Message from the Governor

Governor Noboru Matsuda

It is my pleasure to present this Annual Report on the activities of the Deposit Insurance Corporation of Japan (DICJ) in fiscal 2001.

The DICJ was founded in July 1971 with the purpose of managing Japan's deposit insurance system. It was funded by the Japanese government, the Bank of Japan (BOJ), and private financial institutions.

Its activities have continued to expand gradually since 1996. At present, they can be broadly summarized into four categories: (1) Operation of the deposit insurance system as a public safety net for the protection of depositors, in particular, the work of financial assistance and other operations associated with resolution of failed financial institutions. (2) So-called "financial reconstruction" operations, i.e. management of failed financial institutions as a financial administrator. (3) Guidance and support to the Resolution and Collection Corporation (RCC), a DICJ subsidiary, in its resolution, collection of non-performing loans from former *Jusen* companies and failed financial institutions, as well as the pursuit of civil and criminal liability on the part of their former executives and others. (4) Strengthening the capital base of sound financial institutions, and the purchase and disposal of their non-performing loans. In addition, since fiscal 2001 the DICJ has been given certain powers to make on-site inspections of financial institutions, and such operations have now been started. The DICJ is, moreover, increasingly involved in international collaborative efforts. This is illustrated by its participation in the establishment of the International Association of Deposit Insurers (IADI), an international organization of deposit insurance corporations located in Basle, Switzerland.

This Report summarizes the DICJ's performance of the activities in fiscal 2001. In particular, as it was the last year of the special arrangement of the blanket guarantee of deposits, the DICJ has made redoubled efforts to protect depositors, including the establishment of the "Bridge Bank of Japan" (BBJ, a DICJ subsidiary) to resolve continuous cases of failure of financial institutions. Apart from this, fiscal 2001 was a year in which concerted efforts were made throughout the DICJ organization across the whole spectrum of its operations. This included the increased requirement for more urgent action on corporate reconstruction, the purchase and disposal of non-performing loans of sound banks, and so on (in collaboration with the RCC). I sincerely hope that this Annual Report will serve to increase public understanding and appreciation of the DICJ's operations.

The DICJ strives for fairness and transparency in its operations, and has always placed emphasis on public relations activities from the viewpoint of protecting depositors. The publication of this Annual report is the manifest of such activities. We have been also working on enhancing public understanding on the transition from the blanket guarantee to the limited coverage of deposits.

We will continue to strive for the protection of depositors and the recovery of Japan's financial system under the motto "utilizing the collective wisdom of various experts to make breakthroughs".

Noboru Matsuda

Governor

I. PROFILE

1. Objective

The objective of the Deposit Insurance Corporation (DICJ), as defined in Article 1 thereof, is to protect depositors and other parties and maintain an orderly financial system, 1) by providing for the payment of deposit insurance claims and the purchase of deposits and other claims in the event that repayment of said deposits, etc., is suspended by a financial institution, 2) regarding the resolution of failed financial institutions, by providing appropriate financial assistance to facilitate mergers or other resolutions of failed financial institutions, providing for financial administrators for failed financial institutions, providing for the succession of business of failed financial institutions, and establishing a system for appropriate measures in response to financial crisis.

2. History

The DICJ was established in July 1, 1971, as an operating agency of Japan's deposit insurance system under the Deposit Insurance Law (Law No.34 of April 1, 1971), which was enacted in March 1971, following the recommendation by the Financial System Research Committee, an advisory board to the Minister of Finance in July 1970, which stressed to create a system to protect depositors. The DICJ was originally capitalized at ¥450 million (with funding of ¥150 million each from the government, the Bank of Japan, and private financial institutions).

In the 1990's, accumulated non-performing loans in the financial system became a major issue following the bursting of the bubble economy and more financial institutions started to fail than ever before. In response, various measures including the amendment of the Deposit Insurance Law have been taken and the role and functions of the DICJ were significantly enhanced in 1996, while its main function was still the protection of depositors. The DICJ has been authorized to provide financial assistance in excess of the limit of the pay-out cost for its resolution operation of failed financial institutions, reflecting the transition of the deposit insurance framework from a limited coverage to a blanket guarantee. The DICJ has been also authorized to collect non-performing loans. The Housing Loan Administration Corporation (the HLAC) was established with 100% capital subscription by the DICJ in order to dispose the non-performing loans of housing loan companies (Jusen).

Subsequent enactment, amendment and abrogation of laws related to the financial system have been taken places, including a further amendment to the Deposit Insurance Law in 1997 and the enactment of the Financial Revitalization Law and the Law concerning Emergency Measures for Early Strengthening of Financial Functions ("Early Strengthening Law") in 1998. These laws have allowed the DICJ to have additional functions related to the resolution of failed financial institutions, including tasks regarding financial administrator and bridge bank, and capital injection as temporary measures for revitalization of the financial system.

In April 1999, the Resolution and Collection Corporation (RCC) was established as a wholly owned subsidiary of the DICJ through the merger of the HLAC and the Resolution and Collection Bank (RCB) whose main purpose was the resolution and recovery of business transferred from failed credit cooperatives. The main role of the RCC is to accelerate the recovery and collection of non-performing loans transferred from failed financial institutions through a fair and transparent process in order to minimize public costs. The DICJ gives guidance and advice to the RCC for its operation of recovery and collection. Furthermore, the government authorized the DICJ in February 1998 by the amendment to Financial Revitalization Law to purchase non-performing loans from sound financial institutions to accelerate their disposal.

Further amendment to the Deposit Insurance Law turned the temporary functions of the DICJ for the resolution of failed financial institutions under the relevant laws into the permanent ones, as well as allowed to have new functions, including on-site inspection, loss and profit sharing, partial purchase and assumption of failed financial institutions and aggregating deposits to facilitate the resolution process.

Each time action was taken, the scope of the role and operation of the DICJ was enlarged. The DICJ is now one of the key entities stabilizing the financial system, handling mainly the resolution process of failed financial institution

(Please see Table (1) for historical development of deposit insurance system and Table (2) for major events of the DICJ after 1996)

3. Governance

Supervising authorities

Supervising authorities of the DICJ are the Ministry of Finance and Financial Services Agency. The two authorities jointly look over the activities of the DICJ.

