



SUMITOMO TRUST 住友信託銀行

~Accelerates momentum in high-growth Real estate business~

*Sumitomo Trust & Banking
Co., Ltd.*



Reference Material

Acquisition of “First Credit Corporation”

October 14, 2005

信託世代の、
住友信託銀行

Outline of acquisition

- ▶ Acquire all shares of “First Credit Corporation” – one of the largest non-bank real estate secured loan companies – from Lone Star Funds
 - Acquisition price JPY 130 billion (paid by cash on the closing date)
 - Closing date (Tentative) November 30, 2005

- ▶ Outline of First Credit Corporation (As of end of March 2005)
 - Shareholders' equity JPY 18.7 billion (Capital: JPY 13.5 billion)
 - Total asset JPY 120.5 billion (Real estate secured loans: JPY98.3 billion)
 - Main area of business Real estate secured loans
 - Main offices Head office: Tokyo
Others: Shinjyuku, Nihonbashi, Ohmiya, Machida, Sapporo, Sendai, Nagoya, Osaka, Hiroshima, Fukuoka (As of end of September)
 - Number of Employees 220 (As of end of September)
 - Corporate history March 1981: Launched operations (December 1982: Established)
February 1990 : Listed on OTC market (September 2002: Delisted)
December 2001: Shinsei Bank filed corporate reorganization proceedings (March 2002: Corporate reorganization proceedings started.)
November 2002: Lone Star Funds became the sponsor of the company.
March 2003: Emerged from bankruptcy
(Finished 2 fiscal years after the end of proceedings)

Growth strategy of Sumitomo Trust

▶ Accelerate moves to new growth

Highest quality of financial fundamentals



The top quality trust bank

Quality of profit = High fee revenue ratio/Sustainable growth of bottom line/High ROE

Quality of asset = Low non-performing loan ratio/High RAROA/Highly diversified investment

Quality of capital = Low rate of dependence on deferred tax assets/No public fund, no potential dilution

Quality of customer franchise = High loyalty/Depth of customer relations

Integrated real estate business model

- ▶ Acquire real estate secured loan function for small companies and small business owners ➡ Increase interest income
- ▶ Acquire real estate brokerage franchise and business know-how for small companies and small business owners ➡ Increase fee income

		Real estate related business				
		Brokerage	Lending	Securitization	Prop. investment Investment advisory	Custody Appraisal
Client segmentation (Real estate owners)	Large company					
	Midium company					
	Small Company					
	Private Company Owner					+
	Individual					

➡ Enhance coverage of customer franchise and business opportunities on real estate transactions to take full advantage of paradigm shift in real estate market.

Uniqueness of “First Credit”

► Business model

Evaluate real estate by business acumen and provide loans putting emphasis on quick response

- Main targets: individual, small medium company and newly established company who can not raise funds and capture business opportunities due to short-term business history and lack of business performance record.
- Lends purely based on value of real estate collateral (Basically ①first mortgage & ②70% or less Loan to Value)
- Decision made whether to lend or not in about 7days
- Achieve low credit cost through business acumens on managing and collecting the collateralized real estate.
- High coverage ratio (low LTV) and shortening of lending duration against volatile situation of real estate price (Approximately 40% for loans with 14months or less of initial maturity)

► Main products

► For real estate company

	Loan for real estate purchase	Loan for real estate foreclosure sale
Loan amount	JPY5million~JPY2billion	
Initial fee	2%	2%
Interest rate	6.96~9.96%	7.92~9.96%
Loan maturity	6months~3years	6months~1year
Early payment penalty	2% after 1 year	N/A
Other conditions		No extension of maturity

