Notes to Consolidated Financial Statements for the First Half Fiscal Year 2004

Basis of Presentation

The accompanying consolidated financial statements of The Sumitomo Trust and Banking Company, Limited ("the Bank" hereafter) are compiled as required by the Banking Law and in conformity with accounting principles and practices generally accepted in Japan. Certain modifications have been made in the financial statements to facilitate understanding by reasons outside Japan.

As permitted by the Securities and Exchange Law of Japan, amounts less than one million yen have been rounded off. The U.S. dollar amounts presented on the financial statements have been translated from Japanese Yen, solely for convenience, at 111.03 per one U.S. Dollar, the exchange rate prevailing on the Tokyo foreign exchange market on September 30th, 2004.

Certain amounts in prior years have been reclassified to conform to the current presentation.

Balance Sheets

1.Trading Assets and Liabilities

Transactions for "Trading Purposes" (purposes for seeking to capture gains arising from short-term changes in interest rates, currency exchange rates or securities prices in markets and other market-related indices or from differences between markets) are included in "Trading Assets" and "Trading Liabilities" on a trade date basis.

Trading account securities and monetary claims are stated at market value on the end of the fiscal period and financial derivatives for trading purposes, such as swaps, futures or options, are valued on the assumption that they are settled at the end of the fiscal period.

2. Investment Securities

Held-to-maturity debt securities are carried at amortized cost, using the moving average method.

Equity securities issued by subsidiaries and affiliated companies, which are not consolidated or accounted for using the equity method, are stated at moving average cost.

Equity securities classified as available-for-sale securities with fair market value are revalued at the average fair market value of the final month in the fiscal period.

Debt securities classified as available-for-sale securities with fair market value are revalued at the fair market value on the end of the fiscal period.

Available-for-sale securities without fair market value are carried at cost or amortized cost using moving average method.

Net unrealized gains and losses on available-for-sale securities, net of tax are recorded as a separate component of stockholders' equity and its amount is reported on the consolidated balance sheets.

3. Issuance Costs of Bonds and Discounts of Bonds

Issuance costs of bonds are charged to expenses when incurred. Discount of bonds are deferred and amortized using the straight-line method over the lives of the bonds.

4. Reserve for Possible Loan Losses

For the Bank, reserve for possible loan losses is provided as detailed below, pursuant to the internal rules for self-assessment of asset quality and internal rules regarding reserve for possible credit losses.

For claims to debtors who are legally bankrupt (due to bankruptcy, subject to the Japanese Civil Rehabilitation Law, suspension of transactions with banks by the rules of clearinghouses, etc.) or virtually bankrupt, the specific reserve is provided based on the amount of claims, after direct deduction described below, net of the amount expected to be collected through the disposal of collateral or execution of guarantees.

For claims to debtors who are likely to become bankrupt, the specific reserve is provided based on the amount considered to be necessary by on an overall solvency assessment, on net amounts expected to be collected through the disposal of collateral or execution of guarantees.

Among for claims to debtors with more than certain amount of the Bank's claims to debtors, 1) who are likely to become bankrupt, 2) to whom the Bank has Restructured Loans (see definition (4) on page 12), or 3) whom the Bank classifies as "Special Mention Debtors" other than substandard ones meeting certain credit criteria, where future cash flows from capital collection and interest receipt could be reasonably estimated, a reserve is provided for the difference between the present value of expected future cash flows discounted at the original contracted interest rate before relaxing to support and the current book value of the claims.

For claims that are classified to the categories other than above, the general reserve is provided based on the historical loan-loss-ratio. The reserve for loans to borrowers in specific foreign countries is provided based on expected losses due to the political and economic situation of these countries.

All claims are assessed by the responsible branches and credit supervision divisions based on the internal rules for self-assessment of asset quality. The Corporate Risk Management Department, which is independent from branches and

credit supervision divisions, subsequently conducts the audits of their assessments, and the reserve is adjusted to reflect the audit results.

And for claims to debtors who are legally bankrupt or virtually bankrupt with collateral or guarantees, the expected uncollectible amount, net of amounts expected to be collected through the disposal of collateral or through the execution of guarantees, are deducted directly out of the original amount of claims. The deducted amount is 67,194millions of yen.

For the consolidated subsidiaries, the reserve for possible loan losses is provided based on the historical loan-loss-ratio for ordinary claims, and based on the amount expected to be uncollectible for each specific claim, respectively.

5. Reserve for Losses on Investment Securities

Reserve for losses on investment securities is provided against possible future losses on securities considering the financial conditions of issuers.

6. Reserve for Employee Retirement Benefits

Reserve for employee retirement benefits is provided based on the projected benefit obligation and the fair value of the plan assets at each year-end.

Prior service cost is recognized in expenses using the straight-line method over the average of the estimated remaining service lives (10 years). Actuarial gains and losses are recognized in expenses using the straight-line method over the average expected remaining service lives (mainly 10 years).

According to initial adoption of a new accounting standard, the excess of the projected benefit obligation over the total of the fair value of pension assets and the liabilities for retirement benefits recorded as of April 1, 2000 amounted to 17,503 millions of yen, is amortized straight-line basis primarily over 5 years. For this interim period, six-twelfths of such amount is stated as expense.

7. Hedge Accounting

(Interest Related Transactions)

The Bank manages interest rate risk arising from various assets and liabilities, such as loans, bills discounted, deposits, etc., by using financial derivative transactions and applies deferred hedge accounting regulated by "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (JICPA Industry Auditing Committee Report No.24, hereafter "Report No. 24"). In hedging activities to offset changes in the fair value of deposits, loans, etc., as hedged items, the Bank designated hedged items and interest rate swaps etc. as hedging transactions by grouping them by their maturities. As for cash-flow-hedge, the effectiveness of the hedge is assessed by confirming the correlation between the fluctuational factor of interest rate for hedged items and for hedging transactions.