Governing body

The Policy Board is the supreme governing body of the DICJ under the Law with members not more than thirteen (currently "thirteen"). The Board is composed of members of Executive Management of the DICJ and the outside members with expertise in finance appointed by the Governor with the approval of the Prime Minister and the Minister of Finance. The Policy Board considers the following matters for approval: 1)Amendments of articles of incorporation, 2) Preparing operational guidelines and approving their amendment, 3) Annual budget and financing program, 4) Settlement of Accounts, 5) Insurance premium rate and its change, 6) Payment of deposit insurance, provisional payment of it, 7) Financial assistance, and 8) Purchase of deposit claims and other claims.

Management of DICJ

Executive officers shall be appointed by the Prime Minister subject to the approval of both Houses of the Diet. The Governor shall be responsible for the management of the DICJ.

Organization

The DICJ has the following four departments under the management headed by the Governor: 1) Planning and Coordination Department, 2) Deposit Insurance Department, 3) Financial Reconstruction Department, and 4) Special Operation Department (Please see Figure (1) Organization Chart).

4. The DICJ Group

The DICJ have established the Resolution and Collection Corporation (RCC) and the Bridge Bank of Japan (BBJ) as 100% subsidiaries (limited company).

The Resolution and Collection Corporation (RCC)

The RCC was established as a 100% subsidiary (limited company) of the DICJ through a merger between the Housing Loan Administration Corporation (HLAC)** and the Resolution and Collection Bank (RCB)*** on April 1, 1999, following amendments to the Deposit Insurance Law and the Jusen Law* in October 1998. The purpose of the RCC is: 1) Recovery of loans transferred from former Jusen companies; 2) Purchase and collection of non-performing loans from failed financial institutions; 3) Purchase and collection of non-performing loans from sound financial institutions; 4) Subscribing shares to enhance capital adequacy of financial institutions; 5) Pursuit of civil and criminal liabilities of former executives and debtors of failed financial institutions; and 6) Acting as a servicer under the license of the Minister of Justice.

The DICJ has made significant efforts in collection of non-performing loans, providing the RCC with guidance and advice concerning resolution and recovery of non-performing loans and supporting pursuit of criminal and civil liability and uncovering hidden assets of debtors with use of the investigative power.

* Law Concerning Special Measures for Promotion of Disposal of Claims and Debts of Specific Jusen Companies.

** HLAC was established in July 1996 to be prompted the collection of non-performing loans related to Jusen companies as a 100% subsidiary of the DICJ (capitalization ¥200 billion).

*** RCB was established in September 1996 to be prompted the disposal and management of non-performing loans transferred from failed credit cooperatives as a 75% subsidiary of the DICJ (capitalization of ¥120 billion for the DICJ).

The Bridge Bank of Japan, Ltd.

The Bridge Bank of Japan, Ltd.(BBJ) was established as a 100% subsidiary of the DICJ (capitalization of ¥2.05 billion) on March 11, 2001 under the Article 92 of the Deposit Insurance Law with the purpose of provisionally assuming the business of financial institutions under management in the event that no assuming financial institutions are found for them, and finding assuming financial institutions to which to transfer the business. The duration of the BBJ is in principal within two years after the day when the Commissioner of the FSA at first orders the management of failed financial institutions from which the BBJ assumed the business operation. It can be extended by a further year.

II. OPERATIONS OF DICJ

The DICJ undertakes the following operations to achieve the objectives of the law:

1. Collection of insurance premiums

The DICJ collects insurance premiums from insured financial institutions for the operations of the deposit insurance system. The insurance premiums to be paid by the insured financial institutions is calculated by multiplying the average balance of deposits and other claims by insurance premium rates which are determined by the DICJ's Policy Board and approved by the Commissioner of the Financial Services Agency and the Minister of Finance (Please see Table (3) Insurance Premium Rates).

Financial institutions covered by the system are obliged to pay insurance premiums to the DICJ within 3 months after the beginning of each business year (the premium may be split into two semi-annual payments).

2. Reimbursement of insured deposits and other money

The DICJ makes insurance payment when an insurable contingency, such as suspension of the repayment of deposits, has occurred. The maximum amount of deposits protected by deposit insurance is ¥10 million in principal plus interest per depositor per financial institution. After the DICJ has determined the insured deposit amounts for each depositor through aggregation of deposits held by the same depositor, if a business transfer, etc., is made from a failed financial institution to an assuming financial institution, depositors may receive repayment of insured deposits in the same way as ordinary deposit transactions, as long as a payment counter function has been arranged in the assuming financial institution (Please see Figure (3) Insurance Payment Flow Chart).

When an insurable contingency has occurred and it is anticipated that insurance payments or the repayment of insured deposits will not be made for a considerable length of time, partial payments may be made to cover the immediate living expenses of depositors in the failed financial institution. As stipulated by Cabinet Order, partial payments are made against the balance of ordinary deposits (principal only) of each depositor, up to a limit of ¥600,000 per account.

3. Financial assistance

When a financial institution fails, the DICJ may extend financial assistance to an assuming financial institution and/or a bank holding company that purchases assets and assumes liabilities of or merger with the failed financial institution in order to facilitate the transaction. As a result, deposits and other claims are taken over and protected by the assuming financial institution. The financial assistance may take the form of a monetary grant, loan or deposit of funds, purchase of assets, guarantee or assumption of debts, subscription of preferred stock or loss sharing (Please see Figure (4) Flow of Financial Assistance and Figure (5) Scheme of Financial Assistance Involving Business Transfers, etc).

In the past, the financial assistance for business transfer was limited to transfer of the entire business. However, from FY2001 the DICJ may also provide grants or other financial assistance for the transfer of insured deposits in the failed financial institution to the assuming financial institution, as well as partial transfer of business including insured deposits, sound assets, etc.

In case of partial transfer of business from failed financial institutions, the DICJ can provide financial assistance to the failed financial institutions to enable them to ensure equality among the creditors with purpose of securing a liquidating dividend for creditor who would not be covered by the business transfer. Additional financial assistance can be provided if necessary in response to the applications from them. When assuming financial institutions and/or bank holding companies ask the DICJ to subscribe their preferred stocks and others, they need to submit a plan to ensure the financial health of the institutions. As of Oct. 2, 2002, the financial assistance has been implemented in 173 cases, grants totaled ¥18 trillion and asset purchases ¥6 trillion.

