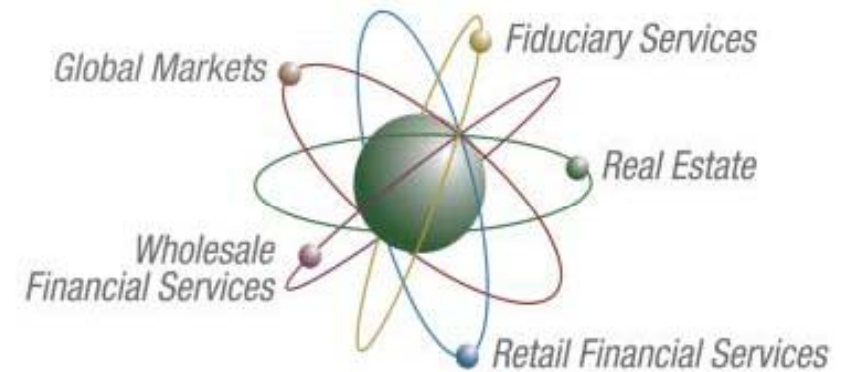




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***The Sumitomo Trust  
and Banking Co., Ltd.***



**Sumitomo Trust's Treasury and  
financial products business**

**July 2010**

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.

This presentation does not constitute an offer to sell or a solicitation of an offer to subscribe for or purchase any securities.

# Meeting agenda

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# Changes in business environment



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# Changes in business environment

## 1. Financial intermediary needs have changed

Compared with the high-growth period, the surplus of household savings remains unchanged but funds are flowing from the private sector to governments and overseas

- i. Government deficit: Private sector losses due to the financial crisis are shouldered by the government
- ii. Increase in overseas investments: Funds are flowing from domestic investment targets to overseas growth markets amidst globalization. (Partially flowing back)

Weak demand for corporate loans (dumping) + Back-flow from overseas markets + Difficulty in investing surplus funds  
= Massive holdings of government bonds + Weak profits + Risk of rising interest rates

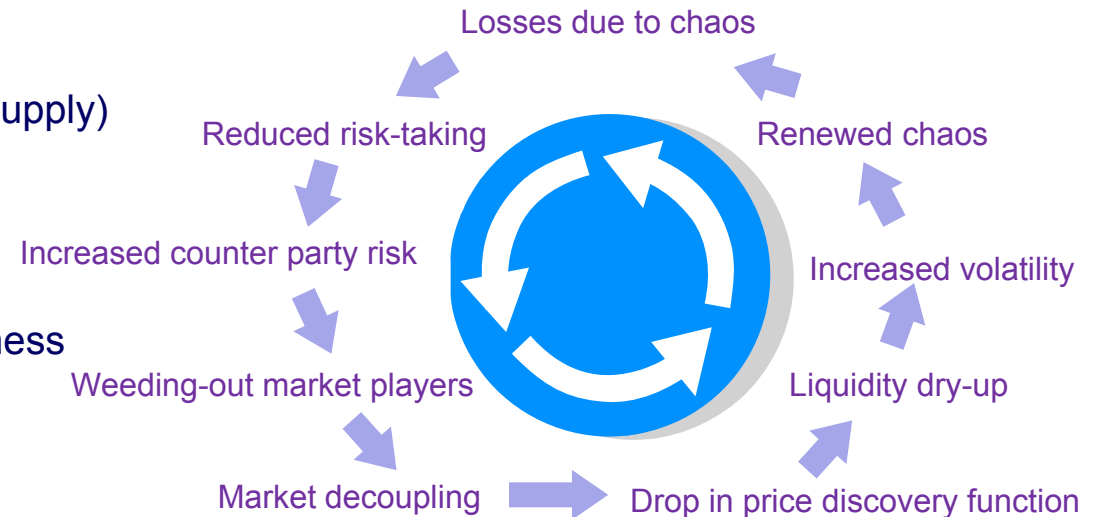
## 2. Market break-up

Chain-reaction of burden in breaking-up markets

(Shift from efficient, no-arbitrage state  
to market decoupling led by demand and supply)

## 3. Changing trends

- High risk/high return → Low risk/stable profits
- Financial management technique → Core business
- Declining interest rates → Rising interest rates
- Risk-taking needs → Risk-avoiding needs
- Liberalization (Market-led mechanism)  
→ Regulation/ tighter financial guidelines (capital/liquidity), introduction of IFRS



What is Sumitomo Trust's  
Treasury and financial  
products business?



