

2006

**INTERIM REPORT**

Six Months Ended September 30, 2006



## Financial Highlights

<b>Earnings</b>	<p>Looking at consolidated results for the first half of the fiscal year 2006, revenue increased mainly due to the contribution from the consolidation of our new subsidiaries, First Credit Corporation and STB Real Estate Investment Management Co., Ltd. An increase in net interest income and the good performance of sales commissions on mutual funds and individual annuities, trust fees for investment trusts and pension trusts, etc., as well as real-estate related fees covered the decline in market-derived profits, which had performed well in the same period the previous year. As such, net business profit before credit costs (See Note under Financial Highlights for the First Half Fiscal Year 2006 on page 3), which represents real earnings capacity, reached ¥105.3 billion, a year-on-year increase of ¥4.1 billion. With this, net income climbed to ¥63.9 billion, a year-on-year increase of ¥10.2 billion.</p>
<b>Financial Soundness</b>	<p>Sumitomo Trust has succeeded in improving financial soundness by swiftly and surely responding to the problem of non-performing loans and by completely repaying public funds in January 2004.</p> <p>The balance of non-performing loans at the end of September 2006 declined by ¥9.1 billion from the preceding fiscal year to ¥100.2 billion (non-consolidated assets classified under the Financial Reconstruction Law). We maintained soundness of asset quality with a non-performing ratio of 0.8% (the proportion of assets classified under the Financial Reconstruction Law to total loan balance), one of the lowest in the industry.</p>
<b>Capital</b>	<p>We maintained a consolidated BIS capital adequacy ratio at the end of September 2006 at a sufficient level of 11.55%, 0.65% higher than at the end of the preceding fiscal year, mainly owing to the accumulation of retained earnings and the issuing of subordinated bonds. Although our Tier I ratio, which indicates the ratio associated with stock capitalization, retained earnings, and other core equity capital components, was 6.25%, the quality of equity capital improved further as we posted a negative net amount of deferred tax assets and liabilities for the second straight fiscal term.</p>
<b>Dividend Policy</b>	<p>Based on our dividend policy of “increasing the payout ratio relative to consolidated net income to about 30% over the medium term” the dividend for fiscal year 2006 is expected to be ¥17 per share of common stock, a year-on-year increase of ¥5, based on the earnings forecast of the company throughout fiscal year 2006. On this basis, we will pay out half of that amount, ¥8.5, as an interim dividend.</p> <p>Going forward, we plan to continue to increase profit sharing with our stockholders and raise the consolidated payout ratio to about 30% over the medium term.</p>

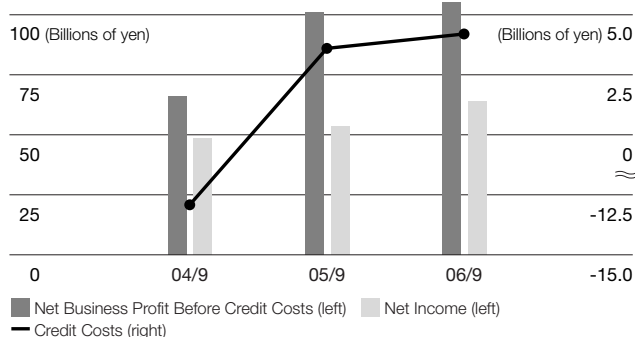
• Financial Highlights for the First Half Fiscal Year 2006

(Billions of Yen)

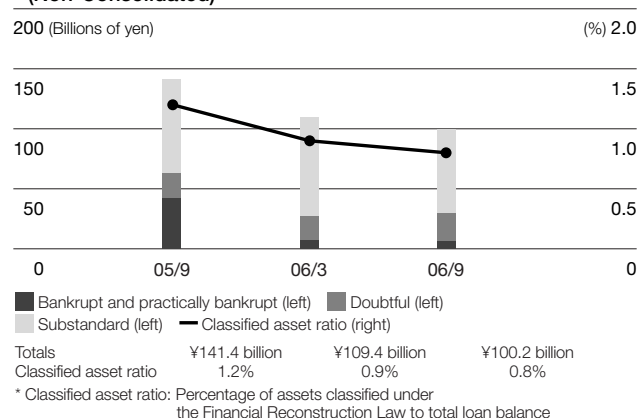
	Mar. 31, 2006 (Non-Consolidated)	Sep. 30, FY2005 (Non-Consolidated)	Sep. 30, FY2006 (Non-Consolidated)	Year-on-Year	Mar. 31, 2006 (Consolidated)	Sep. 30, FY2005 (Consolidated)	Sep. 30, FY2006 (Consolidated)	Year-on-Year
Net Business Profit Before Credit Costs (Note)	164.6	88.0	<b>86.8</b>	<b>(1.2)</b>	196.2	101.1	<b>105.3</b>	<b>4.1</b>
Credit Costs	9.7	3.4	<b>3.3</b>	<b>(0.0)</b>	9.8	3.6	<b>4.2</b>	<b>0.6</b>
Net Gains on Stocks	6.9	6.8	<b>3.4</b>	<b>(3.4)</b>	6.9	6.8	<b>3.3</b>	<b>(3.5)</b>
Net Operating Income	148.2	76.9	<b>85.9</b>	<b>9.0</b>	171.9	87.9	<b>99.1</b>	<b>11.2</b>
Net Income	88.4	49.7	<b>55.4</b>	<b>5.7</b>	100.0	53.7	<b>63.9</b>	<b>10.2</b>

Note: Consolidated net business profit before credit costs (the figure that indicates real earnings for the consolidated group as a whole) is calculated by the following formula:  
 Consolidated net business profit before credit costs = Non-consolidated net business profit before credit costs + Net operating income of other consolidated subsidiaries (adjusted nonrecurring items) + Net operating income of equity method affiliates (adjusted nonrecurring items) x % ownership — Internal transaction (dividend payment, etc.)

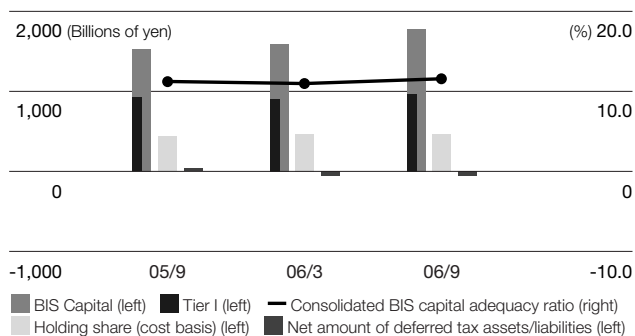
• Consolidated Results



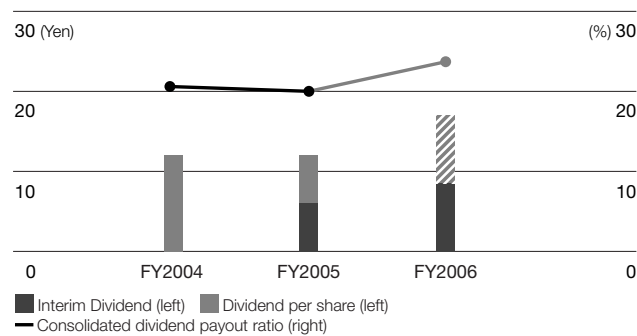
• Assets Classified under the Financial Reconstruction Law (Non-Consolidated)



• Capital/BIS Capital Adequacy Ratio (Consolidated)



• Dividend per Share and Consolidated Dividend Payout Ratio



• Dividends

	FY2004	FY2005	FY2006 (Forecast)
Common Stock Dividends per Share	12 yen	12 yen	17 yen
Interim Dividend	—	6 yen	8.5 yen (actual)
Consolidated Net Income	96.8 billion yen	100.0 billion yen	120.0 billion yen
Consolidated Dividend Payout Ratio (Note)	20.6%	20.0%	23.7%

Note: Consolidated Dividend Payout Ratio =  $\frac{\text{Cash Dividends (Common Stock)}}{\text{Consolidated net income}} \times 100$

## Message from the President and CEO

I am pleased to present this report of the first-half financial statement for The Sumitomo Trust & Banking Co., Ltd.\*<sup>1</sup> to all our many customers, shareholders, and employees who have provided us with such wonderful support. The results within the financial statement are current as of September 30, 2006.

### Review of the First Half of Fiscal Year 2006

#### Results in the Term under Review:

##### Setting a new record for the first half

Looking at Sumitomo Trust's consolidated business performance in the term under review, net business profit before credit costs reached ¥105.3 billion for a year-on-year increase of 4.1%, and net operating income reached ¥99.1 billion, up 12.8%.