4. Purchase of deposits and other claims

The DICJ purchases deposits and other claims not covered by deposit insurance (for example, the principal of insurable deposits in excess of ¥10 million, plus interest accrued thereon, or non-insurable foreign currency deposits, plus interest accrued) from financial institutions that have been subject to an insurable contingency, in response to requests from depositors, etc. The purchase price, known as "estimated proceeds payment", is to be calculated by multiplying the balance of claims on the date of the insurable contingency by a rate determined in consideration of the estimated liquidating dividend of the failed financial institution (the "estimated proceeds payment rate"), among other factors (Please see Figure (6) Estimated Proceeds Payment Flow Chart).

Estimated proceeds payment (amount paid to depositors)	=	Amount of principal exceeding ¥10 million, plus interest, etc.	×	Estimated proceeds payment rate

If the amount recovered by the DICJ from purchased deposits and other claims (excluding expenses related to their purchase) exceeds the estimated proceeds payment, the surplus is to be refunded to the depositors, etc. ("settlement payment")

Settlement payment (additional amount paid to depositors)	=	Amount recovered by the DICJ	–	Costs needed for purchase, etc.	–	Estimated proceeds payment

5. Tasks for financial administrators

When a financial institution fails and the Commissioner of the Financial Services Agency issues an "order for management" (i.e., orders that the business or assets of the financial institution be placed under the management of a financial administrator), the DICJ may be appointed as a financial administrator for failed financial institutions under the Deposit Insurance Law (Article 78, paragraph 2 of the Deposit Insurance Law). The key activities of financial administrators are: 1) execution of its operation and management; 2) selection of assuming financial institutions and smooth transfer of the business; 3) pursuit of liability against former executives of failed financial institutions.

Management of financial institutions by financial administrators is to end within one year of the management order, through transfer of the institution's business or other means. Extension by a further year is possible, however, subject to approval by the Commissioner of the Financial Services Agency (Please see Figure (7). Operations involving Financial Administrator)

6. The operations of bridge banks

The DICJ can establish bridge banks, as its own subsidiaries, which provisionally assume the business of financial institutions under management in order to provisionally maintain and continue their operation until a private sector counterpart can be identified and the business transfer transaction is completed. When no private sector institutions can be found to acquire the assets and assume the liabilities of failed financial institutions in short order, the bridge bank can be established and undertake functions such as lending and other activities under the supervision of the DICJ.

In principle, the DICJ is to complete business management of the bridge bank within two years from the date of the management order issued to the failed financial institution under management whose operations were assumed by the bridge bank. This is to be done through merger of the bridge bank, transfer of its whole business, transfer of shares, dissolution through a resolution at a general meeting of shareholders, or other means. However, when it is not possible to complete management within two years due to unavoidable circumstances, this may be extended by a further year.

The DICJ may also provide loans to and guarantee the borrowings of the bridge bank, and compensate for its loss incurred in conducting operations, as stipulated in Cabinet Orders (the amount of losses incurred by the transfer of purchased assets, or total losses calculated for the current term, whichever is smaller) (Please see Figure (8). Operations of Bridge Banks).

7. Response to financial crisis

If the failure of a financial institution poses an extremely serious threat to the stability of the financial system and local and national economies, the Prime Minister can invoke the provisions of the law and take one or more of following three types of measures on the advice of the Council for Financial Crisis. The DICJ can conduct these operations with an order of the Prime Minister.

① Subscription of shares, etc. of financial institutions (except for case of ② below) by the DICJ

② Financial assistance to failed financial institutions and/or financial institutions with capital deficit in excess of the pay-out cost

③ Acquisition of entire shares of failed financial institutions with capital deficit by the DICJ (banks under special crisis management)

In the case of ②, an order for management by a financial administrator is to be issued immediately after the confirmation to make this arrangement. In the case of ③, the FSA would appoint new directors and auditors of the bank under special crisis management, and they may proceed with necessary civil and criminal procedures to clarify the managerial liability of its former executives. This arrangement should be ended as soon as possible by transferring the business to an assuming financial institutions.

8. On-site inspections of financial institutions

The DICJ can conduct on-site inspections of financial institutions, if the Prime Minister (legally mandated to the Commissioner of the Financial Services Agency) deems it necessary to ensure that the provisions of the Law are implemented efficiently. The scope of the on-site inspections include: 1) to check if payment of insurance premiums is being made property; 2) to check if measures have been taken to prepare databases and improve information system for aggregating deposits held by the same depositors, as obligatory to financial institutions; and 3) to check the estimated amounts that can be repaid on deposits and other claims when a financial institution has been made subject to bankruptcy proceedings.

9. Subscription of shares, etc of financial institutions

In order to strengthen capital base of financial institutions, the DICJ is involved in the subscription of shares and other securities issued by financial institutions, by commissioning the subscribing operation to the RCC under the Early Strengthening Law. In this regards, the DICJ undertakes various operations, including (a) lending the funds to the RCC for subscribing shares, (b) guaranteeing debts, (c) compensating for losses arising from the execution of operations by the RCC, (d) approving the exercise of voting rights and other rights by the RCC as a shareholder or capital investor, and (e) approving the disposal of shares and others by the RCC.(Please see Figure (9). Capital Injection Scheme based on the Early Strengthening Law).

10. Guidance and advice to the RCC

The DICJ has conducted specific activities under the agreement with the RCC such as 1) to provide the RCC with guidance and advice necessary to conduct its operations; 2) to decide to inspect the assets of debtors where it is likely to be concealed; 3) to collect claims from the debtors whose assets are mortgaged in complicated manner. These activities are aiming at minimizing the public costs by maximizing the collection of debts through the coordination with the RCC.

11. Investigation and accusations in pursuit of managerial liability

The DICJ's pursuit of civil and criminal liability includes the pursuit of managerial liability on the part of executives of failed financial institutions and former *Jusen* companies by the RCC, and the pursuit of managerial liability of former executives of failed financial institutions by the DICJ in its capacity as a financial administrator. The pursuit of criminal liability of debtors has resulted in a number of accusations including auction interference, obstruction to law enforcement, and fraud (Please see Figure (10). System of Liability Pursuit).