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# Mission of Treasury and financial products business

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- ▶ First pillar: “Financial functions” maintaining and promoting the overall value of our balance sheet
- ▶ Second pillar: “Market intermediary functions” intermediate clients and markets ,or between markets

Mission of Treasury and financial products business and contents of business
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<u>Financial functions</u> : to maintain and promote the overall value of balance sheet	<u>(I) Financial operations</u> : Adequate management relating to potential market risk (interest rate risk, non-interest rate risk) in the entire company’s balance sheet
<u>Market intermediary functions</u> : to intermediate clients and markets ,or between markets	<u>(II) Marketing functions</u> : Market-making and marketing deals of deposits and loans, derivatives, foreign exchange and etc.
	<u>(III) Investment operations</u> : Proprietary investments taking advantage of market distortions

# Contents of Treasury and financial products business (I) Financial operations

- ▶ Maintain and promote the overall value of balance sheet through adequate financial management relating to inherent market risk (interest rate risk, non-interest rate risk) involved in the entire company's balance sheet
- ▶ Pursuit of most efficient and effective strategies utilizing investment instruments with high liquidity, such as domestic and foreign government bonds, stock indexes, etc., focusing on correlation between risk categories for management of non-interest rate risk

## Major functions and roles

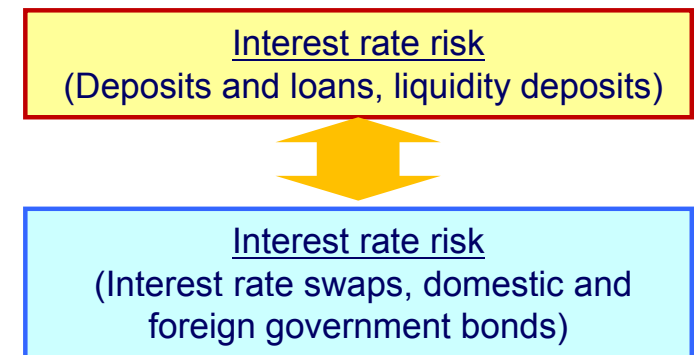
1. Management of market risk (interest rate-related)
  - a. Interest rate risk management for deposits and loans (categorized as "Marketing functions" in profit-record keeping)
  - b. Interest rate risk management contained in deposit spread (liquidity deposits, etc.)
2. Management of market risk (non interest rate-related)
  - a. Stock price risk contained in stock holdings
  - b. Credit risk contained mainly in international credit securities investments
3. Liquidity risk management
  - a. Securing a stable fund raising structure and lower fund raising costs through the efficient liquidity risk management covering all currencies

## Major risk control methods

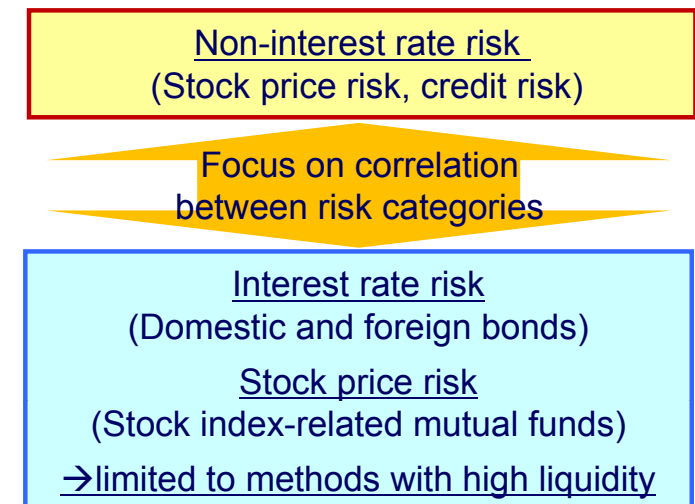
(Note: related to market risk management)

- a. Interest rates: domestic and foreign government bonds, interest rate swaps, etc.
- b. Stocks: stock index-related mutual funds, etc.  
(Note: containing no foreign exchange risk in principle.)