Our overall company performance improved with the solid performance of sales commissions on mutual funds and individual annuities, trust fees for investment trusts and pension trusts, etc., as well as real-estate related fees, and in particular the growth of fiduciary, real estate, and retail financial services. The increase was enough to cover the decline in market-derived profits, which had performed well in the same period the previous year. Looking at costs, for the term under review, non-consolidated total credit costs (costs from the disposal of non-performing loans), which we had forecast at ¥10.0 billion, only came to ¥3.3 billion, thereby contributing to an increase in net income.

In addition, revenue from our group companies increased mainly due to the contribution from the consolidation of our new subsidiaries, First Credit Corporation\*<sup>2</sup> and STB Real Estate Investment Management Co., Ltd. As a result, consolidated net income in the first half increased 19.1% year-on-year to ¥63.9 billion. Both net operating income and net income were first half records for Sumitomo Trust.

#### Financial Position in the Term under Review:

##### Both the quality and quantity of assets have increased

Looking at our consolidated financial position, total assets reached ¥20.9 trillion, ¥283.0 billion higher than at the end of the preceding period due to remarkable growth of both loans and deposits, which reflected the steady and strong expansion of our franchise.

At the same time, we are also making efforts to continuously improve the quality of our assets. On the basis of the banking account and principal guaranteed trust account combined, we reduced the balance of total non-consolidated assets classified under the Financial Reconstruction Law to ¥100.2 billion at the end of the

term under review, primarily due to a decrease in substandard loans. The classified asset ratio (proportion to total loan balance) declined to 0.8%, 0.1% lower than at the end of the preceding period.

Our consolidated BIS capital adequacy ratio increased by 0.65% from 10.90% at the end of the preceding period to 11.55%, primarily due to the accumulation of retained earnings and the issuance of perpetual subordinated bonds, which was the first issuance of publicly offered bonds in Euro markets for Sumitomo Trust.

### Growth Strategy and Main Directions from This Term Onwards

#### Good Performance Primarily in the Retail, Real Estate, and Fiduciary Businesses

Upon completely paying off public funds in January 2004, Sumitomo Trust quickly shifted its focus to "offensive management" and has aggressively channeled management resources into growth fields. With our efforts to accelerate the growth of existing businesses, performance has been successfully improving in all business departments. In particular, we focused our resources on our retail and real estate businesses as our growth engines. In the first half of fiscal year 2006, Sumitomo Trust recorded continuously improved financial results in those retail and real estate businesses. In addition, the fiduciary business, which is a core competence of Sumitomo Trust, recorded substantial growth reflecting both market expansion and the improvement of the market share of Sumitomo Trust.

Looking at retail financial services, the total depositary assets from retail clients at the end of the term under review had recorded solid growth for both deposits and mutual funds, reaching ¥9.6 trillion, ¥0.4 trillion higher than at the end of the preceding period. In fiduciary services, the end of term trust account balance of asset management and asset servicing grew substantially to ¥61.6 trillion, ¥6.1 trillion higher than at the end of the preceding period. This increase in volume produced steady growth in fee revenue. The real estate business also achieved greater revenue from real estate brokerage fees than in the same period the previous year, reflecting the continuing good conditions in the real estate market. Moreover, regarding the loan business, although the demand for funds of corporations was still weak, Sumitomo Trust has actively worked to increase high quality assets with reasonable margins, such as housing loans, real estate non-recourse loans and overseas loans. Through these efforts, the loan balance at the end of the term under review grew to ¥10.6 trillion, a ¥501.3 billion increase from the end of the preceding period.

## Promotion of Alliance Strategy

The biggest current challenge facing Sumitomo Trust is an expansion of our customer base. In full recognition of this, we took a series of measures in the fiscal year 2005 to expand our customer base through acquisitions and alliances. Fiscal year 2006 is the time to advance this strategy to a phase of producing concrete results. Sumitomo Trust has been focusing on maximizing the synergistic effects derived from our capital and business alliance partnerships.

In the first half of this fiscal year, for example, the First Credit Corporation, which we acquired in November 2005, substantially increased its balance and improved its net income to ¥4.9 billion, a year-on-year increase of ¥1.9 billion. This was partly due to the strongly performing real estate market but also due to the brand effect of belonging to our group. Furthermore, although Sumishin Matsushita Financial Services Co., Ltd., which we consolidated in April 2005, recorded declining profits mainly due to non-recurring profit posted in the previous year (write backs due to unifying standard for reserves), it has increased sales volume by expanding its service lineup to new fields, such as operating leases, various loans, and a trust agency business.

Regarding our alliance with The Yachiyo Bank, Ltd., a regional bank which has an extensive office network and customer base in the western suburbs of Tokyo, we have commenced providing our products, such as mutual funds managed by STB Asset Management Co., Ltd. and real estate brokerage services offered by Sumishin Realty Co., Ltd., to the bank for sales to their clients. Regarding our alliances with SBI Holdings Inc., we have started several business alliances, including co-development of mutual funds, and have established a new Internet-based banking preparatory company, which is planning to commence an Internet-based banking business in the first half of the fiscal year 2007.

Moreover, Sumitomo Trust conducted a public tender offer of shares of STB Leasing Co., Ltd.\*<sup>3</sup> and made the company its wholly owned subsidiary in December this year. By clearly positioning STBL as one of its core subsidiaries and effectively utilizing the management resources of the group, we will aim to strengthen its competitiveness and increase consolidated revenues. Sumitomo Trust will also pursue intergroup reorganization of STBL and Sumishin Matsushita Financial Services Co., Ltd. around 2008 and strengthen its unique group financial strategy.

## Strengthening Our Policy of Profit-Sharing with Shareholders

Sumitomo Trust positioned the policy of profit-sharing with shareholders as one of its top concerns, and announced the new policy

in May 2004. Under the policy, Sumitomo Trust plans to share profits with shareholders in accordance with profit level of each fiscal year, by dividend and share buy-back.

We further strengthened this policy in May this year. To further expand profit-sharing with shareholders, we established a dividend policy of increasing the payout ratio relative to consolidated net income to about 30% over the medium term. Under this policy, based on the earnings forecast for fiscal year 2006, full-year common stock dividends for fiscal year 2006 are expected to be ¥17 per share (equivalent to a consolidated payout ratio of 23.7%). On that basis, we will pay out half of that amount, ¥8.5, as an interim dividend.

## In Conclusion

Looking at Japan's financial industry, the mega-banks have completely repaid public funds. Financial institutions, which have achieved a sound financial foundation, are now entering a new competitive stage on which they compete to improve their ability to increase revenues and offer more precise services aimed at increasing customer satisfaction.

Sumitomo Trust has as its focus to be a "top quality trust bank group that puts the customer first," offer a diverse range of products and services that take full advantage of the strengths of a trust bank that jointly operates "banking, trust and real estate businesses," and endeavor to expand our services base while pursuing quality.

In concluding this message, I hereby solicit your continued support in all our endeavors.

\*<sup>1</sup> hereinafter Sumitomo Trust

\*<sup>2</sup> First Credit Corporation was consolidated in the second half of fiscal year 2005. As such, the figures for the first half of fiscal year 2005 are not reflected in the consolidated results.