1. Financial and Economic Trends

The Japanese economy in FY2001 was marked by a bearish mood in consumer spending, with a vast fall in production and a decline in equipment investment. The unemployment rate rose to unprecedented levels, and there was progressive deflation. The Japanese government, therefore, stepped up its efforts aimed at structural reform from April 2001, formulating an “Advanced Reform Program” and an “Emergency Program for Structural Reform”. In addition, it formed supplementary budgets on two separate occasions. By implementing these measures steadily while accelerating structural reforms, the government is attempting to prevent a decline into a so-called “deflation spiral”, whereby falling commodity prices and diminishing production activity act reciprocally, causing the economy to deteriorate at an ever faster pace.

On the financial side, in March 2001, the BOJ adopted a new framework for financial policy operation targeting the quantity of current account balance deposits at the BOJ, abandoning interest rate target. As a result, Japan’s financial markets remain extremely easing, illustrated by a massive increase in outstanding current deposits in the Bank of Japan.

2. Failure of Financial Institutions

In FY2001, there were 56 failures of financial institutions, surpassing 44 cases in FY1999 to reach the highest level ever. As for the type of failed institutions, 2 were banks, 13 were shinkin banks and 41 were credit cooperatives.

3. Changes in Deposit Insurance System in FY2001

Preparation for reintroduction of partial deposit coverage

Since FY2001 was the final year for full protection of deposits and other claims (having been in force for six years since FY1996), a number of measures to protect the full amount of deposits and other claims were terminated in March 2002. From April 2002, the insured amount is up to a maximum principal of ¥10 million per depositor per financial institution, plus interest (limited coverage) for time deposits. For current deposits, ordinary deposits and specified deposits (deposits for settlement and payment), the full amount was to be protected up to the end of March 2003. For insured deposits whose principal exceeds ¥10 million, plus interest, as well as those not covered by deposits insurance, a liquidating dividend is payable depending on the asset situation of the failed financial institution, although the payments may be subject to deductions.

Insurance premium rates

With respect to the insurance premium rates, in FY 2001 and FY2002, deposits are divided into “Specific deposits (current deposits, ordinary deposits, and specified deposits)” and “Other deposits (time deposits, etc)”. The insurance premium rates are stipulated separately for each category. In FY 2001, both rate were set at 0.048% (the same as in FY2000), reflecting the fact that the special arrangement for blanket guarantee was still in place and the special insurance premium rate had been pegged back by Cabinet Order. However, the premium base was changed from the balance at the end of the previous fiscal year to the average daily balance throughout the previous fiscal year in FY2001. In FY2002, the scope of protection of deposits becomes different for each type. “Specific deposits” continue to be protected in full, while “Other deposits” shift to limited coverage (protection for maximum principal of ¥10 million plus interest). Considering the purport of the Deposit Insurance Law and the report by the Financial System Council in December 1999, the premium rate for “Specific deposits” has been set at 0.094% and that for “Other deposits” at 0.080%.

4. Changes in the functions of the Deposit Insurance Corporation in FY 2001

On-Site Inspection

The DICJ has been authorized to conduct on-site inspections of financial institutions providing that the Prime Minister deems it necessary to ensure that the provisions of the Law are implemented efficiently. The scope of on-site inspections that may be undertaken by the DICJ is defined in Article 137, paragraph 6 of the Deposit Insurance Law as follows: 1) to check if payment of insurance premiums is being made properly; 2) to check if measures are being implemented to prepare databases, an electric data processing system and other relevant measures for aggregating data related to deposits held by the same depositor, as obligatory to financial institutions; and 3) to check the estimated amounts to be repaid on deposits and other claims when a financial institution has been made subject to bankruptcy proceedings. Penal provisions also exist for cases including evasion of on-site inspection.

Establishment of Bridge Bank to respond to frequent failures of financial institutions

The Bridge Bank of Japan was established as a 100% subsidiary of the DICJ on March 11, 2002 with the purpose of provisionally assumption of the business of financial institutions under management in the event that no assuming financial institution is found for them before March 31, 2002.

Reinforcement of function of the RCC

Article 53 of the Financial Revitalization Law provides for a system of emergency measures involving the purchase of assets from financial institutions as a means of stabilizing and reviving Japan’s financial functions. In December 2001, the system underwent major review. The functions of the RCC (commissioning purchasing operations from the DICJ) were reinforced aiming at intensive purchases of NPLs from financial institutions by the end of March 2004. This amendment has also allowed the RCC to diversify the purchasing methods of NPLs, such as participation in bidding as well as purchase of NPLs at the market value.

Also, the RCC has been authorized to have a trust business function to accelerate and facilitate disposal of NPLs with newly given licenses of trust business. In March 2002, the RCC accepted trust of the loans for the Japan New Town Development Corporation, a total amount of about ¥110 billion in principle, from 14 financial institutions to promote the smooth execution of that company’s loan repayment program.

5. Changes in Deposit Insurance System in FY2002

In September 2002, Financial System Council revealed the report titled “Measures for ensuring the stability of the payment and settlement function of financial institutions,” stressing that a certain deposit account for the payment and settlement purpose should be available under full protection to secure the intermediary function of financial institutions in the payment and settlement system. The deposit account for this purpose is not a new. The function has been in current deposit menu but bearing interests. The Council recommended that the account for this purpose shall carry the following natures: 1) On demand deposit account; 2) Utilized for the payment settlement purpose; and 3) Bears no interest.

In response to this recommendation and with the amendment to the Deposit Insurance Law, the coverage of protected deposits will be as follows:

a. Until the end of March, 2002

The entire amounts of “Specific deposits” and “Other deposits” are covered.

b. From April 1, 2002 to the end of March 2003
- The coverage of deposit protection is up to ¥10 million plus interest for “Other deposits”. For the principle exceeding ¥10 million plus interest, the depositors shall have claims in accordance with the asset situation of failed financial institutions.
- For “Specific deposits,” the entire amount is covered.

c. From April 1, 2003 to the end of March 2005
The deposit protection scheme shall be the same as in FY 2002. All necessary arrangement shall be made including institutional aspects to secure the smooth and effective function of payment and settlement system.

d. From April 1, 2005 onwards
- For all deposits other than the settlement deposit account shall be within protection, the total of all insured deposits up to a maximum sum of ¥10 million of principle plus interest shall be protected by the deposit insurance system against one account holder after aggregating accounts at one financial institution.
- For the deposit account for settlement, the entire amount shall be protected
- Deposit principal exceeding ¥10 million plus interest under protected deposits shall be payable in accordance with the asset situation of the failed financial institution in the procedure for liquidation of the said financial institution.

