

To Our Shareholders, Customers and Employees



Atsushi Takahashi
President and CEO

Sumitomo Trust is recognized as a unique financial institution in today's banking sector in Japan

In the last few years, most of the major commercial banks and trust banks in Japan consolidated to form so-called “mega-banks,” to survive Japan’s drastically changing financial market. In this competitive market, Sumitomo Trust remains an independent financial institution not affiliated with any of the mega-banks. We have successfully weathered the turmoil, taking advantage of our management autonomy and effective management system.

Sumitomo Trust is a financial institution operating both traditional commercial banking and trust businesses. Our solid customer base cultivated by commercial banking business enables us to cross-sell banking and trust products. To gain customer confidence and more profit opportunities, we practice a standard of “sophisticated investment management and precise operation.”

■ Overview of Consolidated Financial Results

The Japanese economy in fiscal year 2001 experienced a lingering deflationary period with several large-scale bankruptcies in the construction and retail industries. Nevertheless, we achieved a higher operating profitability, or net business profit (adjusted; trust account credit costs and net transfer to general reserve included) of ¥156.5 billion compared to ¥145.9 billion in the previous fiscal year. While net revenue from our domestic lending and Japanese bonds decreased from fiscal year 2000, that from U.S. treasury and Euro bonds significantly increased due to our effective management of interest rate positions from an ALM perspective. In addition, we successfully lowered our credit costs from ¥151.5 billion to ¥110.0 billion despite the overall unfavorable credit environment and the application of a stricter standard for debtor classification. Notably, Sumitomo Trust was the only major Japanese bank whose amount of credit costs did not exceed its net business profit (adjusted), which was the first time for us during the past eight fiscal years. Our efficiency ratio (here, general and administrative expenses divided by gross business profit (adjusted)) decreased to 46.3 % from 48.6% in the previous fiscal year. This efficiency ratio has already reached the level that mega-banks aim for through their consolidations. We are proud of our improved earning power and risk management capability, both of which enable us to adequately cover our credit costs with the net business profit (adjusted). The Bank's ¥42.4 billion consolidated net loss in fiscal year 2001 is due to ¥104.1 billion of net capital losses from stocks, mainly attributable to the devaluation of stocks, affected by the stagnant stock market. Unwinding of cross-shareholding has been one of my issues to be tackled with a first priority.

■ Rationale for Remaining Independent

Large-scale consolidations, as a rule, are aimed at achieving several advantages, including cost reductions, increased customer base reinforced risk-buffer and management reform. However, flaws in such consolidations also exist, such as an entangled management system, problems from the consolidation process and customer interest conflicts. If these flaws become conspicuous, large-scale mergers may not be positively accepted by the market. The consolidation may fail to win customer confidence, which I believe is indispensable in the financial business.

Sumitomo Trust remains independent because we strongly believe that independence will benefit our smooth management and swift execution of strategies, and result

in a higher profitability and customer confidence. However, our “independence” is not synonymous with “isolationism.” I am exploring possibilities of future mergers and alliances under the “**Takahashi’s M&A Doctrine,**” which consists of the following four criteria:

- 1) Improving profitability**
- 2) Boosting market share of trust business**
(asset management and information processing services)
- 3) Evolving our business model**
- 4) Obtaining support from the capital market and customers**

Most importantly, we will not seek any merger or alliance at the risk of impairing our reputation or losing market and customer confidence.

■ Priority for Survival

To survive in today’s competitive market, we selected four goals.

1) Achieving an outstanding position in focused areas

Sumitomo Trust is not a scale-oriented traditional commercial bank, nor does it belong to any of the mega-bank groups. Establishing our own business model on traditional commercial banking, as the mega-banks have done, will cramp our own business model. We will focus on the trust business by leveraging our management autonomy. The key point is how distinctive we can be. We aim to be the best in the industry by making Sumitomo Trust and its business distinct from other banks and their models. Further, we aim to achieve an outstanding position in the areas we focus on, including asset management, custody services and the real estate business. The consulting capability and cost-effectiveness are two important factors:

First, the ability to offer consulting services will supplement our outstanding position. As a result of deregulation and rapidly advancing financial technology, today’s most financial products will soon become generic commodities, gradually losing their unique competitive advantages. Commercial banking products are mostly affected by this commoditization. Measures for tackling this problem include:

- a) to provide value-added consulting services,*
- b) to reduce cost for commoditized products, and*
- c) to add value by combining commoditized products and relevant cutting-edge services.*

Our value-added consulting services are primarily comprehensive business solutions. The value of our services will be kept at a higher level by focusing on customer problems and providing the best solutions. As an independent trust bank, we have advantages in both our ability to offer consulting services and capability to provide customized products utilizing our trust function. A typical example of our value-added services can be found in our pension asset management business, where we provide a packaged solution by combining our asset management, human resource management consulting, actuarial, and regulation consulting services for the rapidly increasing pension customer needs. In addition, we are promoting a concept of “Strategic Partnership,” or a firm, long-term relationship with pension customers, where they can utilize our ability to provide a multi-product menu that satisfies customer specific needs and high quality consulting services as their needs evolve.