(Fig.1) Interest rate risk management



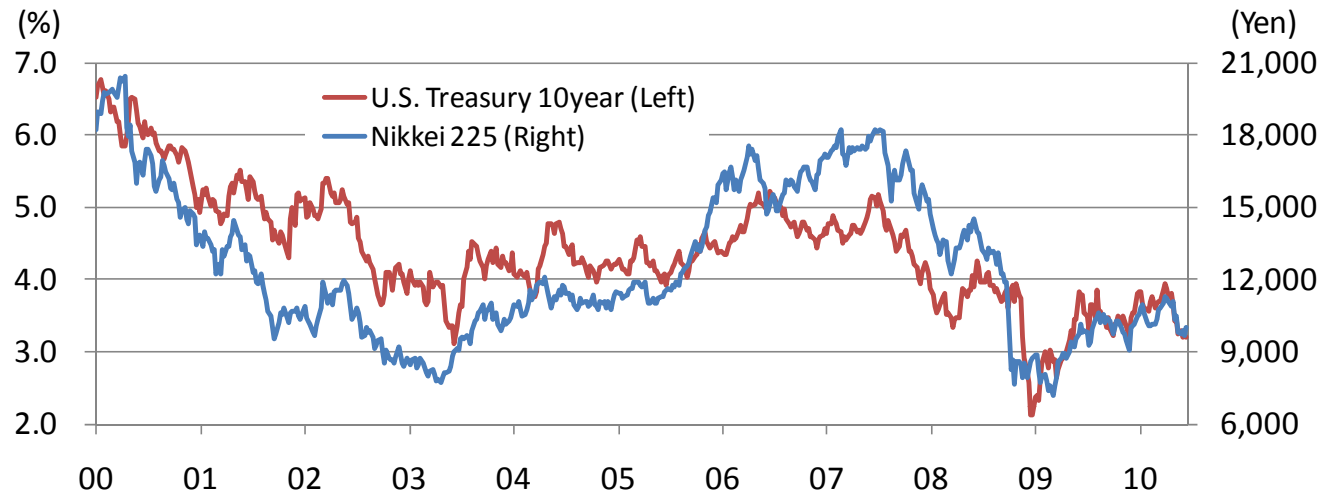
(Fig.2) Non-interest rate risk management