Scope of Protection

<table>
<tr><th colspan="2"></th><th>April 2002 – March 2005</th><th>April 2005 onwards</th></tr>
<tr><td rowspan="3">Deposits, etc., within the scope of protection</td><td rowspan="2">Current deposits
Ordinary deposits
Specified deposits</td><td rowspan="2">Full protection</td><td>Full protection for deposits that bear no interest and meet other conditions (*1)</td></tr>
<tr><td rowspan="2">(For, principal exceeding Y10M, liquidation dividends payable in accordance with asset situation of failed financial institution.)</td></tr>
<tr><td>Other deposits, etc.
(time deposits, installment savings, money in trust under the guarantee of principal , bank debentures</td><td>Total up to a maximum principal of Y10 million (*2) plus interest (*3)</td></tr>
<tr><td colspan="2">Deposits, etc., outside the scope of protection
(foreign currency deposits, negotiable certificates of deposit, money in trust under no guarantee of principal , bank debentures (other than of safe deposit instruments), etc.)</td><td colspan="2">(Liquidation dividends payable in accordance with asset situation of failed financial institution)</td></tr>
</table>

(*1) The deposits that meet the following conditions are qualified as “the Payment and Settlement Deposits”
1. Bears no interest
2. Payable on demand
3. To be used for the payment settlement

(*2) As a temporary arrangement, in case of a merger or business transfer, involving two or more financial institutions, 10 million yen multiplied by the number of involved institutions are regarded as the maximum insured amount for a period of one year from the date of such transaction.

(*3) Reimbursable benefits of installment savings and distribution of profits of money trusts fall under this category.

Table 1. Historical Development of Deposit Insurance System

	Initial Provisions in 1971	Jul. 1986	Jun. 1996	Amendments or Additions since May 2000
1. Insured Financial Institutions (by Law)	Banks, Sogo banks* Shinkin banks, Credit cooperatives →	(Jul 1986) Labor banks added →	→	(Jun. 2000) Shinkin Central Bank, The Shinkumi Federation Bank, Rorinren Bank added
2. Capitalization (by approval)	\450 million: Government: \150 million BOJ: \150 million Private Financial Institutions: \150 million →	(July 1986) \455 million Capital subscription by Labor banks (\5 million) →	(Jul. 1996) \5,455 million Jusen account \5 million (from the government)	→
3. Governor, deputy Governors, Auditor 〈by appointment of Prime Minister (Oct. 1998)〉	Governor (Senior Deputy Governor of the BOJ) → Deputy Governor (1) →		(Appointed by Minister of Finance) (Jun. 1996) → (Appointed by PM, approved by both Houses of the Diet) (Oct. 1998) Max.3 (Jun. 1996) → Max.4 (Oct. 1998)	→ →
4. Insurance Premiums General premium rate (by approval) Special premium rate (by cabinet order)	0.006% →	(FY 1982) 0.008% → (FY 1986) 0.012% →	(FY 1996) 0.048% → Introduced 0.036% →	(FY 2001) (FY 2002) Specific deposit 0.048% 0.094% Other deposits, etc. 0.048% 0.080% Until end of fiscal 2001
5. Payment Date of Insurance Premium	Within 3 months of beginning of business year		Within 3 months after beginning of business year. However, half way may be paid within 3 months after first 6months of business year	
6. Maximum Insurance Payments (per depositor) (by cabinet order)	Principal \1 million →	(Jul. 1974) \3 million → (Jul. 1986) \10 million	→	(Apr. 2001) → Principal \10 million + interest, etc.
7. Special Arrangement for the Blanket Guarantee of Deposit Insurance (by law)			Introduced →	Until end of FY 2001
8. Insurance Payment by Setting and Transferring Insurer's Deposit to each Insured Depositor (by law)			Introduced →	→
9. Partial Payment (by law) Maximum Amount of Partial Payment (per ordinary deposit account) (by cabinet order)		(Jul. 1986) Introduced \200,000 →	→	(Apr. 2001) → \600,000
10. Purchase of Deposits etc. (by law)			Introduced (Apr. 1997) →	→
11. Representation of Depositors in Court Procedures (by law)			Introduced (Apr. 1997) →	→
12. Financial Assistance (by law)		(Jul. 1986) Introduced →	→	→
13. Purchase of Assets of Financial Institutions (by law)		Purchase of assets from assuming financial institutions (Jul. 1986) →	Purchase of assets from failed financial institutions (Jun. 1996) → Purchase of assets from banks under special public management, etc. (Oct. 1998) →	Purchase of assets from banks under special crisis management, etc
14. Borrowing of Funds (General Account) (1)Maximum Borrowings (by cabinet order)	\50 billion	\50 billion (Jul.1986) →	\1 trillion (June 1996) → \2 trillion (Apr. 1999) → \4 trillion (Apr. 2000) →	\ 6 trillion (Apr. 2001) → \13 trillion (Apr. 2002)
(2) Borrowing from financial Institutions for Repayment of the BOJ Borrowings (by law)		Introduced (Jul.1986) →	Financial institutions, others (Oct. 1998) →	→

Principal Special Operations Introduced in the Jun. 1996 Amendment of the Law	Main Points in the Amendment of Dec. 1997
• Special financial assistance • Special purchase of deposits and other claims • Collection of special insurance premiums } Arrangement for the blanket guarantee of deposit insurances, etc. (until end of fiscal 2000) • Capital subscription, compensation for losses, guarantee of debts, guidance and advice, etc., to Contracted Bank • Asset investigation of debtors concerning loan assets transferred to Contracted Bank, and collection of loans • Contracted Bank purchase of assets of failed credit cooperatives • Government debt guarantees for borrowings from BOJ, other financial institutions, etc., to implement special operations concerning failed credit cooperatives	• Adding of consolidation to the types ofmerger, etc. for which an application for financial assistance can be made • Financial assistance for specified merger (temporary measure) • Raising of the borrowing limit from the Bank of Japan, etc. relating to special operations

Main Points in the Amendment of Feb. 1998	Main Points in the Financial Revitalization Related Laws enacted in Oct. 1998
• Integration of the Special Account for Non-Credit Cooperative Financial Institutions and the Special Account for Credit Cooperatives into the Special Operations Account	• Introduction of financial administrator operations
• Appreciation of Y10 trillion for government guarantee of the DICJs borrowings and bond issues relating to the Special Operations Account	• Introduction establishment and operations concerning business management of bridge banks
• Expansion of Contracted Bank's functions to act as an assuming bank for non-credit cooperative financial institutions	• Introduction of special public management operations
• Issues of DIC bonds	• Introduction of relevant operations to increase equity capital of financial institutions etc.
• Extension of penal investigative power to include recovery of loans made by failed financial institutions	• Enlargement of target area for asset acquisition by adding banks under special public management, bridge banks, financial institutions, etc.
• Introduction of the Special Operations Fund (up to a limit of Y7 trillion worth of government granted bonds)	• Introduction of the Financial Reconstruction Account which deals with loans, etc. to banks under special public management and bridge banks
	• Introduction of the Early Strengthening Account which deals with loans, compensation for losses by the contracted bank which subscribes shares of financial institutions , etc.