\*<sup>3</sup> hereinafter STBL

December 2005



Yutaka Morita President and CEO

# Consolidated Balance Sheet

	Millions of Yen			Millions of U.S. Dollars
	Sep. 30,2006 (unaudited)	Sep. 30,2005	Mar. 31,2006	Sep. 30,2006
<b>Assets:</b>				
Cash and Due from Banks .....	¥ 555,165	¥ 418,948	¥ 892,274	\$ 4,709
Call Loans and Bills Bought .....	196,001	192,107	440,945	1,663
Receivables under Securities Borrowing Transactions .....	205,065	—	—	1,739
Monetary Claims Bought .....	632,298	272,866	583,153	5,363
Trading Assets .....	437,934	285,912	435,044	3,715
Money Held in Trust .....	14,598	13,344	14,768	124
Securities .....	5,739,238	5,435,630	5,767,544	48,683
Loans and Bills Discounted .....	10,687,582	9,719,159	10,186,276	90,657
Foreign Exchanges .....	3,882	3,990	3,083	33
Other Assets .....	1,666,539	1,185,997	1,608,153	14,136
Premises and Equipment .....	—	111,019	109,653	—
Tangible Fixed Assets .....	91,083	—	—	773
Intangible Fixed Assets .....	138,340	—	—	1,173
Deferred Tax Assets .....	20,044	34,869	20,320	170
Goodwill .....	—	8,718	113,165	—
Customers' Liabilities for Acceptances and Guarantees .....	607,069	735,575	533,760	5,149
Reserve for Possible Loan Losses .....	(79,823)	(62,524)	(76,206)	(677)
<b>Total Assets</b> .....	<b>¥ 20,915,021</b>	<b>¥ 18,355,615</b>	<b>¥ 20,631,938</b>	<b>\$ 177,411</b>
<b>Liabilities:</b>				
Deposits .....	¥ 11,102,415	¥ 9,885,884	¥ 10,363,233	\$ 94,176
Negotiable Certificates of Deposit .....	2,300,783	1,857,570	2,408,656	19,516
Call Money and Bills Sold .....	224,967	362,093	669,023	1,908
Payables under Repurchase Agreements .....	1,010,513	1,238,746	983,715	8,572
Payables under Securities Lending Transactions .....	291,461	213,332	703,050	2,472
Trading Liabilities .....	49,383	35,906	69,861	419
Borrowed Money .....	746,343	369,854	417,089	6,331
Foreign Exchanges .....	7	16	1	0
Short-term Corporate Bonds .....	374,989	82,100	331,600	3,181
Bonds and Notes .....	519,448	339,100	377,600	4,406
Borrowed Money from Trust Account .....	1,490,588	1,594,606	1,733,446	12,644
Other Liabilities .....	787,406	527,388	664,394	6,679
Reserve for Employees' Bonus .....	5,753	5,337	5,790	49
Reserve for Employee Retirement Benefits .....	9,830	9,998	10,204	83
Deferred Tax Liabilities .....	78,787	43	77,022	668
Deferred Tax Liabilities for Land Revaluation .....	6,408	6,539	6,410	54
Acceptances and Guarantees .....	607,069	735,575	533,760	5,149
<b>Total Liabilities</b> .....	<b>¥ 19,606,159</b>	<b>¥ 17,264,092</b>	<b>¥ 19,354,861</b>	<b>\$ 166,309</b>
<b>Minority Interests</b> .....	<b>¥ —</b>	<b>¥ 108,638</b>	<b>¥ 159,085</b>	<b>\$ —</b>
<b>Stockholders' Equity:</b>				
Capital Stock .....	¥ —	¥ 287,053	¥ 287,283	\$ —
Capital Surplus .....	—	240,472	240,703	—
Retained Earnings .....	—	313,501	349,751	—
Revaluation Reserve for Land, Net of Taxes .....	—	(3,633)	(3,740)	—
Net Unrealized Gains on Securities Available for Sale, Net of Taxes .....	—	151,986	248,116	—
Foreign Currency Translation Adjustments .....	—	(5,221)	(3,871)	—
Treasury Stock .....	—	(1,274)	(251)	—
<b>Total Stockholders' Equity</b> .....	<b>¥ —</b>	<b>¥ 982,883</b>	<b>¥ 1,117,991</b>	<b>\$ —</b>
<b>Total Liabilities, Minority Interests and Stockholders' Equity</b> .....	<b>¥ —</b>	<b>¥ 18,355,615</b>	<b>¥ 20,631,938</b>	<b>\$ —</b>
<b>Net Assets:</b>				
Owners' Equity: .....	¥ 931,621	¥ —	¥ —	\$ 7,902
Capital Stock .....	287,457	—	—	2,438
Capital Surplus .....	240,877	—	—	2,043
Retained Earnings .....	403,602	—	—	3,424
Treasury Stock .....	(316)	—	—	(3)
Valuation and Translation Adjustments: .....	216,460	—	—	1,836
Net Unrealized Gains on Securities Available for Sale, Net of Taxes .....	232,520	—	—	1,972
Net Deferred Losses on Hedging Instruments, Net of Taxes .....	(7,907)	—	—	(67)
Revaluation Reserve for Land, Net of Taxes .....	(3,735)	—	—	(32)
Foreign Currency Translation Adjustments .....	(4,416)	—	—	(37)
Minority Interests .....	160,780	—	—	1,364
<b>Total Net Assets</b> .....	<b>¥ 1,308,862</b>	<b>¥ —</b>	<b>¥ —</b>	<b>\$ 11,102</b>
<b>Total Liabilities and Net Assets</b> .....	<b>¥ 20,915,021</b>	<b>¥ —</b>	<b>¥ —</b>	<b>\$ 177,411</b>

Note : Number of Shares

	Shares		
	Sep. 30,2006	Sep. 30,2005	Mar. 31,2006
Authorized :Common Shares .....	3,000,000,000	3,000,000,000	3,000,000,000
Issued :Common Shares .....	1,673,087,922	1,670,414,289	1,672,570,765

# Consolidated Statement of Income

	Millions of Yen			Millions of U.S. Dollars
	Six Months Ended Sep. 30,2006 (unaudited)	Six Months Ended Sep. 30,2005	Year Ended Mar. 31,2006	Six Months Ended Sep. 30,2006
<b>Income:</b>				
Trust Fees .....	¥ 35,867	¥ 32,083	¥ 68,900	\$ 304
Interest Income: .....	162,271	120,913	271,359	1,376
Interest on Loans and Discounts .....	89,066	64,883	141,081	756
Interest and Dividends on Securities .....	61,383	49,147	117,590	521
Other Interest Income .....	11,822	6,883	12,687	100
Fees and Commissions .....	59,705	52,658	124,999	506
Trading Income .....	3,612	2,470	6,317	31
Other Operating Income .....	112,620	128,227	234,106	955
Other Income .....	13,874	45,286	85,929	118
<b>Total Income</b> .....	<b>¥ 387,951</b>	<b>¥ 381,639</b>	<b>¥ 791,613</b>	<b>\$ 3,291</b>
<b>Expenses:</b>				
Interest Expenses: .....	¥ 79,618	¥ 50,629	¥ 120,386	\$ 675
Interest on Deposits (including CDs) .....	47,314	25,590	59,801	401
Interest on Borrowings and Rediscounts .....	2,675	1,967	4,192	23
Other Interest Expenses .....	29,628	23,071	56,392	251
Fees and Commissions .....	13,076	12,009	24,427	111
Trading Expenses .....	—	51	812	—
Other Operating Expenses .....	93,235	93,159	200,514	791
General and Administrative Expenses .....	91,870	87,828	174,527	779
Other Expenses .....	12,167	46,154	99,603	103
<b>Total Expenses</b> .....	<b>¥ 289,969</b>	<b>¥ 289,833</b>	<b>¥ 620,273</b>	<b>\$ 2,460</b>
<b>Income before Income Taxes and Others</b> .....	<b>¥ 97,982</b>	<b>¥ 91,805</b>	<b>¥ 171,340</b>	<b>\$ 831</b>
Income Taxes and Others:				
Current .....	13,391	1,568	5,074	114
Deferred .....	18,403	34,232	61,978	156
<b>Minority Interests</b> .....	<b>2,226</b>	<b>2,286</b>	<b>4,218</b>	<b>19</b>
<b>Net Income</b> .....	<b>¥ 63,960</b>	<b>¥ 53,717</b>	<b>¥ 100,069</b>	<b>\$ 543</b>

	Yen			U.S. Dollars
	Six Months Ended Sep. 30,2006 (unaudited)	Six Months Ended Sep. 30,2005	Year Ended Mar. 31,2006	Six Months Ended Sep. 30,2006
Net Income per Share .....	¥ 38.23	¥ 32.22	¥ 59.91	\$ 0.32
Net Income per Share (fully diluted) .....	38.22	32.21	59.87	0.32



## Consolidated Statement of Changes in Net Asset

Six Months Ended September 30, 2006	Millions of Yen				
	Owners' Equity				
	Capital Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Owners' Equity
Balance at the End of Previous Period .....	¥ 287,283	¥ 240,703	¥ 349,751	¥ (251)	¥ 877,487
<b>Changes of Items during the Period:</b>					
Issuance of New Shares .....	173	172			346
Dividends from Surplus .....		—	(10,035)		(10,035)
Bonuses to Directors .....			(70)		(70)
Net Income .....			63,960		63,960
Purchase of Treasury Stock .....				(67)	(67)
Disposal of Treasury Stock .....		1	—	3	4
Reversal of Revaluation Reserve for Land, Net of Taxes .....			(3)		(3)
Net Changes of Items Other than Owners' Equity .....					
<b>Total Changes of Items during the Period .....</b>	<b>¥ 173</b>	<b>¥ 174</b>	<b>¥ 53,851</b>	<b>¥ (64)</b>	<b>¥ 54,134</b>
<b>Balance at the End of the Current Period .....</b>	<b>¥ 287,457</b>	<b>¥ 240,877</b>	<b>¥ 403,602</b>	<b>¥ (316)</b>	<b>¥ 931,621</b>