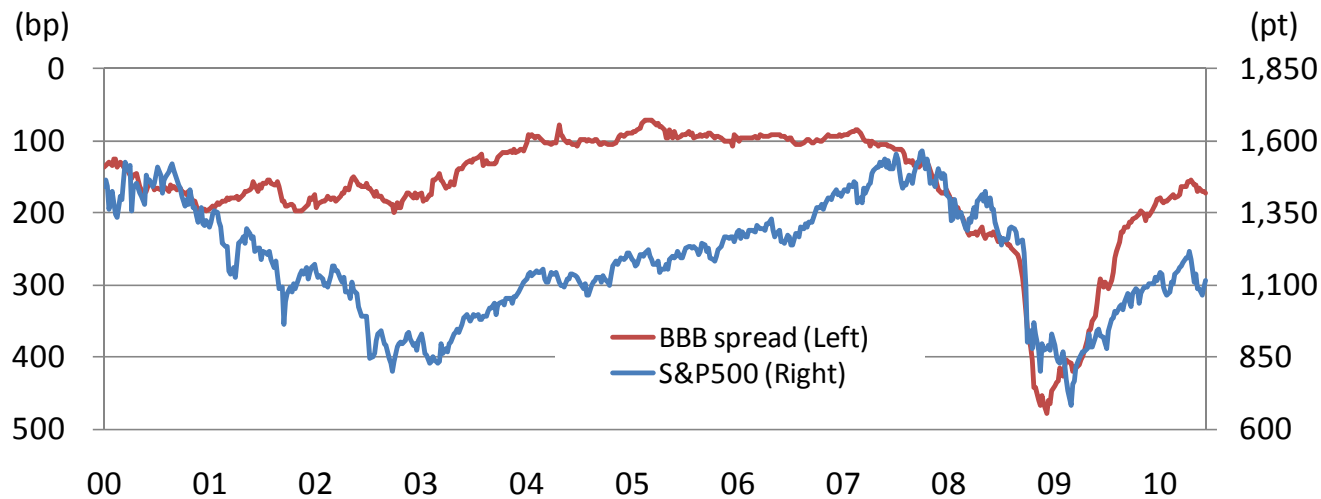


# (For reference 1) Correlation between interest rate and stock price, credit spread and stock price

(Chart.1) Trends of stock price and long term interest rate

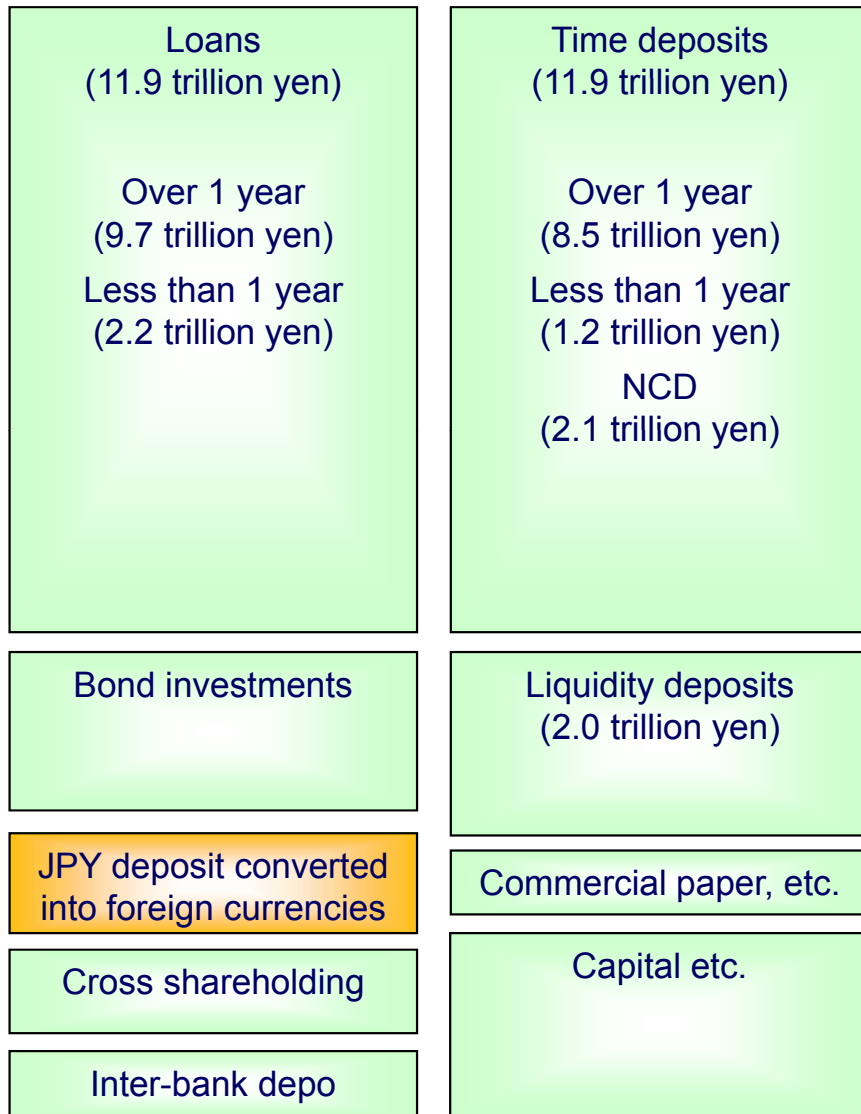


(Chart.2) Trends of stock price and credit spread



## (For reference 2) Status of balance sheet (As of Mar. 2010)

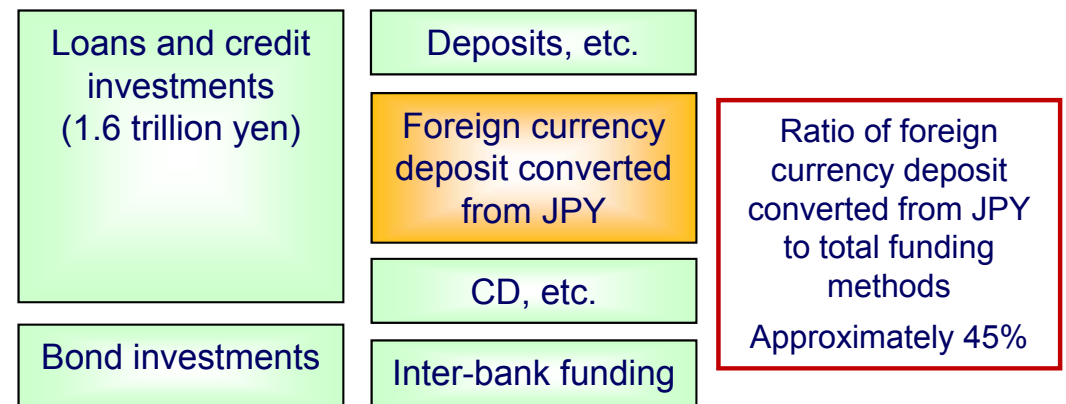
(Chart.1) Yen denominated balance sheet



(For reference) Interest rate attribution of loans and deposits

- Fixed rate loans with tenor of 1 year or longer : 2.5 trillion yen
- Fixed rate deposits with tenor of 1 year or longer : 6.9 trillion yen

(Chart.2) Foreign currency denominated balance sheet



## Contents of Treasury and financial products business (II) Marketing functions

- ▶ We aim to meet the financial and investment needs of client through deposits and loans, derivatives, foreign exchange and other market making as well as marketing
  - With the expansion in flow of client transactions, profits have grown steadily, approaching 30.0 billion yen annual mark on a managerial basis
- ▶ In particular, positioning development and investment sales of investment instruments with a focus on the risk contained in the client's balance sheet as a growth area
  - Actual sales of structured deposits in FY2009: approximately 320.0 billion yen

