
Message from the President and CEO



In order to accurately and speedily respond to the ever-more complex and advanced needs of our clients in the New Paradigm that has been ushered in after the global financial crises, Sumitomo Trust has acquired Nikko AM and has reached a basic agreement on the management integration with Chuo Mitsui Trust Holdings, Inc. (“Chuo Mitsui”). The new trust bank group aims to become a global player as “The Trust Bank Group taking pride as Japan’s leading trust bank group which boasts the largest scale and the highest status by combining banking, asset management and administration and real estate businesses.”

Interim Earnings in Adverse Conditions

Our consolidated net business profit before credit costs in the first half of the fiscal year 2009 decreased by 7.5 billion yen year on year, to 87.7 billion yen. This was due to the drop in the market value of entrusted assets such as pension trusts and mutual funds in the fiduciary services business as well as the decrease in net fees and commissions for real-estate brokerage, mutual funds and individual annuity sales, despite the increase in market-related income.

Consolidated total substantial credit costs increased by 16.2 billion yen year on year, to 40.8 billion yen, mainly due to the higher allowance in response to the increase in doubtful loans caused by the worsening financial conditions of some of our domestic clients, while we realized the gain of 9.4 billion yen from retirement of perpetual subordinated bonds. As a result, consolidated net income decreased by 9.0 billion yen year on year, to 19.2 billion yen.

Reinforced Financial Soundness

The consolidated BIS capital adequacy ratio at the end of September 2009 increased by 2.08 percentage points from the end of the previous fiscal year, to 14.17%. The consolidated Tier I ratio increased by 2.25 percentage points to 9.88%. This is because Tier I capital increased due to our 109.0 billion yen issuance of preferred shares as well as improvement in unrealized losses of available-for-sale securities, and because risk-weighted assets decreased by 1.1 trillion yen (-7.7%) from the end of the previous fiscal year.

Even after taking into account the goodwill generated through the purchase of Nikko AM on October 1, 2009, which is expected to reduce both the consolidated BIS capital adequacy ratio and consolidated Tier I capital ratio by approximately 0.6%, we believe that we have ensured a sufficient capital level.

The balance of non-performing loans (disclosed under the Financial Reconstruction Law, banking and principal guaranteed trust accounts combined, non-consolidated basis) at the end of September 2009 increased by 192.7 billion yen from the end of the previous fiscal year, to 309.2 billion yen, mainly because of an increase of 168.5 billion yen in doubtful loans.

However, we believe we have secured a sufficient level of financial reserves, evident from our coverage ratio of 96% by collateral values and allowances for the entire loan amounts.

On the other hand, loans to special mention debtors decreased by 226.2 billion yen from the end of the previous fiscal year, to 619.1 billion yen, due to the repayments and downgrades to doubtful loans.

Dividends Remain Unchanged

We plan to keep our annual dividends for fiscal year 2009 unchanged at the previous year's level of 10.00 yen per share (consolidated dividend payout ratio of 39.5%), based on our dividend policy of approximately 30% payout ratio. We distributed interim dividends for fiscal year 2009 of 5.00 yen per share, which corresponded to the half of the projected annual dividends mentioned above.

Breaking Through the New Paradigm by M&A and Management Integration

In order to drastically reinforce asset management and custody businesses that serve as one of our core businesses, we acquired Nikko AM in October 2009. In addition, to accelerate the achievement of the objectives raised in the midterm management plan, at one stroke, and lead to significant leap forward, we reached a basic agreement on the management integration with Chuo Mitsui in November, subject to the approval of our shareholders and relevant authorities.

• Acquisition of Nikko AM

— Drastic reinforcement of investment marketing and asset management businesses

Our aim of the acquisition of Nikko AM is to make maximum use of our mutually complimentary abilities to drastically reinforce our asset management and custody businesses as well as investment marketing business. Specifically, we will utilize Nikko AM's strengths in product development and sales support capabilities to further enhance our investment marketing capabilities that target retail clients as well as overseas institutional investors and expand our business franchise of our asset management business. Thereby, we will provide high added-value financial products as one of Japan's largest asset management groups that hold one of the top positions in terms of market share of both corporate as well as individual investors.

• Management Integration with Chuo Mitsui Trust Group

The financial crisis has led to major structural changes in the economy and society. Against this background, client needs in managing their assets are becoming increasingly advanced and complex. In this context, both companies completely agree that we are truly entering an era where a trust group, featuring high levels of expertise and broad scope of businesses, should give full play to its strengths. Based on our shared understanding of the management environment, we agreed to create a new trust bank group, having the combination of its expertise and comprehensive capability, that can provide its clients with better and swifter comprehensive solutions than ever before with an intended target date set for April 2011. We will achieve this by combining both companies' managerial resources and fusing both groups' strengths to address the increasingly advanced and complex issues that clients face in managing their assets.

After the management integration, we will have approximately 58 trillion yen (as of March 31, 2009) of assets under management and approximately 181 trillion yen (as of March 31, 2009) of assets under custody, making us the largest asset management and administration institution in Japan. For sales volume of mutual funds and annuity insurance to retail clients, we will be ranked third among Japanese banks after the two megabanks, dramatically boosting our presence as a financial group which manages financial assets for retail clients. Furthermore, in real estate business and stock transfer agency services, we will become first or second among trust banks, enabling further improvements in our expertise with stronger information network and higher service quality.

Aspiring to be "The Trust Bank"

We have expressed our beliefs in creating a new trust bank as "The Trust Bank." It means, "The Trust Bank Group taking pride as Japan's leading trust bank group which boasts the largest scale and the highest status by combining banking, asset management and administration and real estate businesses." This is nothing different from our endeavor to further expand our original vision. In each business domain, we will build an unshakeable relationship with our clients that is based on trust through the provision of products and services with the highest standard, and aim to become a global player as a trust bank group representing Japan.

I would like to request the continued support of our shareholders and investors.

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Hitoshi Tsunekage President and CEO