

The Current Status of Risk Management Loans held by Deposit-Taking Financial Institutions in Japan

P R E S S R E L E A S E

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Financial Supervisory Agency
The Government of Japan

1. Current Status of Risk Management Loans

(1) Regarding deposit-taking financial institutions' non-performing loans, each financial institution has disclosed the amount of its bad loans calculated according to the previous standards set by the Zenginkyo (Federation of Bankers Associations of Japan) in September 1995. The Ministry of Finance has, at the same time, announced aggregates of the disclosed bad loans in order to evaluate the magnitude of non-performing loans as a whole. As those figures are calculated using objective standards and as they make a comparison of different financial institutions possible, they are suitable for aggregation.

(2) Similarly, the Financial Supervisory Agency ("the Agency") today announced aggregates, as of the end of FY 1997, for Risk Management Loans compiled using the new standards set by the Zenginkyo. The new standards, covering a wider range of non-performing loans, are comparable to the United States SEC standards adopted for the public disclosure of bad loans. Specifically, Risk Management Loans comprise of Past Due Loans in arrears by 3 months or more, and Restructured Loans with changes in terms and conditions, as well as loans to borrowers in legal bankruptcy. According to the previous standards, Past Due Loans and Restructured Loans comprise only those loans in arrears by 6 months or more or those whose interest rate has been reduced below the official discount rate.

(3) The total amount of bad loans based on the previous standards steadily decreased from about 27.9 trillion yen the year before to about 25.0 trillion yen. The amount of Risk Management Loans is approximately 35.2 trillion yen, which is the sum of Risk Management Loans held by all banks and previous standard bad loans held by cooperative credit associations.

As individual financial institutions undertook thorough write-offs and provisioning for bad loans when closing the books last March, financial institutions as a whole disposed of bad loans of about 15.0 trillion yen including about 9.9 trillion yen provisioned in Special Accounts for Loan Loss Write-Offs. Consequently, the balance of the Special Accounts increased significantly from about 12.3 trillion yen the year before to about 19.0 trillion yen.

2. Result of Banks' Self-Assessment of Asset Quality

(1) In view of the deliberation on the Two Bills for Financial Stabilization that was scheduled for the latest session of the Diet, the Ministry of Finance announced last January aggregates of the banks' self-assessments of their asset quality, in order to facilitate public understanding of the banks' non-performing loan problem. Self-assessment is an internal procedure for the proper write-offs and provisioning for bad loans by banks, and was made on a trial basis to prepare for the implementation of Prompt Corrective Action.

From March 1998, self-assessment of asset quality by banks officially started within the framework of the Prompt Corrective Action scheme. Within this scheme, the Agency requires from financial institutions to submit a report on their self-assessment with external audit by certified public accountants.

(2) The total amount of deposit-taking financial institutions' credit exposures classified as Category II and III are approximately 65.8 trillion yen and 6.1 trillion yen, respectively, as a result of resolute write-offs and provisioning for bad loans at the end of FY 1997. According to trial self-assessments compiled last January, credit exposures classified as Category II, III and IV were about 65.3 trillion yen, 8.7 trillion yen and 2.7 trillion yen, respectively.

The self-assessment aggregates announced today are based upon data after banks wrote off or provisioned for their bad loans last March in accordance with the business accounting principles, and therefore does not include those loans classified as Category IV. On the other hand, as self-assessment aggregates announced last January were mostly based on data generated before the banks' write-offs or provisioning, they include loans classified as Category IV which were written off or provisioned.

(Note) Credit exposures for self-assessment are categorized as follows:

- Category I: credit exposures which have not been classified as Categories II, III or IV below;

- Category II: credit exposures for which banks judge that adequate risk management on an exposure-by-exposure basis will be needed;
- Category III: credit exposures about which banks have serious concerns in terms of their ultimate collection and thus are likely to incur losses, but banks have difficulties with estimating the timing or amount of the losses they will actually incur;
- Category IV: credit exposures which banks judge to be non-collectable or of no value.