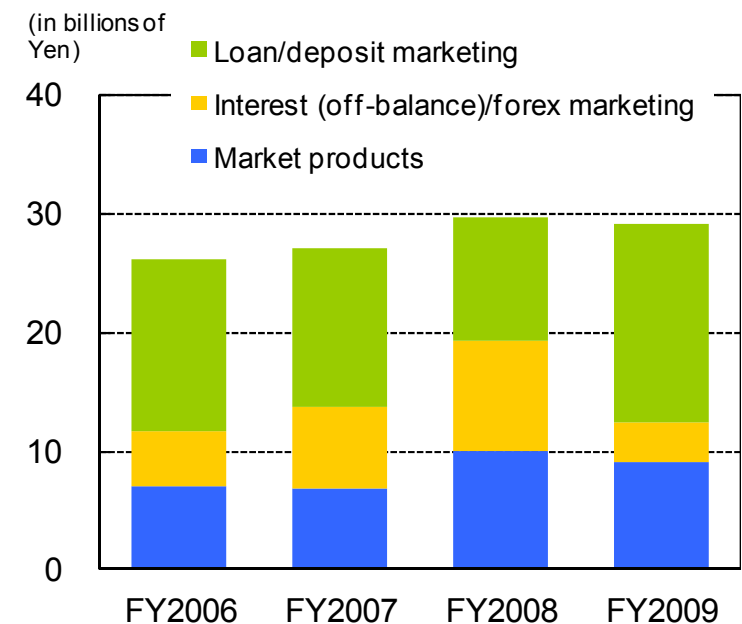
### Major functions and roles

1. Market making (market make, risk management)
  - a. Market making aimed at fixed rate portion of deposits and loans  
(For reference) 49% of deposits, 21% of loans have a fixed interest rate for at least one year
  - b. Market making relating to derivatives and foreign exchange transactions
2. Marketing
  - a. Offering and marketing of derivatives, foreign exchange instruments and structured deposits, etc.
  - b. Development of financial products (including investment instruments making use of our trust functions.)

### Major products and services provided

- a. Interest rate and foreign exchange-related derivatives
- b. Foreign currency deposits (Retail and wholesale)
- c. Structured deposit (Foreign exchange/stock price referenced deposits, etc.)
- d. Consulting services for the above products

<Trend of marketing function's profit>



# Contents of Treasury and financial products business (III) Investment operations

- ▶ The aim is to diversify and expand profit opportunities by diversifying investment objects, investment managers and investment terms, centering on proprietary account investment taking advantage of market distortions
- ▶ From FY2009, we strengthened our risk management system relating to nonlinear risk. Take the distributed risk amount into consideration, potential loss over -10.0 billion yen should be limited

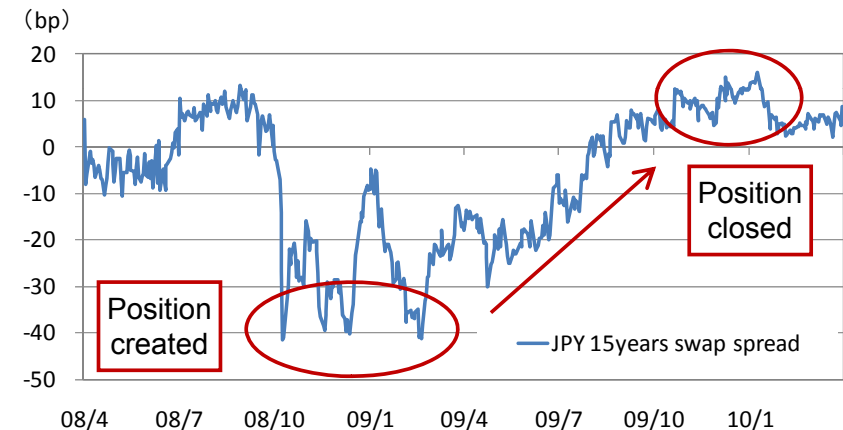
## Major functions and roles

1. Seeking profit-earning opportunities taking advantage of market distortions and their normalizing processes  
→Diversifying profit-making opportunities, achieving stable profits and maximizing them by diversifying investment objects (products and methods), investment managers and investment terms
2. Putting to use the know-how we have accumulated in proprietary account investments to develop new products (including ones utilizing trust function) for investors

## Major investment methods

- a. Interest rates: domestic and foreign government bonds, interest rate swaps
- b. Stocks: stock index
- c. Foreign exchange: futures exchange
- d. Others: mutual funds, etc.