Main Point in the Amendment of May 2000
• Extension of the Special Arrangement for the blanket guarantee of deposit insurance, etc. (until end of fiscal 2001)
• Financial institutions obliged to prepare data for aggregating deposits held by the same depositor, and to make necessary adjustments to computer systems, etc.
• Introduction of procedural arrangement for provisional resolutions for business transfers, etc., and court authorization procedures (subrogation) to substitute for special resolutions
• Introduction of system to indemnify creditors on and ex post facto basis in cases of business transfer, etc.
• Introduction of operations as a financial administrator
• Introduction of operations concerning the establishment and managing the business of bridge banks
• Introduction of financial assistance, for cases of partial business transfer
• Introduction of capital injection and loss and profit share scheme for assuming financial institutions
• Introduction of operations for loans to help failed financial institutions repay insured deposits and prevent deterioration of asset value
• Introduction of operations against financial crisis (creation of Crisis Management Account)
• Increased provision of government bonds to Special Operations Account (from Y7 trillion to Y13 trillion)

1. (1) Contracted Bank (Related to the Law)

Amendment of June 1996 (Enforced from June 21, 1996)	Amendment of February 1998 (Enforced from February 18, 1998)	Amendment of October 1998 (Enforced from October 23, 1998)	Amendment to the Deposit Insurance Law, May 2000	
			(Enforced from June 30, 2000)	(Enforced from April 1, 2001)
				- Resolution and collection operations as provisional arrangement
- Capital subscription in the contracted bank	- No change	- No change	- No change	- No change
- Entrusting the contracted bank to purchase the assets of failed shinkin banks	- Entrustment extended to "failed financial institutions"	- No change	- "Transferees of special assets, etc." added to scope of contract (until March 2001)	- Entrustment extended to "failed financial institutions, etc. (failed financial institutions, bridge banks, banks under special crisis management)"
- Compensation for losses incurred by the contracted bank (restricted to losses related to the contracted purchase of assets)	- Coverage of losses extended to "losses related to merger and transfer of business based on the Resolution and Collection Agreement"	- No change	- No change	- No change
	- Lending to the contracted bank	- No change	- No change	- No change
- Guarantee of borrowing by the contracted bank	- No change	- No change	- No change	- No change
	- Receipt of money paid in by the contracted bank	- No change	- No change	- Restriction on the transfer of profit from contracted bank to the DICJ abolished - Loan loss reserve is treated as integral to the scheme for profit transfer / loss compensation
- Guidance and advice for the contracted bank	- No change	- No change	- No change	- No change
- Investigation into the assets of debtors and collection of claims related to assets transferred to the contracted bank	- Penal provisions added to strengthen investigation into the assets of debtors	- No change	- No change	- No change
	- Approval of entrusting collection to the disposal company of Jusen's assets and liabilities	- No change	- No change	- Provision deleted
- Enquiries and request for cooperation to government agencies, public organizations and others	- No change	- No change	- No change	- No change
		- Action necessary for merger between the contracted bank and the claim resolution company	- No change	- No change

1. (2) Specified Contracted Bank (Related to the Financial Revitalization Law)

Original Financial Revitalization Law October 1998 (Enforced from October 23, 1998)	Amendment of May 2000 (as enforced from April 1, 2001)	Amendment of June 2001 (Enforced from June 27, 2001)	Amendment of December 2001 (Enforced from January 11, 2002)
- Entrustment of asset purchase of financial institutions to the specified contracted bank	- No change	- Extension of the period in which sound financial institutions, etc. can apply to the DICJ to purchase assets (until March 31, 2004)	- Asset purchase by participating in bidding held by sound financial institutions, etc. - Give flexibility to disposition methods of purchased assets - Purchasing price at market value when purchasing or participating bidding
- Compensation for losses incurred by the specified contracted bank	- No change	- No change	- No change
- Lending to the specified contracted bank	- No change	- No change	- No change
- Guarantee of borrowing by the specified contracted bank	- No change	- No change	- No change
- Receipt of money paid in by the specified contracted bank	- No change	- No change	- No change
- Investigation into the assets of debtors (backed up by penal provisions) and collection of claims related to assets transferred to the specified contracted bank	- No change	- No change	- No change
- Approval of entrusting collection to claim resolution company	- Provision deleted		
- Enquiries and request for cooperation to government agencies, public organizations and others	- No change	- No change	- No change
- Guidance and advice to the specified contracted bank	- No change	- No change	- No change

1. (3) Related to the Early Strengthening Law

Early Strengthening Law enacted October 1998	Amendment of May 2000 (as enforced from June 30, 2000)
- Subscribing of shares, etc., entrusted to the contracted bank	- Applications for subscribing of shares, etc., in "specified cooperative financial institutions, etc." to be submitted by March 31, 2002
- Compensation for losses incurred by the contracted bank	- No change
- Loan to the contracted bank	- No change
- Guarantee of borrowing by the contracted bank	- No change
- Receipt of monies remitted by the contracted bank	- No change
- Guidance and advice to the contracted bank which has share-issuing banks as its subsidiaries	- No change

1. (4) Claim Resolution Company (Related to the *Jusen* Law)

