

### Business Strategy

The Treasury Group is responsible for controlling market and liquidity risks that result from the Bank's activities in the global money, foreign exchange, bond and derivatives markets. The Group also executes a wide range of transactions to secure and optimize arbitrage opportunities.

The Bank views the ongoing deregulation and reform of Japan's financial markets related to the Big Bang as a positive development. We have, therefore, taken and continue to introduce proactive and market-sensitive measures to seize the business opportunities offered by the new operating environment and to strengthen our funding capabilities. Following on from the amendment of the Foreign Exchange Control Law in April 1998, the Banking Law was revised last December, opening credit derivatives, over-the-counter securities derivatives and other business areas that were previously not available to banks. In addition, the Bank is preparing for the smooth introduction of the planned changes to corporate accounting standards as well as the Real Time Gross Settlement (RTGS), Continuous Linked Settlement (CLS) and other new settlement systems in Japan.

#### Key Priorities

- **Efficient maximization of profit opportunities**
  - (a) **Optimization of arbitrage opportunities in trading operations**
  - (b) **ALM operations closely attuned to the prevailing interest rate environment**
- **Strengthening of funding capability**
  - (a) **Increase in customer deposits**
  - (b) **Funding in the market at low cost**

#### Banking Business

Treasury Department I oversees non-yen treasury-related business, while Treasury Department II is responsible for all yen-based treasury-related business. In addition, both of these departments strictly apply ALM to the market and liquidity risks inherent in their respective areas of responsibility. This division of market segments has been introduced to maximize profit opportunities through timely, accurate and interest rate-sensitive operations.

Networking and cooperation with other groups within the Bank will continue to be strengthened with the aim of increasing customer deposits. At the same time, by drawing on the specialist expertise of other arms of the Bank, the Treasury Group will enhance its ability to develop and execute innovative and effective funding arrangements.

#### Trading Business

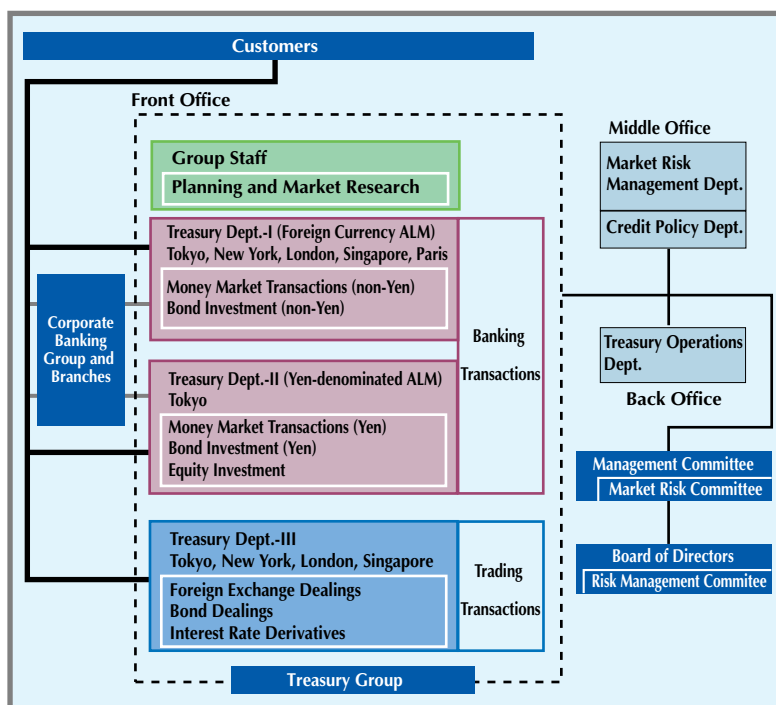
Trading activities fall under the responsibility of Treasury Department III. Tokyo staff engage in foreign exchange dealing, bond dealing and interest rate derivatives, while Treasury Department III staff in New York, London and Singapore specialize in foreign exchange transactions. This structure has been put in place to meet increased customer demand and to reap maximum benefit from arbitrage and other business opportunities. The capabilities of the department to satisfy diverse customer requirements will continue to be enhanced through the maintenance of close cooperation with Daiwa Securities SB Capital Markets Co. Ltd., which commenced operations in April 1999.

## Next-Generation Dealing Support System

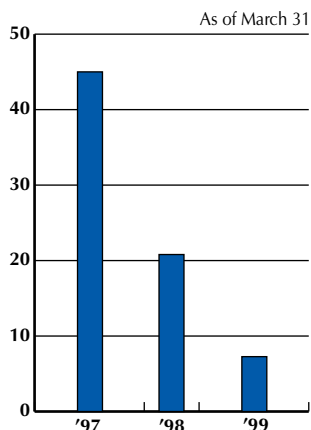
Given the increasing complexity and growing volume of transactions, a sophisticated IT system capable of transaction and position management, as well as other support, is imperative for the efficient functioning of trading operations. The Bank appreciates the importance of technology in this area and has allocated significant resources to putting state-of-the-art systems in place. A new system for interest rate derivatives was introduced at Tokyo Head Office in fiscal year 1996 and in New York and London the following fiscal year. With the installation of a new system for foreign exchange dealing transactions scheduled for fiscal year 2000, the Bank will have completed the introduction of a next-generation dealing support system, facilitating even more sophisticated operations.

## Organizational Structure

From the perspective of improving efficiency and effectiveness, the Bank is progressively concentrating all market-related business within the Treasury Group. As part of this strategy, the treasury section of the Paris Branch was re-established as a Treasury Group office. With this action, the majority of the Bank's treasury operations in Europe have been consolidated in our London and Paris offices. To enhance our services to our customers, we have also expanded channels for direct business.



**Foreign Currency Money Lending**  
(Billions of U.S. Dollars)



**Derivative Transactions (Notional Amount)**  
(Trillions of U.S. Dollars)