Six Months Ended September 30, 2006	Millions of Yen						
	Valuation and Translation Adjustments					Minority Interests	Total Net Assets
	Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Taxes	Net Deferred Gains (Losses) on Hedging Instruments, Net of Taxes	Revaluation Reserve for Land, Net of Taxes	Foreign Currency Translation Adjustments	Total Valuation and Translation Adjustments		
Balance at the End of Previous Period .....	¥ 248,116	¥ —	¥ (3,740)	¥ (3,871)	¥ 240,504	¥ 159,085	¥ 1,277,076
<b>Changes of Items during the Period:</b>							
Issuance of New Shares .....							346
Dividends from Surplus .....							(10,035)
Bonuses to Directors .....							(70)
Net Income .....							63,960
Purchase of Treasury Stock .....							(67)
Disposal of Treasury Stock .....							4
Reversal of Revaluation Reserve for Land, Net of Taxes .....							(3)
Net Changes of Items Other than Owners' Equity .....	(15,596)	(7,907)	4	(544)	(24,044)	1,695	(22,349)
<b>Total Changes of Items during the Period .....</b>	<b>¥ (15,596)</b>	<b>¥ (7,907)</b>	<b>¥ 4</b>	<b>¥ (544)</b>	<b>¥ (24,044)</b>	<b>¥ 1,695</b>	<b>¥ 31,785</b>
<b>Balance at the End of the Current Period .....</b>	<b>¥ 232,520</b>	<b>¥ (7,907)</b>	<b>¥ (3,735)</b>	<b>¥ (4,416)</b>	<b>¥ 216,460</b>	<b>¥ 160,780</b>	<b>¥ 1,308,862</b>



# Consolidated Statement of Cash Flows

	Millions of Yen			Millions of U.S. Dollars
	Six Months Ended Sep. 30,2006 (unaudited)	Six Months Ended Sep. 30,2005	Year Ended Mar. 31,2006	Six Months Ended Sep. 30,2006
<b>Cash Flows from Operating Activities:</b>				
Income before Income Taxes and Others .....	¥ 97,982	¥ 91,805	¥ 171,340	\$ 831
Depreciation .....	7,488	2,622	5,475	64
Losses on Impairment of Fixed Assets .....	1,079	134	828	9
Amortization of Goodwill (Negative Goodwill) .....	4,169	753	5,343	35
Equity in Losses (Earnings) of Affiliates .....	(1,096)	(1,350)	(2,695)	(9)
Increase (Decrease) in Reserve for Possible Loan Losses .....	3,618	(23,375)	(19,062)	31
Increase (Decrease) in Reserve for Losses on Investment Securities .....	—	(17,958)	(17,958)	—
Increase (Decrease) in Reserve for Employees' Bonus .....	(36)	5	253	(0)
Increase (Decrease) in Reserve for Employee Retirement Benefits .....	(374)	(451)	(780)	(3)
Interest Income .....	(162,271)	(120,913)	(271,359)	(1,376)
Interest Expenses .....	79,618	50,629	120,386	675
Losses (Gains) on Securities .....	(7,871)	(25,764)	(1,690)	(67)
Losses (Gains) on Money Held in Trust .....	(188)	(1,397)	(2,581)	(2)
Losses (Gains) on Foreign Exchanges .....	(42,027)	(30,627)	(92,888)	(356)
Losses (Gains) on Sale of Premises and Equipment .....	—	934	1,407	—
Losses (Gains) on Sale of Fixed Assets .....	293	—	—	2
Net Decrease (Increase) in Trading Assets .....	(2,890)	(3,100)	(152,232)	(25)
Net Increase (Decrease) in Trading Liabilities .....	(20,477)	(15,911)	18,044	(174)
Net Decrease (Increase) in Loans and Bills Discounted .....	(501,158)	(698,513)	(1,049,936)	(4,251)
Net Increase (Decrease) in Deposits .....	739,207	751,701	1,224,389	6,270
Net Increase (Decrease) in Negotiable Certificates of Deposit .....	(107,873)	370,545	921,631	(915)
Net Increase (Decrease) in Borrowed Money other than				
Subordinated Borrowings .....	329,254	(172,796)	(235,562)	2,793
Net Decrease (Increase) in Due from Banks other than from				
Bank of Japan .....	(126,451)	81,881	79,226	(1,073)
Net Decrease (Increase) in Call Loans and Others .....	194,624	(157,510)	(713,790)	1,651
Net Decrease (Increase) in				
Receivables under Securities Borrowing Transactions .....	(205,065)	—	—	(1,739)
Net Increase (Decrease) in Call Money and Others .....	(417,257)	362,244	414,142	(3,539)
Net Increase (Decrease) in				
Payables under Securities Lending Transactions .....	(411,589)	159,824	649,542	(3,491)
Net Decrease (Increase) in Foreign Exchange Assets .....	(798)	3,407	4,313	(7)
Net Increase (Decrease) in Foreign Exchange Liabilities .....	6	(886)	(901)	0
Net Increase (Decrease) in Short-term Corporate Bonds Liabilities .....	43,406	82,100	331,600	368
Net Increase (Decrease) in Borrowed Money from Trust Account .....	(242,858)	120,869	259,710	(2,060)
Interest Income Received on Cash Basis .....	170,766	129,592	290,262	1,449
Interest Expenses Paid on Cash Basis .....	(75,149)	(51,247)	(116,786)	(637)
Other-Net .....	(68,593)	1,367	(8,536)	(582)
Sub-Total .....	¥ (722,513)	¥ 888,613	¥ 1,811,136	\$ (6,129)
Income Tax Paid .....	(5,801)	(3,233)	(6,203)	(49)
<b>Net Cash Provided by (Used in) Operating Activities .....</b>	<b>¥ (728,314)</b>	<b>¥ 885,380</b>	<b>¥ 1,804,932</b>	<b>\$ (6,178)</b>

# Consolidated Statement of Cash Flows

(Continue)

	Millions of Yen			Millions of U.S. Dollars
	Six Months Ended Sep. 30,2006 (unaudited)	Six Months Ended Sep. 30,2005	Year Ended Mar. 31,2006	Six Months Ended Sep. 30,2006
<b>Cash Flows from Investing Activities:</b>				
Purchase of Securities .....	¥ (2,494,491)	¥ (4,220,847)	¥ (6,593,697)	\$ (21,159)
Proceeds from Sale of Securities .....	2,222,673	3,358,826	4,950,377	18,854
Proceeds from Redemption of Securities .....	418,693	140,202	501,262	3,552
Increase in Money Held in Trust .....	—	(10,000)	(10,299)	—
Decrease in Money Held in Trust .....	358	—	106	3
Purchase of Premises and Equipment .....	—	(2,701)	(6,850)	—
Purchase of Tangible Fixed Assets .....	(3,819)	—	—	(32)
Proceeds from Sale of Premises and Equipment .....	—	391	3,034	—
Proceeds from Sale of Tangible Fixed Assets .....	65	—	—	1
Purchase of Intangible Fixed Assets .....	(8,536)	—	—	(72)
Proceeds from Sale of Intangible Fixed Assets .....	0	—	—	0
Purchase of Stock of New Consolidated Subsidiaries .....	—	(28,898)	(135,041)	—
<b>Net Cash Provided by (Used in) Investing Activities .....</b>	<b>¥ 134,943</b>	<b>¥ (763,027)</b>	<b>¥ (1,291,109)</b>	<b>\$ 1,145</b>
<b>Cash Flows from Financing Activities:</b>				
Proceeds from Subordinated Bonds and Convertible Bonds .....	184,415	29,835	79,271	1,564
Redemption of Subordinated Bonds and Convertible Bonds .....	(43,600)	(79,000)	(90,500)	(370)
Proceeds from Issuance of Stock .....	346	—	461	3
Proceeds from Issuance of Stock to Minority Stockholders .....	1,728	12,484	62,484	15
Dividends Paid .....	(10,031)	(20,002)	(30,031)	(85)
Dividends Paid to Minority Stockholders .....	(2,320)	(1,279)	(2,766)	(20)
Purchase of Treasury Stock .....	(67)	(43)	(111)	(1)
Proceeds from Sale of Treasury Stock .....	4	3,033	3,937	0
<b>Net Cash Provided by (Used in) Financing Activities .....</b>	<b>¥ 130,474</b>	<b>¥ (54,971)</b>	<b>¥ 22,745</b>	<b>\$ 1,107</b>
Effect on Exchange Rate Changes on Cash and Cash Equivalents .....	(663)	1,264	2,749	(6)
<b>Net Change in Cash and Cash Equivalents .....</b>	<b>¥ (463,560)</b>	<b>¥ 68,646</b>	<b>¥ 539,318</b>	<b>\$ (3,932)</b>
Cash and Cash Equivalents at Beginning of Year .....	691,450	152,132	152,132	5,865
<b>Cash and Cash Equivalents at End of (Half) Year .....</b>	<b>¥ 227,889</b>	<b>¥ 220,778</b>	<b>¥ 691,450</b>	<b>\$ 1,933</b>

# Notes to Consolidated Financial Statements

for the First Half Fiscal Year 2006

## 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 117.89 per one U.S. Dollar, the exchange rate prevailing on the Tokyo foreign exchange market on September 30th, 2006.

