

## The Bank of Japan

### Announcements

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## Provision of Subordinated Loans to Banks

March 17, 2009

Bank of Japan

1. Financial institutions in Japan have retained the financial intermediation function through the increase in lending, while the funding conditions for firms have deteriorated since last autumn due to the declining functioning of CP and corporate bond markets.

As the strains in global financial markets are continuing and economic conditions are deteriorating at home and abroad, financial institution management is adversely influenced through the growing losses on securities and the rise in credit costs.

2. If the strains in financial markets at home and abroad further intensify and financial institutions become more conscious of capital constraints due to concern over a future decline in stock prices, there is a possibility that the financial intermediation function will not be carried out smoothly. In addition, together with the effects stemming from the domestic economic downturn, the capital strength of financial institutions might be weakened and the stability of Japan's financial system might be affected.
3. Against such a backdrop, at a regular meeting held today, the Policy Board of the Bank of Japan decided to explore a new framework for providing subordinated loans to banks (for its outline, please see the attachment).
4. The measure aims at ensuring the smooth functioning of financial intermediation and the stability of the financial system, by enabling Japan's banks to maintain sufficient capital bases even in severe financial and economic environments.

In establishing the framework, the Bank realizes that the provision of quasi-capital funds by a central bank is an extremely extraordinary measure, and that the measure will contribute to bolstering the banks' capital bases, in combination with the capital raising by the banks themselves in the markets and based on the Act on Special Measures for Strengthening Financial Functions.

After necessary preparations, the Policy Board will decide and announce the principal terms and conditions for the implementation.

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Attachment

**Outline for Provision of Subordinated Loans**

1. Eligible Banks The Bank of Japan determines eligible banks from those, subject to international capital standards, which wish to be the recipients of the loans.
2. Total Amount of Loans 1 trillion yen
3. Limit per Financial Institution The Bank of Japan sets a limit.
4. Properties of Loans
  - The Bank of Japan determines the interest rates, taking into account the prevailing market conditions.
  - Other properties such as loan periods will be considered later.