rated RMBS, CLO, financial debts, etc. during the year as underlying assets for the disposal of SIV capital notes.

\*The former standard was “over 50% fair value depreciation from the original cost.”

### Loans for Corporate Customers (Non-consolidated)

With regard to the CLO Warehousing loan, which was included in the loans for corporate customers, we took various measures such as sales thereof and decreased its balance to 42.1 billion yen at the end of the fiscal year, with approximately 21% of the amount reserved for loan loss.

### Securitized Products Held by STB Omega Investment Limited (subsidiary of Sumitomo Trust)

We also wrote off 5.3 billion yen of the CLO equities owned by our subsidiary, STB Omega Investment Limited\* (As for the investment in said subsidiary, 4.3 billion yen in reserve for investment losses was recorded in the non-consolidated financial statement).

\*Sumitomo Trust owns 75% of STB Omega Investment Limited.

Further information about overseas credit investment related terms, please see page 190

Overview of Portfolio as of the End of March 2008 (after impairment)

(1) Asset-backed Securities

The outstanding balance of highly risky asset-backed securities, which gave rise to most of impairment losses and showed a major drop in price, was reduced to 68.4 billion yen and the unrealized loss ratio was reduced to 8.6%, as of the end of March 2008.

Although the balance of other asset-backed securities amounted to 595.3 billion yen, the unrealized loss ratio remained at 8.5% (refer to the table of page12) and most of these were highly rated (refer to the table below). Therefore, potential risks that may cause further losses will be limited in asset-backed securities as a whole.

• Credit ratings of main securities (with Fair Value)

	Billions of Yen					
	Cost (after impairment)	Credit Ratings*1				
		AAA	AA	A	BBB	BB and below (No rating)
Asset-backed securities*2	663.8	386.0	104.9	59.3	99.7	1.5
Securities backed by non-securitized assets	640.4	—	—	—	—	—
RMBS exc. Subprime related RMBS	229.1	111.0	46.3	37.2	34.4	—
CMBS	38.8	28.0	9.3	1.4	—	—
CLO	205.5	177.2	28.0	—	0.2	—
CARDS	85.2	24.4	—	6.7	54.0	—
Other ABS	36.6	24.0	10.4	1.6	0.4	—
Subprime related RMBS	13.0	8.9	3.3	0.4	0.2	—
CDO mezzanine	18.3	—	—	9.2	8.6	0.3
Synthetic CDO	13.7	6.1	4.3	1.5	1.6	—
Securities backed by securitized assets	10.4	6.0	3.1	0.9	—	0.4
ABS-CDO	10.4	6.0	3.1	0.9	—	0.4
Equity type securities	12.9	—	—	—	—	(12.9)

\*1 On internal credit ratings basis (shown in rating marks based on the general correspondence with external credit ratings)

\*2 Vintage of RMBS: 2007: 16%, 2006: 32%, 2005: 28%, 2004 and before: 24%

	Billions of Yen		
	Cost (after impairment)	Credit Ratings	
		Average	BB and below
Foreign bonds	355.8	A	23.7
Bonds issued by financial institutions	92.1	AA	0.0

<Exposure to Monoline Insurers>

As of the end of March 2008, we held 13.9 billion yen of asset-backed securities and corporate bonds that were guaranteed by monoline insurers (insurance companies working exclusively in financial security). Meanwhile, we have no direct credit extended to monoline insurers or derivative transactions therewith.

(2) Balances of Other Overseas Investments and Loans

Almost the entire amounts of other loans for Europe and America are senior secured, and their portfolios are well diversified across industries.

• Other overseas loans as of March 31, 2008 (breakdown by industry sector)

	Billions of Yen				
		Balance		Internal Credit Ratings*1	
		North America	Europe	5-6	7-8
Corporate loans*2	285.5	162.9	66.1	234.5	9.9
CLO Warehousing loans	42.1	42.1	—	37.4	4.8
Manufacturing	103.1	65.7	28.4	93.1	3.6
Energy and utilities	6.5	5.4	—	5.6	0.8
Communication	44.0	25.4	10.6	37.8	2.6
Wholesale and retail	28.6	20.0	8.1	26.1	0.5
Real estate	6.3	1.9	—	2.8	0.4
Various services	55.6	36.1	16.3	49.7	1.9

\*1 Internal Credit Ratings: 1-6: Ordinary debtors, 7-8: Special mention debtors (except for Substandard debtors)

\*2 There are no subprime related loans.