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

## Balance Sheet

### 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, commodity prices in markets 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 of the balance sheet date and financial derivatives for trading purposes, such as swaps, futures or options, are valued on the assumption that they are settled at the balance sheet date.

### 2. Securities

Under the accounting standard for financial instruments, the Bank is required to explicitly determine the objectives of holding each security and classify them into (1) securities held for trading purposes (“trading securities”), (2) debt securities intended to be held to maturity (“held to maturity debt securities”), (3) equity securities issued by subsidiaries and affiliated companies, or (4) all other securities that are not classified in any of the above categories (“available for sale securities”).

Held to maturity debt securities are carried at amortized cost, using the moving average method. Equity securities issued by subsidiaries and affiliated companies that are not consolidated or accounted for using the equity method are stated at moving average cost.

Japanese stocks classified as available for sale securities with fair market value are revaluated at the average fair market value of the final month in the first half fiscal year.

Securities other than Japanese stocks classified as available for sale securities with fair market value are revaluated at the balance sheet date.

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

Net unrealized gains (losses) on securities available for sale, net of taxes are recorded as a separate component of net assets and reported on the consolidated balance sheet.

### 3. Securities Invested In Money Held In Trust

Securities invested in money held in trust, which is solely entrusted by the Bank for security trading purpose, are revalued at the fair market value.

### 4. Derivative Financial Instruments

Derivative financial instruments other than trading purposes are valued on the assumption that they are settled at the balance sheet date (the mark-to-market accounting method).

### 5. Tangible Fixed Assets

Tangible fixed assets are primarily depreciated using the declining-balance method over the following estimated useful lives. Buildings acquired after March 31, 1998 are depreciated using the straight-line method.

Buildings : 3 to 60 years

Equipment : 2 to 20 years

Tangible fixed asset of subsidiaries and affiliates are depreciated mainly using the declining-balance method over the estimated useful lives.

### 6. Intangible Fixed Assets

Intangible fixed assets are primarily depreciated using the straight-line method. Expenses related to software for internal use are capitalized in “Intangible Fixed Assets” and amortized over the estimated useful lives, generally 5 years.

Goodwill is amortized over certain periods reasonably determined case by case no longer than 20 years, or expensed as incurred during the current fiscal year if it is deemed immaterial.

### 7. Delivery Costs of Stocks, Issuance Costs of Bonds and Discounts of Bonds

Delivery costs of stocks and issuance costs of bonds are charged to expenses when incurred.

The Bank adopted the revised Accounting Standards Board of Japan (hereafter “ASBJ”) Statement No.10, “Accounting Standards for Financial Instruments” (revised by the ASBJ on August 11, 2006). Accordingly, bonds issued after April 1, 2006, are carried at amortized cost using the straight-line method. As the result, Discounts of bonds included in “Other Assets” was decreased by 226 million yen,

“Short-term Corporate Bond” was decreased by 110 million yen and “Bonds and Notes” was decreased by 116 million yen.

In addition, the Bank adopted the transitional treatment of the Practical Issues Task Force No.19, “Tentative Solution on Accounting for Deferred Assets” (issued by the ASBJ on August 11, 2006). As the result, discounts of bonds and notes at the March 31, 2006 were depreciated using the straight-line method over the lives of the instruments, and deducted from “Bonds and Notes.”

#### 8. Foreign currency translation

Assets and liabilities denominated in foreign currencies are primarily translated into yen at the exchange rate at the balance sheet date. Assets and liabilities of consolidated overseas subsidiaries are translated into yen at the exchange rate at the each balance sheet date.

#### 9. Reserve for possible loan losses

As for the Bank, reserve for possible loan losses is provided as detailed below, pursuant to the internal rules for self-assessment of assets' quality and the internal rules regarding reserves 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, 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 the Global Credit Supervision Department based on the internal rules for self-

assessment of assets' quality. The Corporate Risk Management Department, which is independent from branches and credit supervision division, subsequently conducts the audits of their assessments, and the reserve is adjusted to reflect the audit results.

As 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.

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 was 34,910 million yen.

#### 10. Reserve for employees' bonus

Reserve for employees' bonus is provided for the estimated employees' bonuses attributable to the first half fiscal year.

#### 11. 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 the fiscal year end.

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

#### 12. Accounting for leases

Finance leases where the ownership of the property is not transferred to the lessee are accounted for by the accounting treatment which is equivalent to operating leases.

#### 13. Derivatives and 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 designates 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 fluctuant factor of interest rate for hedged items and for hedging transactions. In accordance with “Temporary Treatment for Accounting and Auditing concerning Application of Accounting Standard for Financial Instruments in Banking Industry” (JICPA Industry Auditing Committee Report No.15), the bank had adopted “Macro Hedge Accounting” to account for certain interest related derivatives, which were utilized to manage interest rate exposure of certain changes of transactions such as loans and deposits.

Deferred hedge income (losses) resulted from “Macro Hedge Accounting”, which are included in “Other Assets” and “Other Liabilities” in the consolidated balance sheet, are amortized over the remaining period for each hedging transaction. At the balance sheet date, deferred hedge losses and income (before net of taxes) resulted from “Macro Hedge Accounting” were 66,227 million yen and 64,829 million yen, respectively.

*(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 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 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)*

Profits and losses arisen from hedging instruments such as interest rate swaps and cross currency swaps among consolidated subsidiaries and between the trading account and other accounts are either accounted as income or deferred as asset or liability and are not eliminated. This treatment is allowed by the Report No. 24 and 25, under which the Bank operated strictly and nonarbitrarily in con-

formity with the standard equivalent to the third-party cover transactions which are required for hedge qualification.

*(Others)*

As for specific assets and liabilities, the Bank also applies the individual deferred hedge accounting. Consolidated subsidiaries apply the individual fair value hedge accounting and the accrual-basis hedge accounting on interest rate swaps.

14. Investments in Stocks of Affiliated Companies

Investments in stocks of affiliated companies were 37,023 million yen.

15. Accumulated Depreciation of Tangible Fixed Assets

Accumulated depreciation of tangible fixed assets was 104,884 million yen.

16. Delinquent Loans

“Loans in Bankruptcy Proceedings” and “Other Delinquent Loans” were 1,281 million yen and 57,592 million yen, respectively.

Loans in bankruptcy proceedings are non-accrual loans outstanding (not including direct write-off portion of loans) to borrowers who are legally bankrupt as defined in Article 96 1-3 or 4 of Enforcement Ordinance for the Corporation Tax Law.

Other delinquent loans are non-accrual loans other than 1) loans in bankruptcy proceedings and 2) loans of which interest payments are rescheduled in order to assist the restructuring of borrowers.

17. Loans More than Three Months Past Due

“Loans More than Three Months Past Due” amounted to 2 million yen.

Loans more than three months past due are those loans for which principal or interest payments are more than three months past due from the date succeeding the due date, excluding those loans classified as delinquent loans.

18. Restructured Loans

“Restructured Loans” amounted 56,024 million yen.

Restructured loans are those loans whose terms have been relaxed to support borrowers who are in financial difficulties excluding delinquent loans and loans more than three months past due.

19. Total of Delinquent Loans, Loans More than Three Months Past Due and Restructured Loans

The total of “Loans in Bankruptcy Proceedings”, “Other Delinquent Loans”, “Loans More than Three Months Past Due” and “Restructured Loans” amounted 114,901 million yen. In addi-

tion, Amounts described in Notes 16 to 19 were before deducting reserve for possible loan losses.

#### 20. Revaluation Reserve for Land

In accordance with the “Law Concerning Revaluation Reserve for Land,” the Bank recorded unrealized revaluation loss in net assets, of which deferred tax was deducted from the gross surplus, based on the evaluations as of March 31, 1999.

#### 21. Other Assets

“Other Assets” in the consolidated balance sheet 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. The Bank filed a petition with the National Tax Tribunal objecting to such tax imposition, whereby the Bank’s petition was dismissed on February 22, 2005. However, the Bank disputed the alleged legal basis for this imposition, and then filed a lawsuit in the Tokyo District Court on March 31, 2005 and the claim is currently in litigation.

#### 22. Borrowed Money

Borrowed money included subordinate debt of 138,500 million yen.

#### 23. Bonds and Notes

All bonds and notes are subordinated.

#### 24. Principal of Guaranteed Trust Account

Principals of Jointly-Operated Money Trusts (“JOMTs”) and Loan Trust, whose repayment of the principal is guaranteed by the Bank, were 919,227 million yen and 829,453 million yen, respectively.

