

Financial Section

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Financial Review

Economic and Financial Environments

With respect to the economic conditions during this period, economic recovery in U.S. or other developed countries remained sluggish, and the pace of economic growth in developing countries such as China slowed down slightly. In Japan, economic condition has shown a gradual recovery trend. However, outlook for the economic conditions has become unclear since the appreciation of the Japanese yen against foreign currencies has developed and the growth in exports and production has slowed down.

In the financial markets, short-term interest rates (overnight call rates) hovered around the Bank of Japan's target rate of 0.1%. Long-term interest rates fell to 0.9% level, for the first time since August 2003, from 1.3% level at the beginning of the period due to the uncertain outlook for the global economy.

The Nikkei Stock Average dropped from the 11,000 level at the beginning of the period, finishing at the 9,300 level. In the foreign exchange market, the yen trended higher against the dollar, rising sharply from the ¥93 range in early April to the ¥83 range at the end of the period.

Consolidated Performance for the First Half of Fiscal 2010, for the six-month period ended September 30, 2010

As of September 30, 2010, total asset was ¥14,265.1 billion, decreased by ¥712.8 billion from the end of March. Of which, balance of loans and bills decreased by ¥74.0 billion to ¥8,867.9 billion, balance of securities decreased by ¥459.4 billion to ¥4,066.1 billion. Balance of deposits increased by ¥172.5 billion to ¥8,932.4 billion. Net assets increased by ¥3.5 billion to ¥850.1 billion, owing to the increase of retained earnings.

Aggregate trust assets (combined amounts in the trust accounts of Chuo Mitsui and Chuo Mitsui Asset) were ¥37,751.3 billion, decreased by ¥83.7 billion.

On the profit-and-loss front, ordinary income decreased by ¥2.5 billion YoY to ¥179.2 billion, and ordinary expenses decreased by ¥18.2 billion YoY to ¥129.1 billion. As a result, Chuo Mitsui Trust Holdings recorded an ordinary profit of ¥50.1 billion, increased by ¥15.7 billion YoY, and net income of ¥32.0 billion, increased by ¥12.9 billion YoY. Net income per share was ¥19.34.

Segment Information

For this period, the trust and banking business generated total ordinary income of ¥86.1 billion and ordinary expenses of ¥62.7 billion, leading to an ordinary profit of ¥23.4 billion. Other finance-related operations generated ordinary income of ¥8.6 billion and ordinary expenses of ¥8.0 billion, for ordinary profit of ¥0.6 billion.

Cash Flows

For the second quarter of the fiscal year, net cash provided by operating activities was ¥363.3 billion, increased by ¥557.6 billion from the second quarter of the previous fiscal year, primarily due to a net increase in payables under securities lending transactions.

Net cash used in investing activities was ¥408.6 billion, decreased by ¥735.4 billion from the second quarter of the previous fiscal year, mainly due to decrease in securities-related proceeds.

Net cash used in financing activities was ¥3.7 billion, increased by ¥0.1 billion from the second quarter of the previous fiscal year, mainly due to a decrease of dividend paid for minority shareholders.

For this period, net cash used in operating activities was ¥682.7 billion, decreased by ¥454.2 billion primarily due to a net decrease in borrowed money (excluding subordinated borrowings).

Net cash provided by investment activities was ¥675.0 billion, increased by ¥480.8 billion from the first half of the previous fiscal year, mainly due to an increase in securities-related proceeds.

Net cash used in financing activities was ¥17.0 billion, decreased by ¥58.4 billion from the first half of the last fiscal year, mainly due to a decrease of income owing to the issuance of subordinated bonds.

As a result, Cash and cash equivalents at the end of September 2010 was ¥212.8 billion, decreased by ¥12.0 billion compared to the end of September 2009.

Non-Consolidated Results for the First half of the Fiscal year 2010, for the six-month period ended September 30, 2010

Total assets of Chuo Mitsui Trust Holdings decreased by ¥0.4 billion to ¥804.7 billion in this period. Net assets were ¥612.1 billion, decreased by ¥0.2 billion from the end of March 2010. Net assets per share were ¥369.19.

Ordinary profit was ¥13.3 billion, increased by ¥7.2 billion from the first half of previous fiscal year, mainly due to increase in dividends received from subsidiaries. Net income increased by ¥6.9 billion from the first half of previous fiscal year to ¥13.0 billion, and net income per share of common stock was ¥7.85.