The Original *Jusen* Law June 1996 (Enforced from June 21, 1996)	The Amendment of April 1998 (Enforced from April 10, 1998)	The Amendment of October 1998 (Enforced from October 23, 1998)	Amendment of May 2000 (Enforced from April 1, 2001)
- Capital subscription in, provision of subsidies for, loan guarantee and guidance/advice for claim resolution company	- No change	- No change	- No change
- Investigation (backed up by penal provisions) into the assets of debtors and collection of claims related to loans transferred to claim resolution company	- Penal investigation extended to real estate assets pledged (as security) by third parties	- No change	- No change
	- Approval of entrusting collection to the contracted bank	- No change	- Provision deleted
- Enquiries and requests for cooperation to government agencies, public organizations and others	- No change	- No change	- No change
- Borrowing from financial institutions (separate from borrowing for general operations and up to the government capital in the *Jusen* account of ¥5 billion)	- No change	- No change	- No change
- Receipt of government subsidies and financial contribution by the BOJ and private financial institutions; payment of collection profits to the government	- Revised methods of receiving subsidies and paying collection profits to the government (Any surplus after offsetting half of the secondary losses against the collection profit in each business year is paid to the government. In the case of a deficit, a government subsidy is provided.)	- No change	- No change
- Establishment of a coordinating council by the government	- No change	- No change	- No change
		- Arrangements necessary for merger between claim resolution company and contracted bank	- No change

Table 2. Major Events for the DICJ after year 1996

Year 1996

June 26	• Establishment of the Special Investigation Department
July 26	• Establishment of the Housing Loan Administration Corporation (HLAC) (¥ 200 billion capital subscription)
July 26	• Request for cooperation in investigation of *Jusen* borrower
Aug. 2	• Investigation on the assets of Sueno Kosan
Aug. 5	• Submitted “Basic Agreement Concerning the Disposal of *Jusen* Companies”
Aug. 30	• 1st regular meeting of the executives of DICJ and HLAC
Sep. 17	• Establishment of Osaka Special Investigation Department • Reorganization of the structure of the DICJ (Four-department system: Planning and Coordination Department, Deposit Insurance Department, Special Investigation Department and Osaka Special Investigation Department)
Sep. 25	• ¥ 120 billion capital subscription in the RCB
Sep. 30	• Headquarters of the DICJ moved to new office in Marunouchi, Chiyodaku, Tokyo
Oct. 1	• 1st regular meeting of DICJ and RCB executives
Oct. 9	• 1st meeting of Tripartite Council of Real Estate Assets
Oct15	• 1st meeting of Coordinating Council for Collateralized Real Estate
Dec. 12	• “Request for Support in Collection Operation” submitted to the Commissioner-General of the National Police Agency
Dec. 19	• Approval of a subsidy from the Emergency Financial Stabilization Fund to the HLAC and guarantee on liabilities borrowed by the HLAC

Year 1997

Sep. 14	• Dispatch of the Servicer Study Group to the U.S.

Year 1998

Feb. 20	• Establishment of Liability Investigation Committee
Feb. 23	• Establishment of the secretariat of the Committee on Financial Crises Management and Examination • 1st meeting of the Committee on Financial Crises Management and Examination
March 30	• Subscription of preferred shares, etc issued by financial institutions under the Financial Function Stabilization Law • Osaka office of the DICJ moved to Honcho, Chuoku, Osaka
April 1	• Establishment of Osaka Deposit Insurance Department
Oct. 23	• Establishment of Financial Reconstruction Department and Financial Reorganization Office of Osaka Deposit Insurance Department • Abolition of the secretariat of the Committee on Financial Crises Management and Examination
Nov. 4	• New Executives appointed for LTCB (under special public management)
Dec. 25	• New Executives appointed for NCB(under special public management) • Conclusion of agreement on merger between the HLAC and the RCB and creation of the RCC(Resolution and Collection Corporation)

Year 1999

March 30	• Subscription of preferred stocks, etc issued by financial institutions under the Early Strengthening Law (15 banks, including 8 city banks, 1 long-term credit bank, 5 trust banks and 1 regional bank with ¥7,459.250 billion)
April 1	• Establishment of the RCC through merger between the HLAC and the RCB • Establishment of Sapporo Office of Special Investigation Department
April 11	• Appointed as a financial administrator for Kokumin Bank
May 22	• Appointed as a financial administrator for Kofuku Bank
June 9	• Establishment of Purchase Price Examination Board
June 12	• Appointed as a financial administrator for Tokyo Sowa Bank
June 28	• Headquarters of the DICJ moved to Shin-Yurakucho Bld., Chiyodaku, Tokyo
Aug. 7	• Appointed as a financial administrator for Namihaya Bank
Sep. 28	• Memorandum on the Transfer of the LTCB signed by DICJ, New LTCB Partners and LTCB
Sep. 29	• Asset purchase from sound financial institutions • Capital injection under the Early Strengthening Law (¥ 230 billion to the Ashikaga Bank and other three banks)
Oct. 2	• Appointed as a financial administrator for Niigata Chuo Bank
Nov. 19	• Appointed as a financial administrator for Nichinan Shinkin Bank
Nov. 29	• Capital injection under the Early Strengthening Law (¥ 30 billion to Ashikaga Bank)

Year 2000

Jan. 11	• Basic Agreement on Business Transfer of Komukin Bank signed by Yachiyo Bank and Kokumin Bank
Feb. 9	• Final Agreement on the Transfer of the LTCB signed by DICJ, New LTCB Partners and LTCB
Feb. 28	• Repayment of perpetual subordinate debentures (¥ 100 billion) underwritten from the Tokyo Mitsubishi Bank • Asset Purchase from sound financial institutions
Feb. 29	• Capital injection under the Early Strengthening Law (¥ 30 billion to the Kumamoto Family Bank)
March 1	• Transfer of LTCB shares to New LTCB Partners
March 7	• Business Transfer Agreement of Komukin Bank signed by Yachiyo Bank and Kokumin Bank
March 30	• Asset purchase from sound financial institutions
March 31	• Capital injection under the Early Strengthening Law (¥ 285 billion to the LTCB and another bank)
May 18	• Basic Agreement on Business Transfer of Kofuku Bank signed with the US investment fund “Asia Recovery Fund” and Kofuku Bank
May 31	• Basic Agreement on Business Transfer of Namihaya Bank signed by the Daiwa and Kinki Osaka Bank, and Namihaya Bank
June 6	• Basic Agreement on the Transfer of NCB signed by DICJ, the consortium of Softbank, Orix and Tokio Marine and Fire Insurance, and NCB
June 27	• Basic Agreement on Business Transfer of Tokyo Sowa Bank signed by Asia Recovery Fund and Tokyo Sowa Bank
June 30	• Final Agreement on the transfer of the NCB signed by DICJ, the consortium of Softbank, Orix and Tokio Marine and Fire Insurance, and NCB
July 28	• Business Transfer Agreement of Namihaya Bank signed by Daiwa, Kinki Osaka Bank and Namihaya Bank
Sep. 1	• Transfer of the NCB’s shares to the consortium of Softbank, Orix and Tokio Marine and Fire