Cost-effectiveness is the other key. A substantial cost reduction can be realized by pursuing economies of scale through the critical mass of asset volume and efficient operations using advanced IT. Japan Trustee Services Bank (JTSB), initially established as a joint venture with Daiwa Bank, is a good example. The joint venture is the principal vehicle for our custody services. In January 2002, The Chuo Mitsui Trust & Banking Co., Ltd. announced its participation in JTSB, in response to our invitation, and JTSB is expected to gain a critical mass of over ¥110 trillion of entrusted assets when its participation is finalized.

2) Accelerating disposal of problem loans and decreasing cross-shareholding

We have been accelerating the disposal of problem loans and unwinding of cross-shareholding. Both have undermined our profitability and hindered the stability of our financial performance.

Our credit costs have constantly been on a downward trend since the Housing Loan Company problem in fiscal year 1995, while most of Japanese banks are still bouncing. We attribute this contrast mainly to our proactive manner in disposing of non-performing loans, and the smaller percentage of loan exposure to small- to medium-sized companies, which makes us less vulnerable to the deflationary environment than mega-banks. The ratio of non-performing loans to total lending and the coverage ratio are 6.1% and 78% respectively as of March 2002, which indicate our comparative soundness in Japanese banking sector.

Concurrently, we have dramatically decreased our cross-shareholding volume to ¥1,042 billion at cost, implementing outright sales of ¥140 billion in fiscal year 2000 and ¥173 billion in fiscal year 2001.

3) Achieving profit goals

We are proactive in meeting and surpassing our profit target set in accordance with our Revised Plan for Restoring Sound Management announced in August 2001. Our goals to be achieved in March 2005 include a ¥160 billion net business profit (adjusted) and a ¥77 billion net income, along with a 43.8% efficiency ratio, 9.4% ROE and 34.4% fee income to gross profit (on a non-consolidated basis). Most importantly, we aim to achieve a substantial increase in our percentage of fee income to gross profit, which is currently 27%, by focusing on our core trust business. Beyond our goal to be achieved in March 2005, we plan to eventually increase it to more than 50%. As a good example, Sumitomo Trust & Banking Co. (U.S.A.), our U.S. subsidiary offering global custody services, has a successful fee-oriented business model with total revenue growing to US\$66 million in fiscal year 2001 from US\$25 million in fiscal year 1996. Beyond simple revenue growth, its revenue has become more diversified. Its percentage of revenue from securities lending and cash management fees is growing. This is the exemplary business model that JTBSB pursues.

4) Repaying public funds

We plan to repay ¥100 billion of public funds in the form of preferred stock no later than March 2005, as stated in our "Revised Plan for Restoring Sound Management." Public funds were important to us for strengthening our business. However, we plan to repay in accordance with the Plan since the repayment denotes our successful ridance from the restructuring phase and entrance into the era of new development. As can be observed in our financial information, including our level of retained earnings and a comparatively small amount of non-performing loans, we are in an advantageous position to repay public funds, compared with other banks. Needless to say, achieving our profit goals as mentioned in 3) above is a prerequisite for repayment of public funds.

■ Corporate Value Creation – Sumitomo Trust’s Corporate Governance

Before concluding my message, I would like to talk about Sumitomo Trust’s corporate governance. As the CEO of Sumitomo Trust, I have endeavored to enhance Sumitomo Trust’s corporate value and believe that it has already reached the point where Sumitomo Trust is recognized as a unique financial institution, indispensable in Japan’s financial sector. However, this is not my final goal. I intend to elevate Sumitomo Trust’s corporate value to a level at which the name itself is a recognized brand, more than just a bank with distinctive features and its own business model. To achieve this further elevation of corporate value, I believe it essential to tailor our corporate governance to specifically fit Sumitomo Trust.

There are several corporate governance models we could follow. Two of the most prominent models are the “shareholder is supreme” model, popular in the U.S. and the U.K. and the “balanced stakeholders model,” popular in Germany and Japan. However, we do not have to adopt one of these since the ultimate goal of corporate governance is, under either model, “the maximization of corporate value” and a straight-forward adoption of one of these models might hamper the ultimate goal of corporate governance. For Sumitomo Trust’s corporate governance, I have been seeking to adopt appropriate elements from both of these major models by considering Japanese culture and a global point of view.

My message is addressed to our three major stakeholders: shareholders, customers and employees. I am committed to establishing a management system that will create a “win-win situation” for these three stakeholders by establishing a virtuous circle among them. Sumitomo Trust employee pride, motivation and competitiveness will increase customer satisfaction, loyalty and recommendation, resulting in improved Sumitomo Trust financial performance and a more positive evaluation and response from the market. My ultimate mission is to make this circle of corporate value creation truly operate.

In closing, I would like to thank each of you for your ongoing support and confidence in Sumitomo Trust.

Atsushi Takahashi
President and CEO