Dividends

In view of its public duty as a financial institution, Chuo Mitsui Trust Holdings' basic policy on dividends is underscored by an unwavering commitment to ensure an appropriate level of retained earnings while maintaining stable dividends for shareholders.

Under this basic policy, enhancing the opportunity of dividends and taking the financial result into the dividend calculation, interim dividend was ¥4 per share of common stock.

How to Read the Financial Statements of Trust Banks

Trust Account and Banking Account

Trust banks keep two types of accounts: the banking account, which is the institution's own; and the trust account, which is the account of beneficiaries. Trust banks have a number of trust accounts, reflecting the fact that they must separately administer the assets of each trust contract. In principle, details of individual accounts are disclosed only to trustors or beneficiaries. Nevertheless, the total balances of money and pension trusts are recorded in the trust account's aggregate balance sheet. The main assets and liabilities of the trust account with principal guarantee agreement are also disclosed.

Although trust assets nominally belong to trust banks, in fact they belong to the beneficiaries. The institutions therefore receive trust fees for managing these accounts. After deductions for fees and expenses, the profits generated with these accounts all become trust assets.

Trust fees represent one source of income in the banking account. In other words, the banking account income statement reflects both earnings from banking operations and from trust operations.

The Concept of Net Operating Profit (*Gyomu Juneki*)

To calculate core profits—excluding items outside core operations, such as stock earnings and losses and writeoffs of non-performing assets—we calculate the net operating profit by selecting only those items that express the earnings from core operations from within the income statement.

Net operating profit is calculated by subtracting the general and administrative expenses and the transfer to the general allowance for loan losses from gross operating profit. Gross operating profit comprises:

- Net interest income (such as from deposits, loans and marketable securities);
- Net fees and commissions (trust fees, and fees and commissions);
- Net trading gains (earnings from trading purpose transactions); and
- Net other operating income (such as earnings from foreign exchange and bond trading).

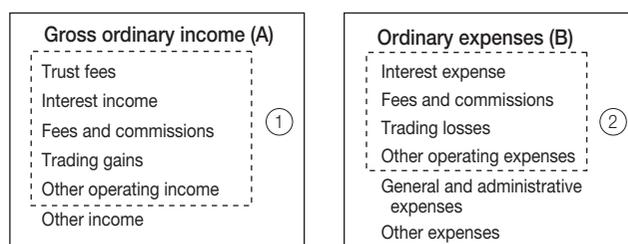
Net Operating Profit at Trust Banks

In addition to net operating profit, trust banks disclose net operating profit before trust account write-offs. With trust banks, the net operating profit calculated according to the formula mentioned above does not adequately reflect the profitability of core operations. Trust fees, which are part of business profit, are calculated after subtracting loan write-offs in the trust account. Therefore, net operating profit is smaller than a trust bank's actual profitability in core operations.

To adjust for this difference and more accurately reflect the profitability of core operations, trust banks calculate net operating profit before trust account write-offs. This allows a comparison with other banks according to net operating profit.

Pre-provision profit is calculated by adding back the transfer to the general allowance for loan losses from net operating profit before trust account write-offs. The purpose of this calculation is to show the trend of a bank's earning power by eliminating all credit costs including transfers to general reserves.

• The Relationship between Ordinary Income and Net Operating Profit



Ordinary income

This is calculated by deducting ordinary expenses (B) from gross ordinary income (A).

Gross operating profit

The amount remaining after subtracting the highlighted areas in box ② from those in box ① is nearly equal to gross operating profit.

Net operating profit

This results from subtracting general and administrative expenses and the transfer to general allowance for loan losses from gross operating profit. The transfer to the general allowance for loan losses is part of other expenses.

• Sample Calculation of Net Operating Profit before Trust Account Write-Offs

| | | |
|--|-----------------------------------|--|
| Net operating profit other than for trust fees | Trust fees before loan write-offs | |
| ← | → | |
| Net operating profit other than for trust fees (a) | Trust fees (b) | Loan write-offs in the trust account (c) |
| 150 | 70 | 30 |
| Net operating profit (a + b) | | |
| 220 | | |
| Net operating profit before trust account write-offs (a + b + c) | | |
| 250 | | |