

## The Features of Japanese Trust Banks

Japanese trust banks can be defined as financial institutions which offer a wide variety of investment related services and banking services to both corporate and individual customers. With the solid business base established through their traditional banking services, they cross-sell such services to corporate customers as asset management, securities investment services, transfer agency services, and real estate related services including brokerages and securitization. On the other hand, they provide such services as Loan Trusts, Jointly-Operated Money Trusts (both are principal guaranteed long-term deposits), and performance-based money trusts to individual customers. It is also worth noting that the trust banks, with their highly specialized trust functions, are financial institutions which offer investment related services to institutional investors such as public pension funds, life insurance and investment trust management companies, and create an infrastructure indispensable for

development of investment activities management in Japan.

The trust banks have access not only to the traditional market of indirect financing but also to the expanding direct financing market. This successful strategy enables them to provide customers with various consulting services in order to optimize their assets and liabilities in way of "One-Stop Shopping Style". It distinguishes them from city banks because the latter still depend on old-fashioned bank business, which is the reason why the trust banks get wide support from customers and have steadily growing profits.

Sumitomo Trust is a bank with a vision for the future which has all the characteristics of trust banks mentioned above. The reconstitution for effective scheme for collective investment will be the biggest contribution which Sumitomo Trust can make to the Japanese Society in the 21st Century.

The notable difference between financial statements of the trust banks and those of the city banks is that the former have trust income line item in the profit and loss statement in addition to conventional line items of the banking sector such as interest income, or fees and commissions. Trust fees are generated by corporate pension trusts, security trusts, and other trust products including Loan Trusts and Jointly-Operated Money Trusts of which principals are guaranteed while real estate brokerage fees and transfer agency related fees are included in fees and commissions.

The most distinguished characteristics of the trust fees in the profit and loss statements of the trust banks can be found in the handling of fees from principal guaranteed trust products. These products are the major sources of funds for the trust banks. As for Sumitomo Trust, the balance of those products is reaching up to the total sum of 6,937 billion yen as of the end of March, 2000. Those funds are invested mainly in long-term loans to large-size corporations and in securities such as Japanese government bonds as they are managed within trust account, being strictly separated from bank accounts. After dividends are paid to Loan Trusts and JOMTs (Jointly-Operated Money Trusts) customers and credit costs incurred in those accounts are subtracted from the income produced through loan and security operations, the remainder is posted as trust fees in the profit and loss statement.

The assets and liabilities in principal guaranteed trusts are classified differently, in a strict manner, from those of banking accounts. They are, however, similar to conventional deposits in banking account in that their management risks are attributable to the trust banks. Therefore, Sumitomo Trust performs the same credit risk and ALM controls for the principal guaranteed trusts. This is why Sumitomo Trust allocates the trust fees from Loan Trusts and JOMTs to Customer and Corporate Finance Group. (As for the list of the trust fees, please refer to MD&A Trust Fees)