<Example of new profit opportunity retrieval  
(Investment focusing on swap spread)>



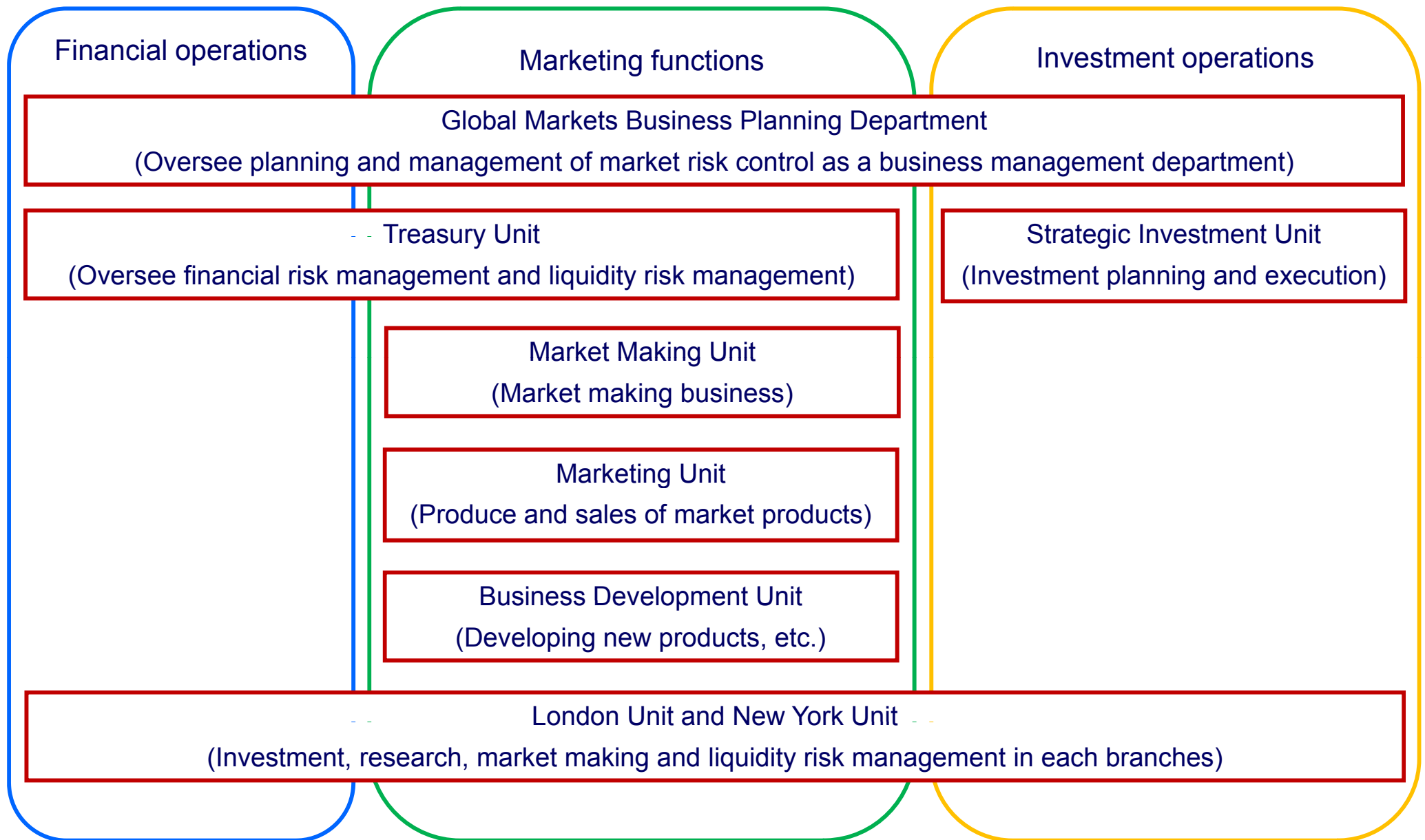
<Status of risk amount (Value at Risk, "VaR")  
of investment operations>

(billions of yen)	Banking account	
	Banking account	Investment operations
As of Mar. 2010	75.5	11.6
Maximum	147.8	28.9
Minimum	71.6	11.6
Average	109.3	21.3

(Calculation period: 2009/4~2010/3)

(Note: Please refer to page 17 for VaR calculation method) 10

# (For reference) Organization of treasury and financial products



# Impact on financial results

# Relationship between financial accounts and revenue arising from each operations

	Financial operations	Marketing functions	Investment operations
Net interest margin	○ (Bond coupon) (Swaps) (Redemption gains/ losses on mutual funds)	○ (Bond coupon) (Swaps) etc.	○ (Bond coupon) (Swaps) etc.
Net trading income	—	○	○
Net gains on foreign exchange transactions	—	○	○
Net gains on bonds	○ (Net gains/ losses on bond sales) (Net gains/ losses on mutual funds sales)	○ (Net gains/ losses on bond sales)	○ (Net gains/ losses on bond sales)
Net gains from derivatives other than for trading or hedging	△	○	○
Net gains on sales of stocks and other securities	—	—	—
Net gains on stock related derivatives	—	—	○