Deferred hedge income (losses) resulted from "Macro Hedge Accounting", which are included in "Other Assets" and "Other Liabilities" in the consolidated balance sheets, are amortized over the remaining period for each hedging transaction. As of September 30,2004, deferred hedge losses and income resulted from "Macro Hedge Accounting" are 177,292 millions of yen and 169,163 millions of yen, respectively. "Macro Hedge Accounting" had been the former hedge accounting method, which was stated in the "Temporary Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (JICPA Industry Auditing Committee Report No.15), under which the Bank managed the total interest rate risk arising from various financial assets and liabilities, such as loans, bills discounted, deposits etc., as a whole by using financial derivative transactions.

(Currency Related Transactions)

The Bank manages foreign exchange risk arising from various assets and liabilities denominated in foreign currencies by using financial derivative transactions and applies deferred hedge accounting regulated by "Treatment for Accounting and Auditing of Application of Accounting Standard for Foreign Currency Transactions in the Banking Industry" (JICPA Industry Auditing Committee Report No. 25, hereafter "Report No. 25").

The Bank designates specific currency swaps and foreign exchange swaps made to mitigate the foreign exchange risks arising from monetary claims and debts denominated in foreign currencies as hedging transactions. The effectiveness of the hedge is assessed by confirming that the monetary claims and debts denominated in foreign currency as hedged items exceed the position of those hedging transactions. The Bank also applies fair value hedge to mitigate foreign currency exchange rate exposure in available-for-sale securities denominated in foreign currencies (other than bonds) as "Portfolio Hedges" when hedged foreign currency securities are specified in advance to the inception of the transactions and spot forward liabilities exist on a foreign currency basis that exceed acquisition costs of the foreign currency securities designated as hedged items.

(Internal Hedge Transactions)

The Bank strictly applies Report No.24 and 25 to such internal hedging transactions, such as interest rate swaps and currency swaps, etc., made between the consolidated companies or between banking and trading account. The Bank

assesses the effectiveness of internal hedging transactions as it does for external ones without arbitrary choices. On the basis described above, income and losses from these transactions are recognized or deferred without netting off.

(Others)

As for specific assets and liabilities, the Bank also applies the individual deferred hedge accounting or the accrual-basis calculation on interest rate swaps.

8. Other Assets

"Other Assets" in the consolidated balance sheets includes the amount of 6,316 million yen of provisional payment of the withholding tax. For this issue, the Bank received reassessment notice from the tax office claiming the Bank's responsibility for collecting withholding tax on some of its repurchase agreement transactions. However, the Bank filed a petition with Tax Tribunal objecting to such tax imposition, and the claim is on trial.

9. Accrued Income of Trust Fees

From this first half fiscal year 2004, trust fees based on the balance of entrusted assets formerly accounted only at the end of each trust accounting period have been accrued for the period elapsed in order to more appropriately report the earnings of the Bank. As a result, the operating income and the operating expenses increased by 5,505 millions, 1,266 millions of yen, respectively, and net operating profit as well as income before income taxes increased by 4,239 million of yen.

10. Impairment of Fixed Assets

The Bank has implemented an early application of the "Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" (issued by the Business Accounting Deliberation Council on August 9, 2002), and Financial Accounting Standard Implementation Guidance No.6, "Implementation Guidance for Accounting Standards for Impairment of Fixed Assets" (issued by the Accounting Standards Board of Japan ("ASBJ") on October 31, 2003), as they permitted such early application from the beginning of April 2004. As a result, income before income taxes decreased by 76 millions of yen.

Statements of Operations

1. Trading Profits and Losses

Profits and losses on trading transactions are shown as "Trading Revenue" or "Trading Expenses" on a trade date basis.

2. Other Income

Other income includes 10,803 millions yen of gains on sale of shares and other securities and 16,727 millions yen of net transfer from reserve for possible loan losses.

3. Other Expenses

Other expenses includes 1) 805 millions yen of claims written-off, 2) 2,302 millions yen of losses on devaluation of shares and other securities, and 3) 1,829 millions yen of the amortization of net transition obligation which arose from the initial adoption of a new accounting standard for employee retirement benefits (see note 6 to balance sheets).

4. External Standards Taxation

With the implementation of the "Revision of the Local Tax Law" (Legislation No. 9, March 2003) on March 31, 2003, a part of the tax basis of enterprise taxes is to be a combination of "amount of added value" and "amount of capital" from the fiscal year beginning on April 1, 2004. Accordingly, such taxes based on a combination of "amount of added value" and "amount of capital" are included in general and administrative expenses in accordance with the "Practical Treatment for Presentation of External Standards Taxation of the Enterprise Taxes in the Statements of Operations" (Practical Solution Report No.12 issued by ASBJ on February 13, 2004).

Statements of Cash Flows

1. Definition of Cash and Cash Equivalents

In preparing the consolidated statements of cash flows, cash and due from Bank of Japan ("BOJ") in the case of the Bank, and cash and due from banks in the case of the consolidated subsidiaries, are considered to be "Cash and Cash Equivalents."

2. Reconciliation to Cash and Cash Equivalents

The reconciliation between "Cash and Cash Equivalents" in the consolidated statements of cash flows, and "Cash and Due from Banks" in the consolidated balance sheets is shown as below:

	(Millions of Yen)
Cash and Due from Banks	637,145
Due from Banks (excluding due from BOJ)	(197,188)
Cash and Cash Equivalents	439,957