

Message from the President and CEO



I assumed office as President and CEO of The Sumitomo Trust and Banking Company, Limited*¹ on January 4, 2008. As successor to top corporate management, I would like to report on the financial results for the first half of fiscal year 2007 and explain our growth strategy and management policy.

*¹ Hereinafter Sumitomo Trust or STB.

Review of the First Half of Fiscal Year 2007

Our consolidated net income for the first half of fiscal year 2007 stood at 37.7 billion yen, down 41.0% from the previous fiscal year, chiefly due to the increase in total credit costs and decrease in market-derived profits. We also regret to inform you that net business profit before credit costs decreased to 102.4 billion yen, down 2.8% from the preceding year.

On the other hand, we continued to exhibit successful results in the business areas that take full advantage of the strengths of a trust bank that jointly operates “banking, trust and real estate businesses.” Among our five businesses, three businesses increased profit over the comparative period of the previous fiscal year. More specifically, the Retail Financial Services Division and the Fiduciary Services Group increased profit over the previous year due to favorable sales of mutual fund and individual annuity and expansion of trust fees for pension trusts and investment trusts. The Real Estate Division also increased profit due to the successful results of our brokerage service and securitization services of high-class large-size properties in metro area. These three businesses also led the growth of net fees and commissions (an 18.1% increase year-on-year) and other trust fees (a 10.9% increase year-on-year). The Global Markets Group’s profit fell by 18.7 billion yen from the good performance in the comparative period of the previous fiscal year, due to transactions in interest rate and forex related products. As a whole, the group reached 9.8 billion yen of gross business profit. The Wholesale Financial Services Division also made a profit, almost the same as in the previous fiscal year.

Meanwhile, credit costs of 34.7 billion yen on a non-consolidated basis were attributed to an increase in reserves in relation to debtors in certain industries, disposal of loans, loss on sales and reserves of overseas corporate loans.

The balance of loans to special mention debtors (excluding loans to substandard debtors) at the end of September 2007 increased by 44.7 billion yen over the end of March 2007 mainly due to downgrade of some overseas corporate loans. Meanwhile, loans to substandard debtors decreased by 47.3 billion yen mainly due to the improvement in business conditions of some large debtors. As a result, total balance of non-performing loans (non-consolidated assets classified under the Financial Reconstruction Law; banking account and principal guaranteed trust account combined) decreased by 19.3 billion yen from the end of the preceding fiscal year to 98.1 billion yen, while the non-performing loan ratio stood at 0.8%, down 0.2% from the end of the previous fiscal year.

In addition, the consolidated BIS capital adequacy ratio rose by 0.44% to 11.80% from the 11.36%*² at the end of the preceding fiscal year, still maintaining a sufficient level.

Further, we have decided to declare interim dividends of 8.50 yen per common share, which is the same as the interim dividends of the previous fiscal year. We plan to distribute annual dividends of 17 yen per share, which is equivalent to a consolidated dividend payout ratio of 31.6%, based on our full-year performance forecast as of the end of the first half.

*² Revised from the announcement made at the end of March 2007. For details, please refer to the news release titled “Corrections of 2007 ANNUAL REPORT” dated November 28, 2007.

Efforts in this Term – Growth Strategy through M&A and Business Alliance

Since the completion of the repayment of its public funds in January 2004, we have been expanding our business vigorously through aggressive acquisition and business tie-ups. Our efforts focused on “improvement of economy of scale and functionality of fiduciary and real estate business,” “complement of current credit portfolio centered in large corporations,” and “expansion of customer franchise.”

As a means to improve economy of scale and functionality of fiduciary and real estate business, we acquired Barclays Global Investors Japan Trust & Banking Co., Ltd., who made smooth arrangements to complete the transfer of entrusted assets by the end of December 2007.

As part of our complementing current credit portfolios centered in large corporations, we acquired Life Housing Loan, Ltd., which specializes in housing loans, in May 2007. The incorporation of Life Housing Loan into the Sumitomo Trust Group allowed us to expand our customer and business franchise for extending loans to retail customers.

Expansion of customer franchise is part of our objective for our M&A and business alliance strategy. In line with the objective, Sumitomo Trust, together with Tokai Tokyo Securities Co., Ltd. and Sumishin Realty Co., Ltd., formed a joint venture, called Tokai Tokyo-Sumishin Wealth Partners & Consulting Co., Ltd., in September 2007. The joint venture specializes in asset management, business succession and real estate management consulting in the Chukyo area.

Also in September, Sumitomo Trust and SBI Holdings, Inc. founded a joint venture, called SBI Sumishin Net Bank, Ltd. SBI Holdings owns SBI E*TRADE SECURITIES Co., Ltd.*³, one of Japan’s largest internet securities firms. In this way, we have come to support a broader group of customers. More specifically, Sumitomo Trust has been implementing a two-brand strategy where we expect customers in their 20s to 40s, who are in the course of building assets, to use SBI Sumishin Net Bank, while customers who have already built assets will use Sumitomo Trust for their asset management and servicing.

*³ To be renamed SBI Securities Co., Ltd. on July 1, 2008.

Achieving the Best Balance between “Forward Attack” and “Defense Build-Up”

Going forward, based the efforts to date and current market conditions, the first things we want to do is achieve the best balance between attacking forward and building up defense.

On the attack front, we will prioritize our characteristics as trustee and the specific merits of Sumitomo Trust. We coined the word “Trustee-ness” to express the spirit that imbues us as a trustee, based upon which we devote meticulous attention to every case and offer the most appropriate solutions from the standpoint of each individual customer across our entire range of services. As for “STB-ness,” it refers to our goal of providing speedy solutions, thereby boosting our corporate value, through the ongoing amalgamation of the variety of high-caliber specialized business skills available within the Sumitomo Trust Group. Concrete steps in our progress toward the realization of this goal can be seen in our continued focus on strategic acquisitions and tie-up initiatives.

On the defense front, we will strengthen further the infrastructure that underpins the quality of services we provide, from upgrading business operations and systems, implementing tighter compliance and risk-management controls, to nurturing our human resources.

To Our Shareholders

The economic and financial environment in Japan and overseas is increasingly uncertain. However, one certain fact emerging in Japan is the trend represented by the phrase “from savings to investment.” We are sure that Sumitomo Trust will have a golden opportunity where we can make the most of our fiduciary strength, namely our collective strength that consists of “asset management and servicing functions” and “real estate functions,” after we succeed in overcoming the tidal wave we are facing now.

As the new president of Sumitomo Trust, I am determined to achieve sustainable growth by sticking to the management strategy and business development that prioritize the “Trustee-ness” and the “STB-ness.” In the capital markets, we will also emphasize our valuable management model to enhance the corporate value of Sumitomo Trust.

I would like to thank you for your continued support and understanding.

January 2008



Hitoshi Tsunekage President and CEO