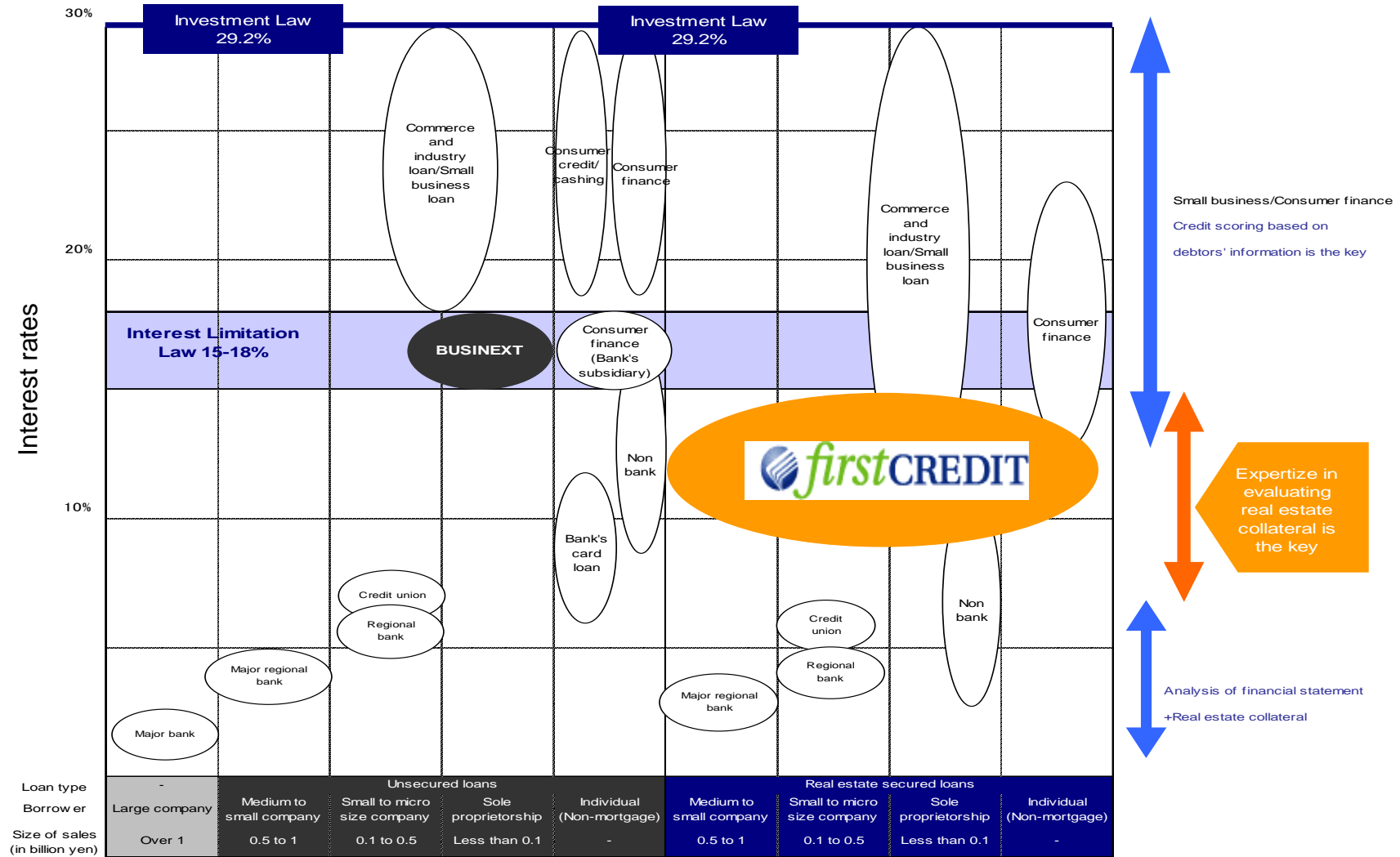
► For individual, private company owner and SME

	Business loan / Residential mortgage loan (no restriction on purpose for funds)
Loan amount	JPY3million~JPY1billion
Initial fee	2%~3%
Real interest rate	7.96%~14.46% per year (including initial fee)
Loan maturity	1year~25years
Refund method	Principal and interest equal repayment Principal equal repayment, Bullet maturity
Overdue interest rate	21.9% per annum
Early payment penalty	3%
Cosigner	Possibly necessary



