

## Treasury Unit

### ● Business Strategies

The Treasury Unit operates in the domestic and international money, foreign exchange, securities and derivatives markets to serve the hedging and dealing needs of our customers and take advantage of arbitrage opportunities while controlling market and liquidity risk at appropriate levels.

To provide a superior level of service with customer convenience at the forefront, we are strengthening and rounding out the Treasury Unit structure and making full use of the latest technology and a highly trained staff. With the merger, our combined assets expanded dramatically relative to the balance sheet of each of the predecessor banks. To manage the accompanying risk dynamically, we are concentrating on upgrading our market intelligence and risk management capabilities. We are also launching into new business areas as a fresh source of revenue.

### ■ Key Objectives

1. Strengthen and round out the organization in pursuit of enhanced customer convenience
2. Implement proactive ALM anticipating market trends
3. Increase profit opportunities in new business areas

### ● Treasury Operations

Treasury operations of the new bank were unified at the start of the merger. The Treasury Unit uses an integrated computer system, a single risk management system and a single



dealing room. The operations are divided into three main segments: customer transactions, banking and trading.

### Customer Transactions

The merger dramatically expanded the transaction volume handled by the Treasury Unit. To further expand our clientele and respond to its increasingly diverse and advanced needs,

we used the opportunity presented by the merger to establish a Treasury Marketing Department. To offer the highest standard of service in the industry, we are increasing the number of treasury officers engaged in foreign currency-related transactions, adding new, low-cost gateways for electronic transactions, providing rapid pricing and detailed market information, and beefing up our 24-hour foreign exchange dealing.

### Banking

In our banking operations, we manage our exposure to market and liquidity risk inherent in our own assets and liabilities, such as loan assets, securities, and deposits in Japan and abroad. By managing liquidity and market positions with a careful eye on the interest rate and supply and demand environment, we strive to increase our profit opportunities from banking operations.

The Treasury Department handles yen-denominated transactions while the International Treasury Department deals with foreign currency-denominated transactions. Both departments are implementing cash flow management systems and fine-tuned simulations to increase the sophistication of our ALM techniques to manage the increased magnitude of risk arising from the merger. Their mandate is to conduct our ALM operations with an accurate understanding of interest rate trends.

### For Your Reference

The Treasury Unit also issues corporate bonds for our long-term funding needs. Prior to the merger, the two former banks unified their bond issuing and were awarded the Straight Bond Deal of the Year 2000 by Rating and Investment Information, Inc. and the Issuer of the Year 2000 by Thomson DealWatch.



### Trading

The goal of our trading operations is to maximize profit potential through market transactions taking advantage of short-term market fluctuations and intermarket arbitrage opportunities. Under the new bank structure, customer orders for foreign exchange transactions, interest rate swaps and ALM operations are handled by the Trading Department, which is charged with the efficient management of risk. To increase revenue opportunities, we are also forging into such new product areas as weather derivatives and commodity derivatives.

### Risk Management

The Capital Markets and Treasury Operations Department (back office) and the Corporate Risk Management Department (middle office) are responsible for screening and checking Treasury Unit (front office) operations to prevent operating mistakes or improper transactions from occurring and to avoid transactions that deviate from risk management guidelines and limits. In addition, the Audit Department conducts comprehensive audits on a regular basis. We are also further tightening our compliance systems to ensure due diligence in the observance of market rules, regulations and laws.