## (For reference) “Net business profit before credit costs excluding net gains on bonds”

- ▶ “Net gains on bonds” includes gains/losses on hedge transactions posted in “Net trading income” or “Net gains from derivatives other than for trading or hedging”
- ▶ “Net business profit before credit costs excluding net gains on bonds” amounted to approximately 150.0 billion yen in FY2009 against substantial amount of approximately 100.0 billion yen in FY2008  
→ Drop caused mainly by posting of temporary losses in “Investments operations” (Approximately 135.0 billion yen after excluding such temporary factors)

### Net business profit before credit costs excluding net gains on bonds

1. “Net business profit before credit costs excluding net gains on bonds” was approximately 150.0 billion yen in FY2009
2. In FY2008, “Net business profit before credit costs excluding net gains on bonds” stood at approximately 100.0 billion yen substantially after excluding 17.5 billion yen (managerial basis) of net gains on bonds related to hedge operation against trading account



Excluding the temporary loss in “Investment operations” (interest rate options, etc.), the amount reached approximately 135.0 billion yen



Following the strengthening of our risk management system for “Investment operations” in FY2009, and the distributed risk amount, potential for a loss over -10.0 billion yen is extremely limited

### <Net business profit before credit costs excluding net gains on bonds (Non-consolidated)>

(billions of yen)	FY2008	FY2009	Change
	Actual	Actual	
Net business profit before credit costs	201.0	175.4	-25.5
Net gains on bonds	119.4	24.4	-94.9
Related to hedge operation against trading account	17.5	-	-17.5
Net trading income	-52.0	15.6	67.7
Net business profit before credit costs excluding net gains on bonds	81.6	150.9	69.3
(Hedge operation adjusted = Substantial basis)	(99.1)	(150.9)	(51.8)

### <Managerial basis profit (Non-consolidated, Gross profit)>

Treasury and financial products	142.7	77.9	-64.8
Financial operations	149.7	36.8	-112.9
Marketing functions	29.6	29.0	-0.6
Investment operations	-36.8	12.0	48.8





(For reference)  
Risk Management

# Risk Management (I) Risk Management Framework

## Board of Directors

- ▶ The Board of Directors approves and determines the ALM Basic Plan and a risk management plan as important matters related to market risk and liquidity risk under management plans on semiannual basis

## Executive Committee

- ▶ The Executive Committee deliberates and decides the ALM Basic Plan and a risk management plan referred by the ALM Committee. In addition, based on reports on the status of market risk management, the Executive Committee implements measures to develop and improve the framework for facilitating control functions

## ALM Committee

- ▶ The ALM Committee plans the ALM Basic Plan on the company-wide comprehensive risk operational management for asset/ liabilities as well as risk management plan related to market and liquidity risk. The ALM Committee is held on a monthly basis and controls market and liquidity risks on a consolidated basis, and strives to ensure the soundness of the composition of assets and liabilities as well as stability of earnings