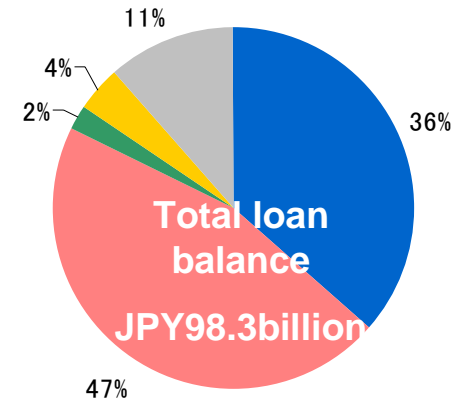
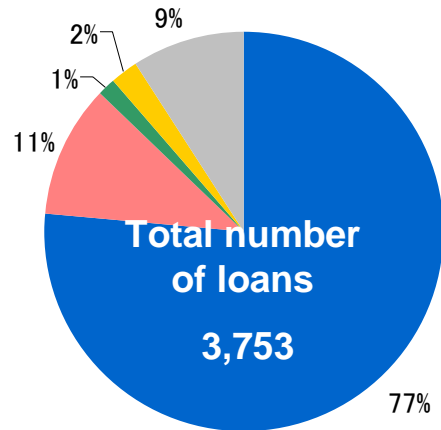
Business mapping

► Definite niche on interest rate range and business model



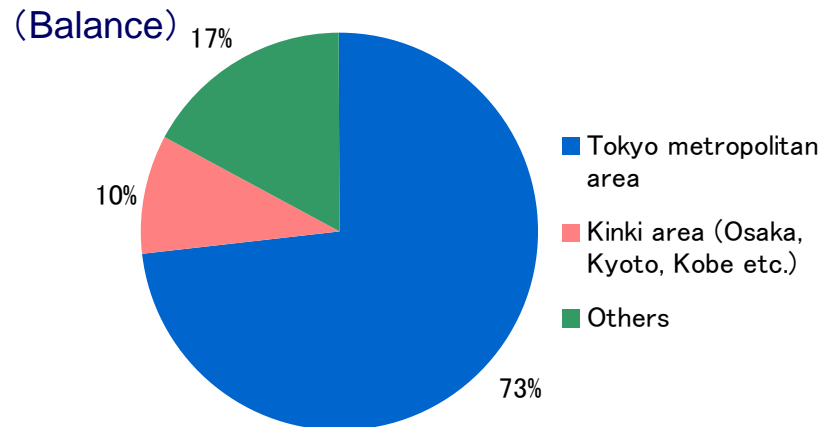
Real estate secured loan portfolio (As of end of March 2005)

► Categorized by borrowers' industry

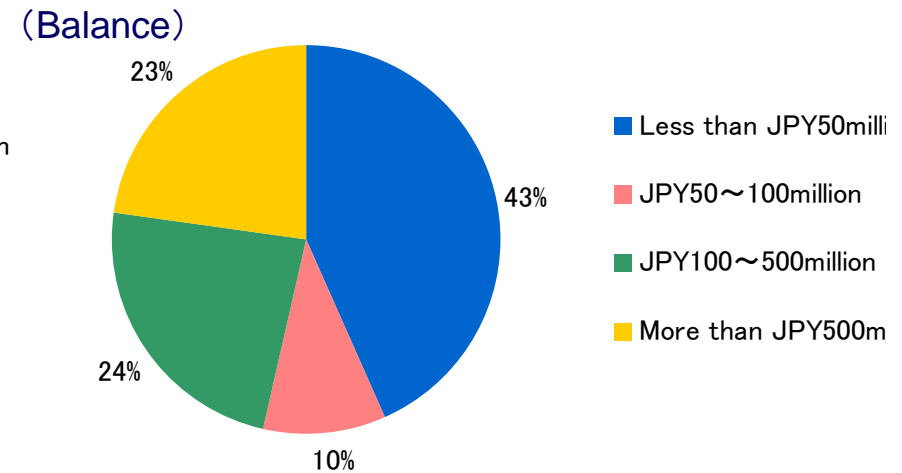


- Individual
- Real estate
- Construction
- Other services
- Others

► Categorized by location of collateral



► Categorized by loan amount



- Less than JPY50milli
- JPY50~100million
- JPY100~500million
- More than JPY500m

