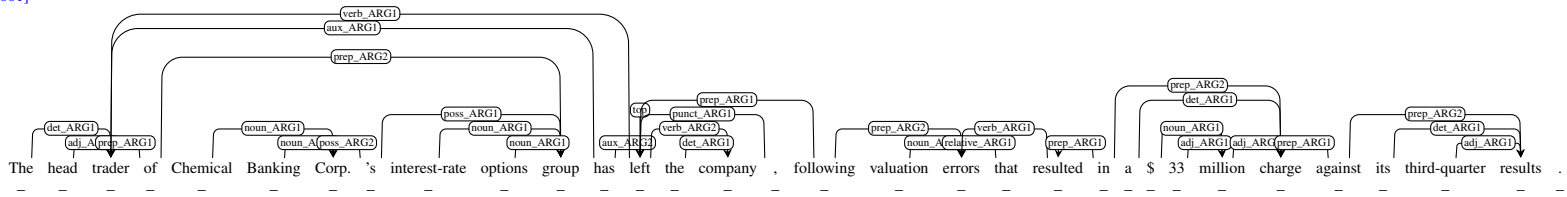
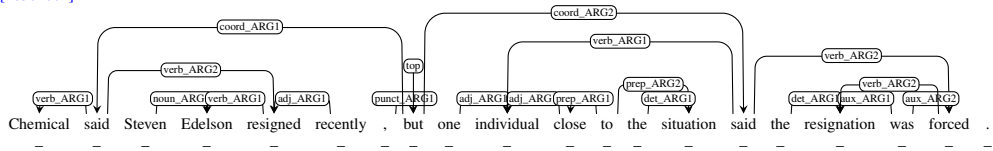