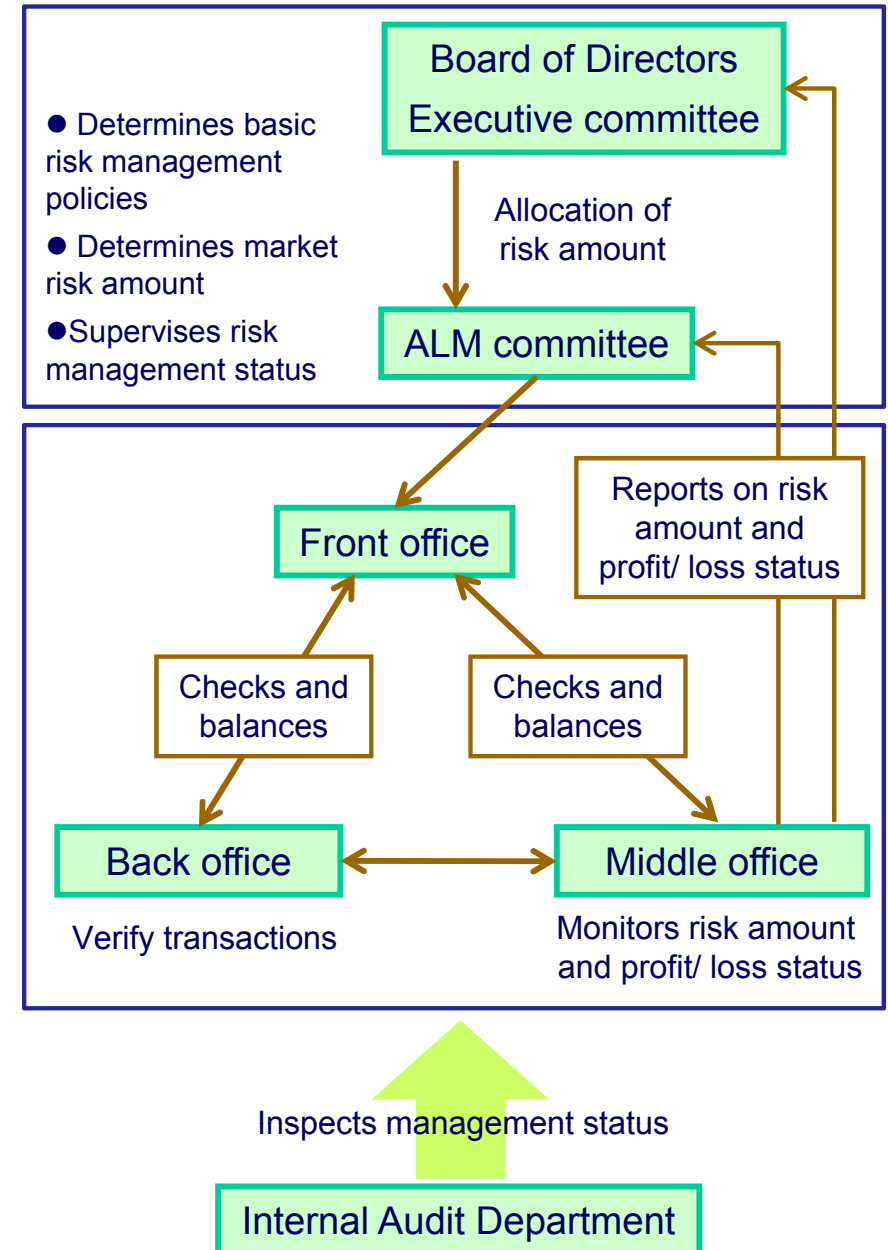
## Corporate Risk Management Department

- ▶ As a middle office independent from departments responsible for business processing (back offices) and departments responsible for market trading (front offices), the Corporate Risk Management Department is in the position to ensure proper control functions among the front and back offices. The role of this department includes the monitoring of conditions of market and liquidity risks managed under the ALM Basic Plan, measuring of risk amount and profits/ losses, and planning and promoting market and liquidity risk management measures. It monitors the status of observance of risk limits and loss limits. The department reports its finding to the ALM Committee as well as the Board of Directors periodically

## Internal Audit Department

- ▶ Conducts internal auditing of the adequacy and effectiveness of the risk management framework

## <Market risk/ Liquidity risk management framework>



# Risk Management (II) Risk Management Approach

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## Market Risk

- ▶ We employ Value at Risk (VaR) as a measure of market risk. Our measurement of VaR using the internal model, in principle, basically employs the variance-covariance method, and at the same time also uses the historical simulation method for calculating some risks (nonlinear risks, etc.) such as options transactions. We calculate market risk by simply adding up all risk categories without considering the correlation between these categories
- ▶ To enhance the effectiveness of market risk controls, we do back testing to verify the reliability and effectiveness of internal controls
- ▶ In addition to the management of market risk through the internal model, we regularly conduct stress tests that simulate the extent of potential losses under a situation with changes going beyond statistically expected levels

(Reference) VaR measurement standards

(Banking account) Confidence interval: One-tailed 99%, Holding period: 21 business days, Observation period: 260 business days

(Trading account) Confidence interval: One-tailed 99%, Holding period: 1 business day, Observation period: 260 business days

## Liquidity Risk (Funding Risk)

- ▶ We manage funding risk on a daily basis by setting an upper limit on the daily financing gap (the amount of funds required) and check whether future financing gaps, including planned investment amounts, can be covered by assets easily convertible into cash and funds to be raised from the market, and conduct monitoring ensure proper cash flow
- ▶ In addition to the management described above, we have established three different settings for managing funding risk – “normal times”, “times of concern” and “times of emergency” – depending on the financing liquidity condition, and developed liquidity contingency plans for the “times of concern” and “times of emergency”

## Liquidity Risk (Market Liquidity Risk)

- ▶ Determining the amount of market risk we can undertake with due consideration as to whether the risk amount is at a level that enables transactions at reasonable prices in light of the market size

## Credit Risk

- ▶ In order to contain credit risks associated with repetitive market trades with specific counterparties within a certain range, we are managing such risks by establishing credit lines for respective counterparties