Message from the President and CEO

The spread of the global financial crisis has transformed the business environment for Japanese banks including our own. Under these circumstances, while reviewing risks and tackling early discovery and solution of problems, we are determined anew to take full advantage of our diversified businesses to achieve the early recovery of business results.

Headwinds Hit Interim Earnings

Our consolidated net business profit before credit costs in the first half of the fiscal year 2008 declined by 7.1 billion yen year-on-year to 95.3 billion yen, due mainly to a steep drop in net fees and commissions from the slump in real estate brokerage, mutual funds as well as individual annuities sales, although the fiduciary services such as pension asset management showed a solid performance and treasury and financial products related business achieved a substantial profit.

Total substantial credit costs declined by 14.1 billion yen year-on-year to 24.5 billion yen. This includes 7.8 billion yen for disposal of losses on off-balance transactions such as interest rate swaps with the Lehman Brothers group and 14.1 billion yen for the provision of allowance for loan losses at consolidated subsidiaries.

In addition to the aforementioned, as the result of losses caused by the decline in stock prices and the absence of gains on return of securities from retirement benefit trusts, which was recognized as extraordinary profit in the previous year, our consolidated net income dropped by 9.3 billion yen to 28.3 billion yen.

Financial Soundness Indicators Remain Solid

The consolidated BIS capital adequacy ratio at the end of September 2008 decreased by 0.42 percentage point from 11.84% at the end of the previous fiscal year to 11.42%. The consolidated Tier I capital ratio, which represents the state of our core capital, rose by 0.23 percentage point from 7.33% to 7.56%.

The balance of non-performing loans at the end of September (disclosed under the Financial Reconstruction Law, banking and trust accounts combined, non-consolidated basis) declined by 37.0 billion yen from the end of the previous fiscal year to 70.0 billion yen. The non-performing loan ratio dropped by 0.3 percentage point from 0.9% to 0.6%. Loans to substandard debtors decreased on sale of overseas warehousing loans worth 42.0 billion yen and repayments by domestic borrowers.

Owing to the downturn in the domestic and the overseas economic conditions, loans to special mention debtors excluding substandard loans increased by 34.1 billion yen from the end of March 2008 to 785.4 billion yen. We will continue to strengthen our credit portfolio management together with our group companies.

Interim Dividends Remain Unchanged

We have kept dividends for the first half of fiscal year 2008 unchanged from the previous year's level of 8.50 yen per share. We also plan to keep annual dividends unchanged at the previous year's level of 17.00 yen per share, based on the consolidated net income forecast of 60.0 billion yen.

Flexible Strategy Responding to the Abrupt Shift in Economic and Financial Environment

While the world's financial institutions now face a severe "credit crunch" in the aftermath of the global "excess liquidity," we are willing to adopt a strategy that flexibly responds to such an abrupt shift in the business environment.

• Preemptive Recapitalization to Enhance Financial Base

As noted above, our consolidated BIS capital adequacy ratio and Tier I capital ratio have remained sufficient. In the current, increasingly uncertain situation, however, we have chosen to raise 70.0 billion yen in capital to "enhance the quality and quantity of our capital." Preferred securities will be issued in order to avoid the dilution of earnings per share. Tier I capital ratio is estimated to rise by 0.5% as a result of the planned recapitalization.

• Revision of Market-Based Loan Strategy

A new midterm management plan compiled in March called for a continued shift to market-based loan (non-relation-based loans such as project finance loans and asset backed securities (ABS) structured in both domestic and overseas financial markets) as a measure to improve the profitability and diversity of our credit portfolio. However, the market liquidity of market-based loan at home and abroad has declined substantially, causing problems in price transparency. At the same time, demand has been growing for relation-based corporate loans due to the increased difficulty even for large corporations in raising funds in the Japanese financial markets. There is clearly a tendency towards an improved corporate credit spreads. We now believe that we have to make a pause in the shift in the second half of fiscal year 2008. We will thus reduce market-based loan at home and abroad in the second half.

• Enhancing the Rebalancing of Corporate Loans

While we reconsider the market-based loan strategy, we plan to have approximately the same amount of relation-based loans to Japanese corporate customers. In a bid to increase the profitability of such loans, however, we are planning to rebalance the portfolio of 300.0 billion to 500.0 billion yen in such loans so that the amount of loans with better return will be increased, taking advantage of improved profit spreads for customers including Japanese companies operating overseas.

• No Change in Trust and Real Estate Business Strategy

Although the dampened investor sentiment is likely to affect our trust and real estate business operations in the short term, we believe that undervalued Japanese stock and real estate prices will work to expand needs for investment proposals and competitive products for investors at home and abroad. We will carefully mobilize all business resources for such priorities as the enhancement of investment sales and wealth management business, and development of comprehensive real estate business operations, in a bid to solidify our infrastructure for long-term growth.

Taking Maximum Advantage of Diversity, Creativity and Speed

Amid the global financial crisis, many financial institutions are forced to reconsider their profit-oriented business model known as leveraged management and return to the basics of financial services. We are confident that the situation now is in need of the customer-oriented business approach ("Trustee-ness"—unique quality of trust banks) that we have developed through fiduciary relations with customers.

At the same time, we have grown more confident of our business model of combined banking, trust and real estate. Now more than ever, we are determined anew to take full advantage of our diversified businesses. While reviewing risks and tackling early discovery and solution of problems, we are prepared to use our strengths of diversity, creativity and speed ("STB-ness"—unique quality of Sumitomo Trust) to the maximum advantage to flexibly overcome the current difficulties.

I would like to request the continued support of our shareholders and investors.

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Hitoshi Tsunekage President and CEO