#### 25. Net Income per Share 686.20 yen

The Bank adopted the ASBJ Guidance No.4, “Guidance on Accounting Standard for Earnings Per Share” (revised by the ASBJ on January 31, 2006). Accordingly, the Bank includes net of deferred hedge income and losses in the calculation of earnings per share. As the result, the earnings per share decreased by 4.72 yen compared to the previous method.

#### 26. Presentations of Net Assets

Due to the introduction of the ASBJ Statement No.5, “Accounting Standards for Presentation of Net Assets in the

Balance Sheet” (issued by the ASBJ on December 9, 2005) and the ASBJ Guidance No.8, “Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheet” (issued by the ASBJ on December 9, 2005) from the first half fiscal year after the enactment of the “Corporate Law,” the appended forms in the “Enforcement Ordinance of the Banking Law” have been revised from the fiscal year starting April, 1, 2006 by the Cabinet Office Ordinance No. 60, April 28, 2006. The presentations have been changed as follows.

- (1) “Stockholders’ Equity” is presented as “Net Assets,” which is composed of “Owners’ Equity”, “Valuation and Translation Adjustments” and “Minority Interests.” “Stockholders’ Equity” under the previous definition would have been 1,155,989 million yen at the balance sheet date.
- (2) Losses and gains as well as fair values from hedging instruments, formerly netted and included in “Other Assets,” are accounted, net of taxes, in “Net Deferred Losses on Hedging Instruments, Net of Taxes” in “Valuation and Translation Adjustments.”
- (3) “Minority Interests” formerly stated after “Liabilities,” is presented in “Net Assets.”
- (4) Former “Premises and Equipment” were reclassified into “Tangible Fixed Assets”, “Intangible Fixed Assets” or “Other Assets”.
- (5) Software asset formerly included in “Other Assets,” is presented in “Intangible Fixed Assets.”
- (6) Goodwill formerly shown independently in the balance sheet is shown in a part of “Intangible Fixed Assets”. As the result, amortization of goodwill, formerly charged to “Other Operating Expenses” in “Operating Expenses,” was charged to “General and Administrative Expenses” in “Operating Expenses.”

#### 27. Investment Associations

The Bank adopted the ASBJ Practical Issues Task Force No.20, “Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations” (issued by the ASBJ on September 8, 2006). However, the adoption did not have a material impact on the Bank’s financial condition.



## Statement of Income

1. Net Income per Share	38.23 yen
2. Net Income per Share (fully diluted)	38.22 yen
3. Trading Profits and Losses	

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

## 4. Other Ordinary Income

"Other Ordinary Income" includes gains on sale of stocks and other securities of 6,120 million yen.

## 5. Other Ordinary Expenses

"Other Ordinary Expenses" includes provision for reserve for possible loan losses of 3,660 million yen.

## Statement of Changes in Net Asset

### 1. Issued Share and Treasury Stock

Issued Share and Treasury Stock are as follows:

(Thousands of Shares)

	Number of Shares Outstanding at the End of Previous Period	Increase	Decrease	Number of Shares Outstanding at the End of Current Period
Number of issued shares:				
Common Stock	1,672,892	568	—	1,673,460
Treasury Stock:				
Common Stock	322	54	3	373

Notes :

- 1) Issued share increased by 568 thousand shares due to exercise of stock warrants.
- 2) Treasury stock increased by 54 thousand stocks due to requests for redemption of odd-lot stocks.
- 3) Treasury stock decreased by 3 thousand stocks due to requests for additional purchase of odd-lot stocks.

### 2. Dividends

Dividends are as follows:

Resolution	Type of Shares	Cash Dividends Declared	Cash Dividends per Share	Record Date	Effective Date of Distribution
29-Jun-06 Ordinary General Meeting of Shareholders	Common Stock	(Millions of Yen) 10,035	(Yen) 6.00	31-Mar-06	30-Jun-06

Dividends, which record date is by this interim period and effective date of distribution is after the end of the first half fiscal year, are as follows:

Resolution	Type of Shares	Cash Dividends Declared	Source of Distribution Surplus	Cash Dividends per Share	Record Date	Effective Date of Distribution
20-Nov-06 Board of Directors	Common Stock	(Millions of Yen) 14,221	Other Retained Earnings	(Yen) 8.50	30-Sep-06	08-Dec-06

### 3. Statement of Changes in Net Assets

The Bank adopted the ASBJ Statement No.6, "Statement of Changes in Net Assets" (issued by the ASBJ on December 27, 2005) and the ASBJ Guidance No.9, "Guidance on Accounting Standard for Statement of Changes in Net Assets" (issued by the

ASBJ on December 27, 2005) from this first half fiscal year after the enactment of the "Corporate Law". Accordingly, Statement of Changes in Net Assets replaced Statements of Capital Surplus and Retained Earnings.

## Statement of Cash Flows

### 1. Cash and Cash Equivalents

In preparing the consolidated statement of cash flows, cash and

due from Bank of Japan in the case of the Bank, and cash and due from banks in the case of the consolidated subsidiaries, are considered "Cash and Cash Equivalents."



## 2. Reconciliation of Cash and Cash Equivalents

	Millions of Yen
Cash and Due from Banks .....	¥ 555,165
Due from Banks (excluding due from BOJ) .....	(327,275)
Cash and Cash Equivalents .....	¥ 227,889

## 3. Presentations of the Statement of Cash Flows

The statement of cash flows was presented under the revised appended forms in the “Enforcement Ordinance of the Banking Law” amended by the Cabinet Office Ordinance No. 60, April 28, 2006. Presentation has been amended as follows:

(1) Since “Premises and Equipment” has been restated into “Tangible Fixed Assets,” “Intangible Fixed Assets” and “Other Assets” in the balance sheet, “Losses (Gains) on Sale of Fixed Assets” replaced “Losses (Gains) on Sale of Premises and Equipment.” Similarly, “Purchase of Tangible Fixed Assets”

replaced “Purchase of Premises and Equipment,” and “Proceeds from Sales of Tangible Fixed Assets” replaced “Proceeds from Sales of Premises and Equipment.”

(2) As “Purchase of Intangible Fixed Assets” and “Proceeds from Sales of Intangible Fixed Assets” are stated in the cash flows from investing activities, depreciation of intangible fixed assets is included in “Depreciation.” As the result, “Depreciation” increased by 4,907 million yen and “Other - Net” decreased by the same amount.

## Subsequent Event (As of December 15, 2006)

### 1. Notice of Results of Tender Offer and Change in Subsidiaries

The Bank resolved at the meeting of its Board of Directors held on October 13, 2006 to conduct a tender offer of common stock (listed on the first section of the Tokyo Stock Exchange) of STB Leasing Co., Ltd., an affiliated company, (hereafter the “STBL”) (the “Tender Offer”), and made the Tender Offer from October 24, 2006 to November 27, 2006. As a result of the Tender Offer, the STBL became a consolidated subsidiary of the Bank as of the commencement date of settlement (December 5, 2006).

#### (1) Objective of Tender Offer

The Bank has been actively pursuing strategic investments and capital/business alliances, against the backdrop of its financial soundness, in order to accelerate organic growth and to enhance customer and business franchises.

The Bank’s group now has two leasing companies, Sumishin Matsushita Financial Services Co., Ltd. (hereafter the “SMFC”), a consolidated subsidiary, which has strength in a wide variety of financial functions and a vast customer franchise, and STBL which has strength in leasing to large corporations. In the leasing industry, a further increase in competition and lower profitability are expected partly because of expected revision of the accounting rule regarding leasing transactions. Therefore, expansion, diversification and integration of their businesses are urgent issues for these companies. In responding to such changes in the business environment, the Bank undertook the Tender Offer in order to make STBL its wholly owned subsidiary. Upon the completion of the Tender Offer, the Bank plans to clearly position STBL as one of its core subsidiaries and will aim to strengthen its competitiveness by effectively utilizing the management resources of the Bank’s group.

The Bank will pursue intergroup reorganization of the two companies in 2008 after discussion with Matsushita Electric Industrial Co., Ltd., a joint partnership shareholder of SMFC, and aim to strengthen its non-bank businesses and achieve sustainable growth in its consolidated earnings.