Aggregates of the self-assessment have been compiled on the following assumptions:

- Each bank makes a self-assessment of asset quality paying due regard to the basic concepts in "The Inspection Guideline on Asset Assessment" made public by Inspection Department as well as submitting to an external audit by certified public accountants when closing the accounts. While Risk Management Loans are based upon objective, standardized and uniform criteria, self-assessment is based upon asset classification standards which each individual banks themselves judge as being appropriate.
- Category II includes credit exposures for which banks should not incur losses unless they neglect their credit management, eg. loans to companies, including small-sized enterprises, who always make their principal and interest payments on time yet whose accounts are continuously in deficit because of the need for continuous heavy investments to remain competitive.

Risk Management Loans of Japanese Deposit-taking Financial Institutions

	March 97	September 97	(Billion Yen) March 98
Total Outstandings of Non-performing and Restructured Loans [New Standards]			35,207 ^(*)
[Previous Standards]	27,900	28,078	24,979
Provisions in Special Accounts for Loan Loss Write Offs	12,343	13,993	19,035
[Major Banks (City Banks, Long-term Credit Banks, Trust Banks)]			
	March 97	September 97	March 98
Total Outstanding of Non-performing and Restructured Loans [New Standards]			21,978
[Previous Standards]	16,441	16,128	14,524
Provisions in Special Accounts for Loan Loss Write Offs	8,077	9,098	12,260

(*) This figure is the sum of Risk Management Loans (new standards) held by of all banks (29.8 trillion yen) and previous standard bad loans held by cooperative type financial institutions (5.4 trillion yen).

(Note)

These figures are based on the common disclosure standard of ZENGINKYO (Federation of Bankers Associations of Japan), which reflects the report of Financial System Research Council.

Non-performing Loans, etc. of Japanese Deposit-taking Financial Institutions (as of the end of March 1998)

(in billion yen)

	Total Assets		Outstanding of Non-performing and Restructured Loans				*** LBLB	Reserve for Possible Loan Loss		Net Operating Profit		Unrealized Gains or Losses on Securities
	Loans		Total	* LBB	** PDL	Restructured Loans		Total	Provisions in Special Accounts for Loan Loss Write Offs	Annual Average of 93FY - 97FY	97FY	
City Banks	427,220	265,656	8,315	2,805	4,577	931	735	8,638	7,641	2,563	2,366	2,411
Long-term Credit Banks	83,990	46,788	2,905	948	1,867	90	412	2,331	2,173	470	525	48
Trust Banks	236,232	53,422	3,305	969	1,815	519	153	2,632	2,446	697	678	244
Major Banks Subtotal	747,442	365,866	14,524	4,723	8,259	1,541	1,300	13,601	12,260	3,730	3,569	2,703
Regional Banks	199,998	138,706	3,407	1,468	1,713	227	182	2,966	2,562	1,269	1,398	2,356
Regional Banks II	64,606	48,553	1,599	652	799	148	259	1,248	1,107	440	456	248
Regional Banks Subtotal	264,604	187,259	5,006	2,120	2,512	374	441	4,214	3,669	1,709	1,854	2,604
Total of All Banks	1,012,046	553,125	19,530	6,843	10,771	1,915	1,741	17,815	15,929	5,439	5,423	5,307
Cooperative Type Financial Institutions	286,289	135,342	5,449	2,039	3,220	190	274	4,089	3,106	1,581	1,856	1,902
Shinkin Banks	111,333	70,409	3,240	1,350	1,868	23	1	2,683	2,083	751	799	617
Credit Cooperatives	22,991	15,091	1,196	312	875	8	1	406	352	159	145	31
Agricultural Cooperatives	102,435	24,759	463	244	171	48	250	630	412	460	653	952
Total	1,298,335	688,467	24,979	8,882	13,991	2,105	2,015	21,904	19,035	7,020	7,279	7,209

* LBB : Loans to Borrowers in Legal Bankruptcy ** PDL : Past Due Loans *** LBLB : Loans to Borrowers to which Lending bank is extending help, including forgiving loans

