



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.

Highlights of Fiscal 2001

The two former banks' detailed preparations for the merger, which ensured that computer systems and risk management structures were fully integrated and functional, enabled the Treasury Unit to start operating from a single dealing room immediately upon SMBC's formation at the beginning of April 2001. This positive start paved the way for the Treasury Unit's strong performance during the Bank's first year of operations.

To meet the significant increase in the number of transactions with customers, we established the Treasury Marketing Department, an organization dedicated solely to improving customer services and boosting sales activities. The new department provides an all-in-one service for market-based products, with accelerated response time and in-depth market information for customers. We also increased the number of treasury officers specializing in foreign exchange-related services and strengthened our ability to process customer requests for foreign exchange forward agreements on a 24-hour basis. In addition, we focused actively on developing new products—small-lot transactions using weather derivatives, for example—to broaden our lineup.

In our banking and trading operations, we effectively managed the increase in market and liquidity risk arising from the merger, as well as conducted trading operations on our own account to take full advantage of evolving market trends. In the banking field, this resulted in new position-taking in anticipation of falling interest rates in Japan and overseas as well as a timely shift in positions from yen to foreign currencies. Our trading operation, for its part, successfully forecast market trends and enjoyed increased profitability. As a result of these and other actions, the Treasury Unit earnings for fiscal 2001, the year ended March 31, 2002, increased more than ¥200.0 billion as compared to fiscal 2000 (the combined figure of the two former banks).

Strategic Themes for Fiscal 2002

For fiscal 2002, the Treasury Unit is totally committed to responding to the increasingly diversified and sophisticated demands of our clients. One major advance has been to offer even more value by adding new products and bolstering the unit's ability to handle a broadened array of transactions.

In Asia, we maintain sales desks in Tokyo, Hong Kong, and Singapore, forming a solid base for supporting customers in funding, foreign exchange, and derivatives. Our customers can rely on us to provide a wide range of information and advice on a global scale. These desks also enhance our ability to rapidly handle customer transactions. Furthermore, we plan to introduce *i-Deal*, an Internet dealing system that will allow customers to directly purchase foreign exchange forward agreements, revise the terms of certain agreements, and access a host of market data, including SMBC research reports. Much more than just a direct-trading channel, *i-Deal* offers many complementary functions that will enhance its value to customers in many aspects of their operations.

In Japan, market participants have become highly sensitive to credit risk. Accordingly, we will pay increased attention to managing market and liquidity risk in the conduct of our trading operations. In our banking operations, we will continue to maintain positions that afford adequate protection in the event of an upturn in interest rates. In trading operations, we intend to increase profit-generating opportunities presented by customer transactions and asset liability management (ALM) operations. Finally, we will continually enhance our ability to take on risk by fine-tuning our risk management framework.

Key Goals

The Treasury Unit has two basic goals: (1) to capture the No. 1 share of market-based products by supplying customers with services of the highest quality in the industry, and (2) to generate a steady flow of high-level earnings from trading activities by dynamically managing our market positions. With these goals in mind, we will continuously increase our expertise in financial engineering techniques, invest in state-of-the-art information management systems, and enhance our ability to monitor and analyze markets. Underpinning these activities is our personnel system, which enables the Bank to attract talented and motivated individuals by consistently offering remuneration packages tailored exclusively to each individual's performance. Finally, because infrastructure and our ability to deploy it are also important, we will continue to upgrade systems and refine expertise in risk management, compliance, and back-office operations.

■ Treasury Unit Operation Chart