#### (2) Outline of Subject Company

- |                                  |  |
|----------------------------------|--|
| 1) Company name                  | : STB Leasing Co., Ltd.  |
| 2) Main area of business         | : General leasing businesses (leasing, installment sales, business loans and related businesses) |
| 3) Location                      | : 2-3-4 Nihonbashi, Chuo-ku, Tokyo   |
| 4) Representative                | : Jiro Araki, President and CEO  |
| 5) Capital                       | : 5,064 million yen<br>(as of September 30, 2006)  |
| 6) Number of total issued shares | : 21,584,300 shares<br>(Common Shares)   |
| 7) Total assets                  | : 500,341 million yen<br>(as of September 30, 2006)  |

#### (3) Period of Share Purchase

December 5, 2006 (Commencement date of settlement)

#### (4) Number of Purchased Share Certificates, Purchase Price and Proportion of Ownership after Purchased

- |  |                       |
|--|-----------------------|
| 1) Number of purchased share certificates  | : 19,846,282 shares   |
| 2) Purchase price                          | : 2,050 yen per share |
| Number of shares held before Tender Offer  | : 970,000 shares      |
| Number of shares held after Tender Offer   | : 20,816,282 shares   |
| 3) Proportion of ownership after purchased | : 96.44%              |

#### (5) Method of funding

All funds for purchase are self-financed.

# Statement of Trust Account

(Unaudited)

	Millions of Yen			Millions of U.S. Dollars
	Sep. 30,2006	Sep. 30,2005	Mar. 31,2006	Sep. 30,2006
<b>Assets:</b>				
Loans and Bills Discounted .....	¥ 592,004	¥ 848,987	¥ 755,381	\$ 5,022
Securities .....	9,361,168	7,008,797	7,725,066	79,406
Money Held in Trust .....	47,209,092	39,351,082	41,287,117	400,450
Securities Held in Custody Accounts .....	311,325	82,594	239,005	2,641
Money Claims .....	6,205,559	4,304,292	4,650,703	52,639
Premises and Equipment .....	3,693,203	3,144,698	3,426,969	31,328
Other Claims .....	1,697,365	943,105	1,615,217	14,398
Call Loans .....	3,400	2,200	3,000	29
Loans to Banking Account .....	1,490,588	1,594,606	1,733,446	12,644
Cash and Due from Banks .....	247,026	204,073	233,959	2,095
<b>Total Assets</b> .....	<b>¥ 70,810,733</b>	<b>¥ 57,484,437</b>	<b>¥ 61,669,866</b>	<b>\$ 600,651</b>
<b>Liabilities:</b>				
Money Trusts .....	¥ 20,818,705	¥ 17,626,097	¥ 18,070,043	\$ 176,594
Pension Trusts .....	6,521,572	5,606,084	5,811,884	55,319
Property Formation Benefit Trusts .....	9,293	9,904	9,214	79
Loan Trusts .....	804,519	964,302	885,962	6,824
Securities Investment Trusts .....	14,105,756	10,400,749	11,982,306	119,652
Money Entrusted, other than Money Trusts .....	3,144,250	2,068,241	2,376,059	26,671
Securities Trusts .....	12,586,578	11,329,621	12,063,798	106,765
Money Claim Trusts .....	5,926,525	4,028,748	4,373,386	50,272
Equipment Trusts .....	1,411	2,019	1,686	12
Land and Fixtures Trusts .....	147,805	159,487	154,251	1,254
Composite Trusts .....	6,744,313	5,289,180	5,941,271	57,209
Other Trusts .....	0	0	0	0
<b>Total Liabilities</b> .....	<b>¥ 70,810,733</b>	<b>¥ 57,484,437</b>	<b>¥ 61,669,866</b>	<b>\$ 600,651</b>

# Supplementary Information

## Risk Managed Loans

(1) Banking Account	Millions of Yen			Millions of U.S. Dollars
	Sep. 30,2006	Sep. 30,2005	Mar. 31,2006	Sep. 30,2006
Loans in Bankruptcy Proceedings .....	¥ 1,281	¥ 2,298	¥ 2,246	\$ 11
% to Total Loans .....	0.01%	0.02%	0.02%	
Other Delinquent Loans .....	57,592	56,431	43,043	489
% to Total Loans .....	0.53%	0.58%	0.42%	
Loans more than Three Months Past Due .....	2	16	3	0
% to Total Loans .....	0.00%	0.00%	0.00%	
Restructured Loans .....	56,024	68,241	62,497	475
% to Total Loans .....	0.52%	0.70%	0.61%	
Total Loans Outstanding .....	¥ 10,687,582	¥ 9,719,159	¥ 10,186,276	\$ 90,657
Direct Reduction .....	34,910	92,365	46,368	296

(2) Guaranteed Trust Account	Millions of Yen			Millions of U.S. Dollars
	Sep. 30,2006	Sep. 30,2005	Mar. 31,2006	Sep. 30,2006
Loans in Bankruptcy Proceedings .....	¥ —	¥ 240	¥ 188	\$ —
% to Total Loans .....	—	0.03%	0.03%	
Other Delinquent Loans .....	2,939	4,351	3,836	25
% to Total Loans .....	0.71%	0.68%	0.69%	
Loans more than Three Months Past Due .....	—	—	—	—
% to Total Loans .....	—	—	—	
Restructured Loans .....	17,080	10,216	27,873	145
% to Total Loans .....	4.16%	1.59%	5.05%	
Total Loans Outstanding .....	¥ 410,104	¥ 638,888	¥ 551,752	\$ 3,479

### Definitions :

- (1) Loans in bankruptcy proceedings are nonaccrual loans outstanding (not including direct write-off portion of loans) to borrowers who are legally bankrupt as defined in Article 96 1-3 or 4 of Enforcement Ordinance for the Corporate Tax Law.
- (2) Other delinquent loans are nonaccrual loans other than 1) loans in bankruptcy proceedings and 2) loans of which interest payments are rescheduled in order to assist the restructuring of borrowers.
- (3) Loans more than three months past due are those loans for which principal or interest payments are more than three months past due from the date succeeding the due date excluding those loans classified as loans in bankruptcy proceedings and other delinquent loans.
- (4) Restructured loans are those loans whose terms have been relaxed to support borrowers who are in financial difficulties and exclude loans in bankruptcy proceedings, other delinquent loans and loans more than three months past due.

Note: Guaranteed trust, the principals of which are guaranteed, are constituted by "Loan Trusts" and Jointly-Operated Money Trusts("JOMT") included in "Money Trusts."

## Reserves

(1) Banking Account	Millions of Yen			Millions of U.S. Dollars
	Sep. 30,2006	Sep. 30,2005	Mar. 31,2006	Sep. 30,2006
Reserves for Possible Loan Losses :				
General Reserves .....	¥ 54,547	¥ 44,642	¥ 58,209	\$ 463
Specific Loan Loss Reserves .....	24,725	17,643	17,691	210
Reserves for Loans to Borrowers in Specific Foreign Countries .....	550	238	305	5
<b>Total</b> .....	<b>¥ 79,823</b>	<b>¥ 62,524</b>	<b>¥ 76,206</b>	<b>\$ 677</b>

(2) Guaranteed Trust Account	Millions of Yen			Millions of U.S. Dollars
	Sep. 30,2006	Sep. 30,2005	Mar. 31,2006	Sep. 30,2006
Reserves for Possible Impairment of Principal (Loan Trusts) .....	¥ 4,630	¥ 5,431	¥ 5,011	\$ 39
Reserves for Possible Impairment of Principal (JOMT) .....	852	524	504	7
<b>Total</b> .....	<b>¥ 5,483</b>	<b>¥ 5,955</b>	<b>¥ 5,516</b>	<b>\$ 47</b>

## Credit Costs

(1) Banking Account	Millions of Yen			Millions of U.S. Dollars
	Six Months Ended Sep. 30,2006	Six Months Ended Sep. 30,2005	Year Ended Mar. 31,2006	Six Months Ended Sep. 30,2006
Provision for General Reserve .....	¥ (3,989)	¥ (2,188)	¥ 9,530	\$ (34)
Expenses Relating to Problem Loans .....	8,108	4,484	(522)	69
Claims Written-Off .....	455	6,176	3,726	4
Provision for Specific Reserve .....	7,404	(1,620)	(5,305)	63
Provision for Reserve for Borrowers in				
Specific Foreign Countries .....	245	(229)	(107)	2
Others .....	2	158	1,163	0
<b>Total</b> .....	<b>¥ 4,118</b>	<b>¥ 2,295</b>	<b>¥ 9,008</b>	<b>\$ 35</b>

(2) Guaranteed Trust Account	Millions of Yen			Millions of U.S. Dollars
	Six Months Ended Sep. 30,2006	Six Months Ended Sep. 30,2005	Year Ended Mar. 31,2006	Six Months Ended Sep. 30,2006
Claims Written-Off .....	¥ (206)	¥ 1,424	¥ 1,131	\$ (2)
Losses on Sale of Loans .....	369	(94)	(320)	3
<b>Total</b> .....	<b>¥ 163</b>	<b>¥ 1,330</b>	<b>¥ 811</b>	<b>\$ 1</b>
<b>Total Credit Costs</b> .....	<b>¥ 4,281</b>	<b>¥ 3,625</b>	<b>¥ 9,819</b>	<b>\$ 36</b>

### Notes :

- (1) Credit costs in banking account are included in "Other Expenses" on the consolidated statement of income.
- (2) Credit costs in guaranteed trust accounts are reflected in "Trust Fees" after deduction of such costs.