(Reference) Nikkei average as of the end of March 1998 : 16,263 yen

(Note)

1. Cooperative Type Financial Institutions : Shinkin Banks, Credit Cooperatives, Labor Credit Associations, The Shoko Chukin Bank, The Norinshukin Bank and Credit Federations of Agricultural Cooperatives

2. Aggregate figures above are rounded to billion yen.

3. Hokkaido Takusyoku, Tokuyo City, Kyoto Kyoei, Naniwa, Fukutoku, Midori Bank, and 32 Credit Co. whose assets and liabilities have been decided to be transferred are excluded.

Risk Management Loans of All Japanese Banks (as of the end of March 1998)

(in billion yen)

	Total Assets		Outstanding of Non-performing and Restructured Loans					Reserve for Possible Loan Loss		Net Operating Profit		Unrealized Gains or Losses on Securities
	Loans		Total	* LBB	** PDL	*** 3PDL	Restructured Loans	Total	Provisions in Special Accounts for Loan Loss Write Offs	Annual Average of 93FY - 97FY	97FY	
City Banks	427,220	265,656	12,819	2,805	4,577	2,080	3,357	8,638	7,641	2,563	2,366	2,411
Long-term Credit Banks	83,990	46,788	4,680	948	1,867	204	1,660	2,331	2,173	470	525	48
Trust Banks	236,232	53,422	4,479	969	1,815	168	1,527	2,632	2,446	697	678	244
Major Banks Subtotal	747,442	365,866	21,978	4,723	8,259	2,452	6,544	13,601	12,260	3,730	3,569	2,703
Regional Banks	199,998	138,706	5,198	1,468	1,713	503	1,515	2,966	2,562	1,269	1,398	2,356
Regional Banks II	64,606	48,553	2,582	652	799	291	840	1,248	1,107	440	456	248
Regional Banks Subtotal	264,604	187,259	7,780	2,120	2,512	794	2,355	4,214	3,669	1,709	1,854	2,604
Total of All Banks	1,012,046	553,125	29,758	6,843	10,771	3,246	8,899	17,815	15,929	5,439	5,423	5,307

* LBB : Loans to Borrowers in Legal Bankruptcy ** PDL : Past Due Loans in arrears by 6 months or more *** 3PDL : Loans in arrears by 3 months and less than 6 months

(Note)

1. Aggregate figures above are rounded to billion yen.

2. Hokkaido Takusyoku, Tokuyo City, Kyoto Kyoei, Naniwa, Fukutoku, and Midori Bank are excluded.

Loss on Disposal of Bad Loans of All Japanese Banks

(Billion Yen)

	FY1992	FY1993	FY1994	FY1995	FY1996	FY1997
Loss on Disposal of Bad Loans	1,619	4,105	5,455	13,445 [11,087]	7,819 [6,218]	13,268 [10,774]
Net Provisions in Special Accounts for Loan Loss Write Offs	929	1,379	1,625	7,163 [5,596]	3,503 [2,543]	8,412 [6,507]
Direct Write Offs	424	2,090	2,809	5,980 [5,490]	4,316 [3,676]	3,993 [3,501]
Write Offs of Loans	204	235	706	1,721 [1,568]	973 [850]	851 [791]
Loss on sales to the CCPC	219	1,855	2,103	2,526 [2,132]	1,133 [971]	1,043 [921]
Summing up from FY 1992	1,619	5,724	11,180	24,624 [22,267]	32,443 [28,485]	45,711 [39,259]
Summing up of Direct Write Offs	424	2,514	5,322	11,602 [10,812]	15,918 [14,488]	19,911 [17,988]
Non-Performing Loans	12,775	13,576	12,546	28,504 [21,868]	21,789 [16,441]	19,530 [14,524]
Outstanding Amount of Special Accounts for Loan Loss Write Offs	1,867	3,023	4,298	11,427 [9,070]	10,436 [8,077]	15,929 [12,260]