► Growth potential in Kinki area where Sumitomo Trust has strong franchise

► Fine granularity exists

Financial target and synergy effect

in billions of yen

▶ Financial target	Actual		Target			
	FY2003	FY2004	FY2005	FY2007	FY2009	
	Actual	Actual	Forecast	with financial synergy	with financial synergy	with financial & business synergy
Loan balance	95.3	106.3	110.0	135.0	160.0	200.0
Reserves	10.1	6.1	5.0	4.5	4.5	5.5
Net ordinary profit	8.0	5.1	5.5	9.5	12.0	15.0
Profit from loan business	5.5	7.7	9.0	14.0	17.0	20.0
Profit from real estate rent & sales ※1	6.6	1.1	0.2	0.0	0.0	0.0
G&A expense	4.1	3.7	3.7	4.5	5.0	5.0
Net operating profit	8.1	5.2	5.5	9.5	12.0	15.0
Net income before tax	9.6	5.9	6.0	9.4	11.5	14.0
Net income ※2	9.6	5.9	5.9	9.4	8.0	9.0
Credit cost ※3	△ 1.3	△ 0.8	△ 0.3	0.2	0.5	0.8

※1 Sale and rent of real estate acquired through foreclosure sales. Withdraw for avoiding fluctuation of market price.

This is the reason of decrease in net ordinary profit from FY2004 to FY2005.

※2 Tax-deductible loss carried forward exists. (JPY59billion as of March 2005) However, deferred tax assets are not booked at this moment.

※3 Sum of net transfer to general reserve and net transfer to specific loan loss reserve. Negative figures mean profit due to write backs.

▶ Assumptions of business environment

- ① More resource for increase of loan balance
 - New branches: in Tokyo Met. & Osaka area
 - Increase employees: FY04 202 → FY09 270
- ② Less credit cost due to economic recovery and stabilization of land price
 - General reserve ratio: FY04 1.5%※ → FY09 1.0%
 - ※ based on historical records of 4 months' delinquents
- ③ Funding cost increase due to interest rate rise
 - FY04 → FY09 Short term +45BP, Long term +60BP

▶ Synergy effect

- ① Financial synergy (lower funding cost only)
 - Benefits from Sumitomo Trust's financial fundamentals
 - Funding cost decrease: FY04 → FY05 △ 1.8%
- ② Business synergy
 - Enhance operations under Sumitomo Trust brand, especially in Osaka area
 - Lending opportunities from Sumishin Realty's franchise
 - Sumishin Realty's brokerage opportunities from First Credit's franchise (Not included in the above figures)

Financial effect on Sumitomo Trust

▶ Effect to consolidated BIS capital adequacy ratio

- Approximate figures based on preliminary BIS capital adequacy ratio and Tier I ratio as of September 2005 announced on October 6, 2005

⇒BIS capital adequacy ratio and Tier I ratio : **△ 0.9%**

▶ Effect to consolidated net income

- Approximate figures based on profit of FY2009 as normalized profit level

	with financial synergy	with financial & business	
Net income before tax	11.5	14.0	(Financial target of FY2009)
Net income	6.7	8.1	(Calculated with effective tax rate 42%)
Amortization of goodwill	△ 5.0	△ 5.0	(Equally amortized JPY100billion for 20years)
Additional profit in Sumitomo Trust group (after tax)	0.3	1.0	(Brokerage fee of Sumishin Realty, etc)
Total contribution to consolidated net income	2.0	4.1	

☆ In the case that First Credit is allowed to apply deferred tax accounting (assume net deferred tax assets as JPY15billion)

Amortization of goodwill	△ 4.3	△ 4.3	(Equally amortized JPY850billion for 20years)
Total contribution to consolidated net income	2.7	4.9	

☆ Calculation of "Multiple" (normalized profit basis)

Net income (after tax) ①	6.7	8.1
Acquisition price	115.0	115.0
—net deferred tax assets ②	115.0	115.0
"Multiple" (②/①)	17.2X	14.2X

《Reference》

Small business finance company

Average PER of top 3 companies
23.9

(SFCG28.0、Nissin22.8、Lopro20.8)

(Using last price on Oct. 11, 2005)

This presentation material contains information that constitutes forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ from those in the forward-looking statements as a result of various factors including changes in managerial circumstances.