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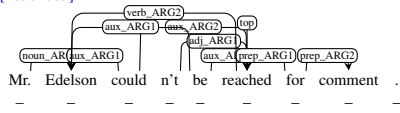
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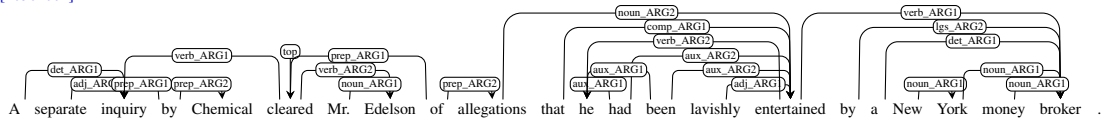
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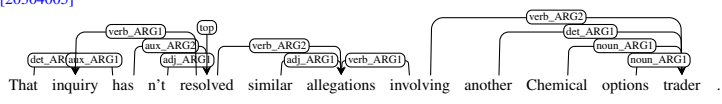
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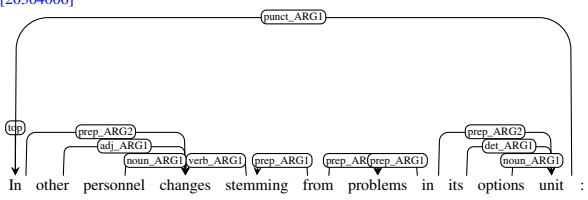
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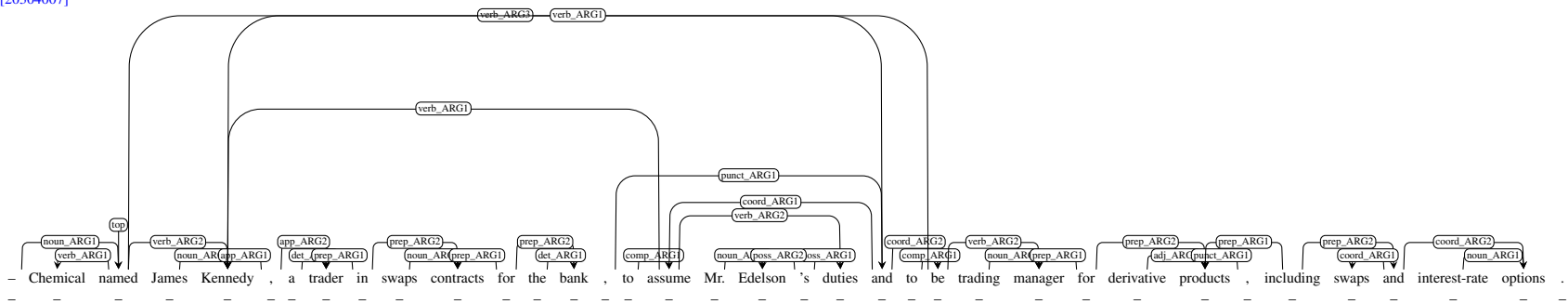
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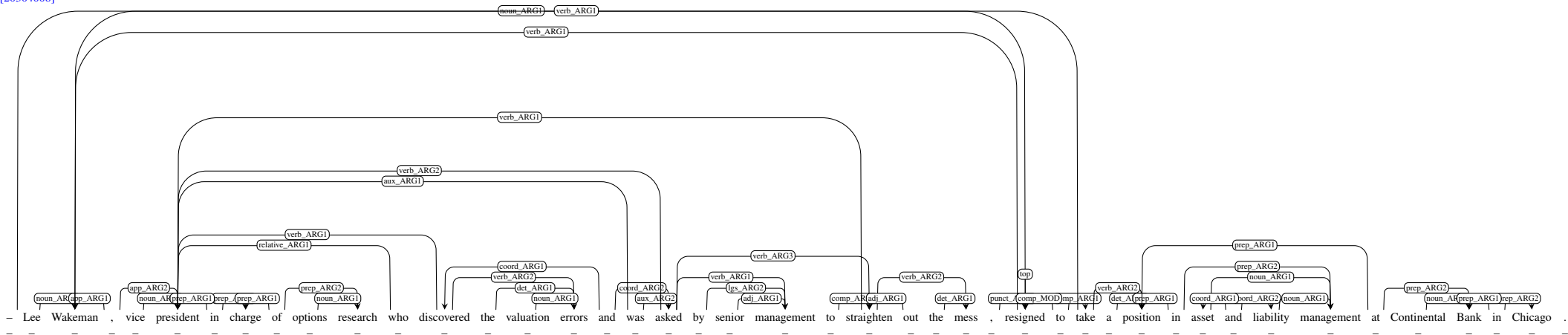
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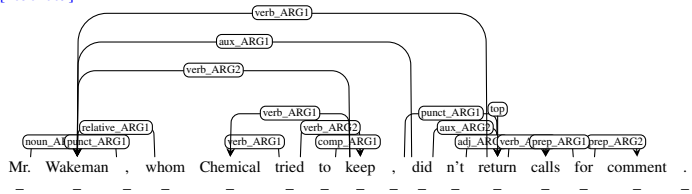
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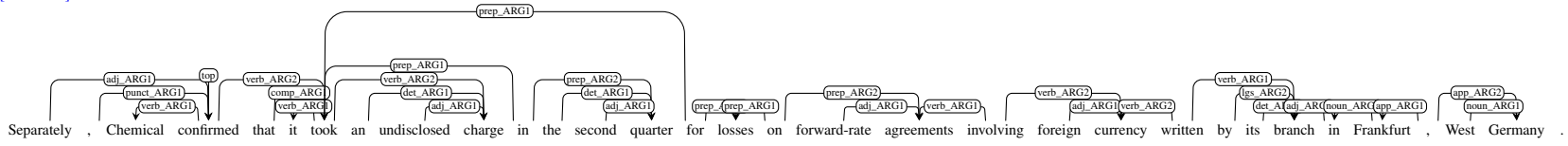
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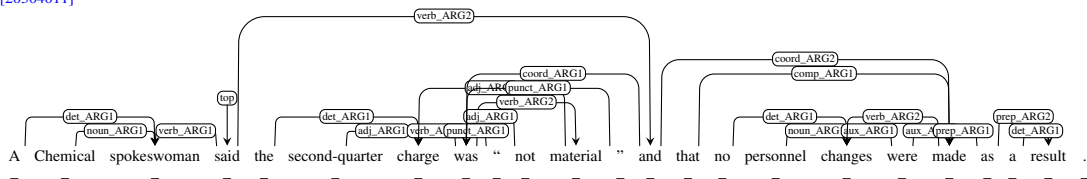
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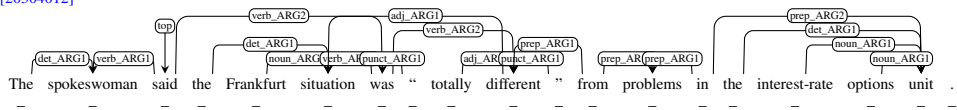
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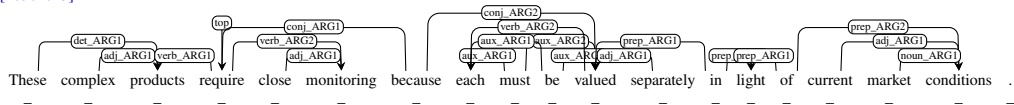
[20304011]



[20304012]



[20304015]



[20304016]

In an interest-rate options contract, a client pays a fee to a bank for custom-tailored protection against adverse interest-rate swings for a specified period.

[20304017]

In a forward-rate agreement, a client agrees to an exchange rate on a future currency transaction.

[20304020]

From 1987 to 1988, the value of Chemical's option contracts outstanding mushroomed to \$ 37 billion from \$ 17 billion.

[20304021]

More importantly, the volume of options written exceeded those purchased by almost 2-to-1.

[20304022]

With such a lopsided book of options, traders say, Chemical was more vulnerable to erroneous valuation assumptions.

[20304023]

The Chemical spokeswoman said the bank has examined its methodologies and internal controls.

[20304024]

"We consider our internal controls to have worked well," she said, adding that some procedures have been strengthened.

[20304025]

Its valuation methodologies, she said, "are recognized as some of the best on the Street."

[20304026]

Not a lot was needed to be done.