Loss on disposal of bad loans on all deposit-taking financial institutions :

Net Provisional in Special Accounts for Loan Loss Write Offs : 9,859 billion yen, Direct Write Offs : 4,258 billion yen, Others : 14,986 billion yen

(Note)

1. Loss on disposal of bad loans means the total amount of net provisions in special accounts for loan loss write offs, write offs of loans, loss on sales to the CCPC (Cooperative Credit Purchasing Company), disclaimer of loans, and loss on supports to other financial institutions, etc.
2. Non-Performing Loans (Loans to Borrowers in legal Bankruptcy [LBB], Past Due Loans [PDL]), and restructured loans are based on reports by financial institutions, however, before FY 1994, disclosed bad loans had been composed of LBB and PDL.
3. Before FY 1994 above data are composed of City Banks, Long-term Credit Banks, Trust Banks. Figures in parenthesis mean the amount of major banks.
4. Direct Write Offs means the total amount of Write Offs of Loans, Loss on sales of loans, Loss on supports to other financial institutions, etc, however, before FY 1994, it is composed of Write Offs of Loans and Loss on sales to the CCPC.
5. Hokkaido Takusyoku, Tokuyo City, Kyoto Kyoei, Naniwa, Fukutoku, and Midori Bank are excluded in the FY 1997.

Self-Assessment Result of Asset Quality on All Japanese Banks (March, 1998)

(in billion yen)

	Total Credit Exposure			
		Category I	Category II	Category III
Major Banks	452,374	402,018	45,418	4,816
Regional Banks	145,492	130,245	14,414	833
Regional Banks II	50,640	44,285	5,931	424
Regional Banks Subtotal	196,132	174,530	20,345	1,257
Total of All Banks	648,506	576,548	65,763	6,073
Cooperative Type Financial Institutions	146,617	130,923	14,846	845
Shinkin Banks	74,563	64,411	9,753	397
Credit Cooperatives	15,342	12,801	2,223	318
Agricultural Cooperatives	29,961	28,626	1,304	31
Total	795,123	707,471	80,609	6,918

(Note)

1. Aggregate figures above are rounded to billion yen.
2. Hokkaido Takusyoku, Tokuyo City, Kyoto Kyoei, Naniwa, Fukutoku, and Midori Bank are excluded.
3. Due to write-off and provisions, banks whose closing account month is March do not have Category IV asset. However, as for banks which have trust account, the closing time of trust account is different from that of the banking account; therefore, there is non-disposal of Category IV asset (118 billion yen), and total credit exposure includes the amount of Category IV.

(Reference)

1. Breakdown of the Credit Exposures by Categories

Category I : "credit exposures which have not been classified as Categories II, III or IV below"

→ provisioned at a given rate (the ratio of recorded loss during a certain period)

Category II : "credit exposures for which banks judge that adequate risk management on an exposure-by-exposure basis will be needed"

→ provisioned at a given rate (the ratio of recorded loss during a certain period)

Category III: "credit exposures about which banks have serious concerns in terms of their ultimate collection and thus are likely to incur losses, but banks have difficulties with estimating the timing or amount of the losses they will actually incur"

→ wrote off and provisioned to the necessary amount for each debtor

Category IV : "credit exposures which banks judged to be non-collectable or of no value"

→ wrote off and provisioned to the full amount of loss

2. Special Attention on Aggregates of Self-assessment

(1) Each bank makes a self-assessment of asset quality paying due regard to the basic concepts in "The Inspection Guideline on Asset Assessment" made public by Inspection Department as well as submitting to an external audit by certified public accountants when closing the accounts. While Risk Management Loans are based upon objective, standardized and uniform criteria, self-assessment is based upon asset classification standards which each individual banks themselves judge as being appropriate.

(2) Category II includes credit exposures for which banks should not incur losses unless they neglect their credit management, eg. loans to companies, including small-sized enterprises, who always make their principal and interest payments on time yet whose accounts are continuously in deficit because of the need for continuous heavy investments to remain competitive.



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