## Net Unrealized Gain(Loss) on Securities

(1) Held to Maturity Debt Securities with Market Value	Millions of Yen			Millions of U.S. Dollars
	Sep. 30,2006	Sep. 30,2005	Mar. 31,2006	Sep. 30,2006
Japanese Government Bonds .....	¥ (1,019)	¥ 1,485	¥ (5,176)	\$ (9)
Japanese Local Government Bonds.....	(0)	—	(0)	(0)
Japanese Short-term Corporate Bonds.....	—	—	—	—
Japanese Corporate Bonds .....	(944)	152	(1,769)	(8)
Others .....	20	94	56	0
Foreign Bonds .....	20	—	56	0
<b>Total .....</b>	<b>¥ (1,943)</b>	<b>¥ 1,732</b>	<b>¥ (6,889)</b>	<b>\$ (16)</b>

(2) Available for Sale Securities with Market Value	Millions of Yen			Millions of U.S. Dollars
	Sep. 30,2006	Sep. 30,2005	Mar. 31,2006	Sep. 30,2006
Japanese Stocks .....	¥ 404,624	¥ 255,380	¥ 447,454	\$ 3,432
Japanese Bonds .....	(6,724)	(6,714)	(18,606)	(57)
Government Bonds .....	(4,589)	(6,027)	(13,770)	(39)
Local Government Bonds .....	(727)	(255)	(1,660)	(6)
Short-term Corporate Bonds .....	—	—	—	—
Corporate Bonds .....	(1,408)	(432)	(3,174)	(12)
Others .....	(13,436)	3,063	(17,038)	(114)
Foreign Stocks .....	412	—	330	3
Foreign Bonds .....	(19,417)	—	(27,861)	(165)
Others .....	5,568	—	10,492	47
<b>Total .....</b>	<b>¥ 384,462</b>	<b>¥ 251,729</b>	<b>¥ 411,809</b>	<b>\$ 3,261</b>

## BIS Capital Adequacy Ratio

	Millions of Yen		
	Sep. 30,2006	Sep. 30,2005	Mar. 31,2006
Total Qualifying Capital .....	¥ 1,780,659	¥ 1,528,567	¥ 1,595,890
Tier I Capital .....	964,655	924,379	909,376
including: Minority Interest in Consolidated Subsidiaries .....	160,669	108,588	159,032
including: Non-Cumulative Preferred Securities .....	133,000	83,000	133,000
Tier II Capital .....	887,849	636,988	761,195
Upper Tier II .....	516,565	330,088	416,195
Net Unrealized Gains on Securities Available for Sale, Net of Taxes, after 55% Discount .....	176,150	115,038	187,684
Unrealized Gains on Land after 55% Discount .....	1,202	1,307	1,201
General Reserve for Possible Loan Losses .....	54,547	44,642	58,209
Subordinated Debts .....	284,665	169,100	169,100
Lower Tier II .....	371,283	306,900	345,000
Termed Subordinated Debts, etc. ....	371,283	306,900	345,000
Deductible Items (-) .....	71,844	32,799	74,680
Total Risk-Adjusted Assets .....	¥ 15,411,217	¥ 13,694,266	¥ 14,640,708
On-Balance-Sheet Items .....	13,958,977	12,416,807	13,352,420
Off-Balance-Sheet Items .....	1,229,047	1,205,215	1,114,278
Market Risk Equivalents .....	223,192	72,244	174,009
Tier I Capital Ratio (%) .....	6.25%	6.75%	6.21%
BIS Capital Adequacy Ratio (%) .....	11.55%	11.16%	10.90%

Note : Non-consolidated BIS capital adequacy ratio and Tier I capital ratio are 12.21% and 6.75%, respectively.

# Corporate Data

as of September 30, 2006

## Head Office

5-33, Kitahama 4-chome,  
Chuo-ku, Osaka 540-8639, Japan  
Telephone: 81-6-6220-2121

## Tokyo Office

4-4, Marunouchi 1-chome,  
Chiyoda-ku, Tokyo 100-8233, Japan  
Telephone: 81-3-3286-1111

## Date of Establishment

July 1925

## Paid-in Capital

¥287,457 million

## Number of Employees

5,357

## Independent Public Accountants

KPMG AZSA & Co.

## Authorized Stock (Thousands)

Common Stock: 3,000,000

## Issued Stock (Thousands)

Common Stock: 1,673,460

## Number of Stockholders

Common Stock: 34,161

# Board of Directors, Executive Officers, and Auditors

as of September 30, 2006

## *Executive Chairman*

**Atsushi Takahashi\***

*President and CEO*

**Yutaka Morita\***

*Deputy President Executive Officer*

**Takaaki Hatabe\***

*Senior Executive Officers*

**Hideo Fujii\***

**Masao Shibuya\***

**Ikuho Inoue\***

Regional Executive, Osaka

**Masakiyo Inoue\***

*Managing Executive Officers*

**Masahiko Nakai\***

**Akio Otsuka**

**Kiyoshi Mukohara\***

**Masaru Suzuki\***

**Teruhiko Sugita**

General Manager, Global Credit Supervision Dept.

**Hiroaki Okuno**

**Tomoaki Ando\***

**Hitoshi Tsunekage\***

**Shuichi Kusakawa\***

**Rikiya Hattori**

General Manager, Financial Business Promotion Dept.

\*Directors

## *Executive Officers*

**Tadashi Chida**

General Manager, Real Estate Business Planning Dept.

**Hidehiko Asai**

Regional Executive, Nagoya  
General Manager, Nagoya Branch

**Takashi Matsui**

General Manager, Fukuoka Branch

**Mitsuru Nawata**

**Hideo Amemiya**

General Manager, Global Credit Investment Management Dept.

**Sumikazu Tsutsui**

Head Office Executive  
General Manager, Group Planning Unit, Global Markets  
General Manager, Treasury Unit, Global Markets  
General Manager, Alternative Investing Unit, Global Markets

**Kazumitsu Tanaka**

General Manager, Kyoto Branch

**Seiichi Hirata**

General Manager, Asset Management Dept.

**Fuminari Suzuki**

General Manager, Corporate Trust Business Dept. I

**Koichi Hozumi**

General Manager, Tokyo Corporate Business Dept. II

**Junichi Sayato**

Regional Executive, Americas  
General Manager, New York Branch

**Yasuyuki Yagi**

President and CEO, First Credit Corporation (Subsidiary of Sumitomo Trust)

**Tetsuo Ohkubo**

General Manager, Planning and Coordination Dept.

## *Standing Statutory Auditor*

**Eiichi Tanabe**

## *Statutory Auditors*

**Koichi Takamura**

**Hiroshi Noguchi**

**Hitoshi Maeda**

**Koji Hirao**



## International Network

as of September 30, 2006

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#### UNITED STATES

##### New York Branch

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### EUROPE

#### UNITED KINGDOM

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##### STB Consulting (China) Co., Ltd.

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## Subsidiaries and Affiliated Companies

as of September 30, 2006

### JAPAN

The Sumishin Shinko Company Limited  
Sumishin Guaranty Company Limited  
First Credit Corporation  
STB Wealth Partners Co., Limited  
Sumishin Business Service Company, Limited  
STB Investment Corporation  
STB Real Estate Investment Management Co., Ltd.  
STB Business Partners Co., Ltd.  
Japan TA Solution, Ltd.  
Sumishin Matsushita Financial Services Co., Ltd.  
Sumishin Life Card Company, Limited  
Sumishin Card Company, Limited  
Sumishin Information Service Company Limited  
STB Asset Management Co., Ltd.  
STB Research Institute Co., Ltd.  
Sumishin Realty Company, Limited  
Sumishin SBI Net Bank Research Co, Ltd.

Japan Pension Operation Service, Ltd.  
BUSINEXT CORPORATION  
Human Resource Management Service & Consulting Co., Ltd.  
Top REIT Asset Management Co., Ltd.  
Japan Trustee Services Bank, Ltd.  
Japan Trustee Information Systems, Ltd.  
STB Leasing Co., Ltd.

### OVERSEAS

The Sumitomo Trust Finance (H.K.) Limited  
Sumitomo Trust and Banking (Luxembourg) S.A.  
Sumitomo Trust and Banking Co. (U.S.A.)  
STB Consulting (China) Co., Ltd.  
STB Omega Investment Limited  
STB Finance Cayman Limited  
STB Preferred Capital (Cayman) Limited  
STB Preferred Capital 2 (Cayman) Limited



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