	Insurance
Sep. 26	• Asset purchase from sound financial institutions
Sep. 29	• Basic Agreement on Business Transfer of Niigata Chuo Bank signed with Daiko, Daishi, Hachijuni, and Higashi Nihon Bank and Niigata Chuo Bank • Capital injection under the Early Strengthening Law (¥60 billion to Chiba Kogyo Bank and ¥ 35 billion to Yachiyo Bank)
Oct. 3	• Capital injection under the Early Strengthening Law (¥ 260 billion to NCB)
Oct. 6	• Business Transfer Agreement signed of Kofuku Bank with Kansai Sawayaka Co., Ltd., a company set up by the Fund as an acquiring institution(name later changed to the Kansai Sawakaya Bank on acquisition of banking license)
Oct. 20	• Business Transfer Agreement of Nichinan Shinkin Bank signed with Nango Shinkin Bank and Nichinan Shinkin Bank
Oct. 31	• Basic Agreement on Business Transfer of Niigata Chuo Bank signed with Gumma, Towa Bank and Niigata Chuo Bank
Nov. 30	• Basic Agreement of Tokyo Sowa Bank by the Asia Recovery Fund and Tokyo Sowa Bank cancelled
Dec. 16	• Appointed as a financial administrator for Kansai Kogin Credit Cooperative
Dec. 20	• Special purchase of assets from Shinkumi Federation Bank, and compensation for losses incurred thereby (Special purchase: ¥ 15.9 billion, Compensation for losses: ¥ 82 billion)
Dec. 21	• Business Transfer Agreement of Niigata Chuo Bank signed by the Taiko, Daishi, Hachijuni, Higashi-Nippon, Gunma Bank and Niigata Chuo Bank
Dec. 22	• Business Transfer Agreement of Niigata Chuo Bank signed with Towa Bank and Niigata Chuo Bank
Dec. 22	• Repayment of perpetual subordinated bonds (¥ 150 billion) underwritten from Mitsubishi Trust & Banking
Dec. 28	• Disposal of preferred stocks worth ¥ 200 billion subscribed from Mitsubishi Trust & Banking
Dec. 29	• Appointed as a financial administrator for Chogin Tokyo Credit Cooperative

Year 2001

Jan. 25	• Business Transfer Agreement of Tokyo Sowa Bank signed by the major US investment fund "Lone Star" and Tokyo Sowa Bank
March 30	• Capital injection under the Early Strengthening Law (¥ 12 billion to Kansai Sawayaka Bank and ¥ 20 billion to Higashi-Nippon Bank)
April 2	• Set up insurance premium rate for FY 2001 as 0.048% for Specific deposits and Other deposits, etc.
Dec. 28	• Appointed as a financial administrator for Ishikawa Bank

Year 2002

March 8	• Appointed as a financial administrator for Chubu Bank
March 11	• Establishment of Bridge Bank of Japan(BBJ) as a 100% subsidiary(¥ 2.05 billion capital subscription)
March 19	• The BBJ got licenses of banking and mortgage debentures trust business
March 28	• Business Transfer Agreement of Ishikawa Bank and Chubu Bank signed by the BBJ and Ishikawa Bank, and the BBJ and Chubu Bank respectively
March 29	• Set up insurance premium rate for FY 2002 as 0.094% for Specific deposits and 0.08% for Other deposits, etc.

Table 3. Insurance Premium Rates

		Ordinary Premium Rate (1)	Special Premium Rate* (2)	Total (1) + (2)
On launch of the system in 1971		0.006%	—	
FY1982		0.008%	—	
FY1986		0.012%	—	
FY1996		0.048%	0.036%	0.084%
FY2001	Specific Deposits	0.048%	0.036%	0.084%
	Other Deposits	0.048%		
FY2002	Specific Deposits	0.094%	—	
	Other Deposits	0.080%		

* Applied from FY1996 to FY2001 (Deposit Insurance Law, Supplementary Provisions, Article 19 paragraph 1)

Figure 1. Organization Chart

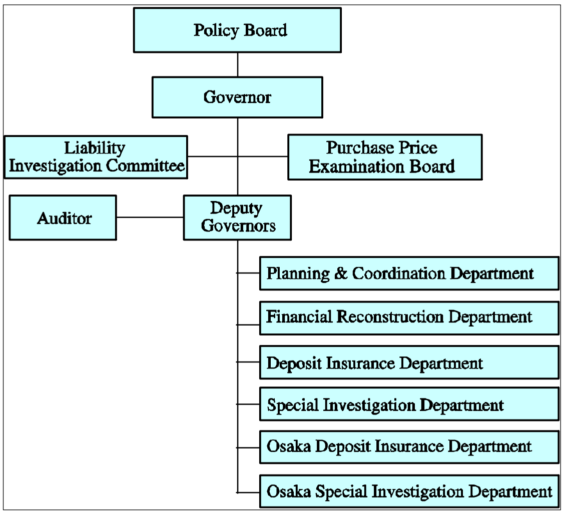


Figure 2. Historical Changes in DICJ Regular Staff

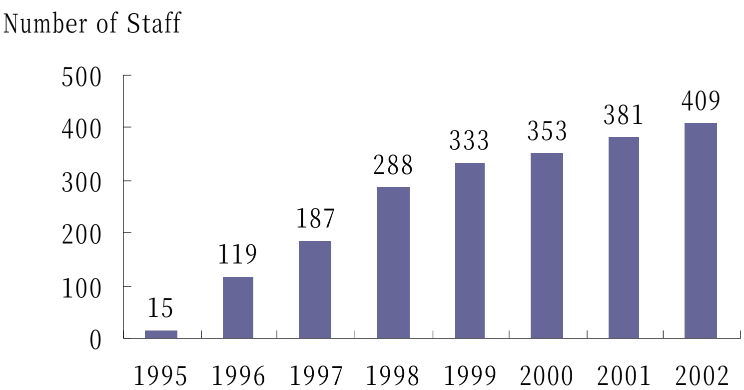
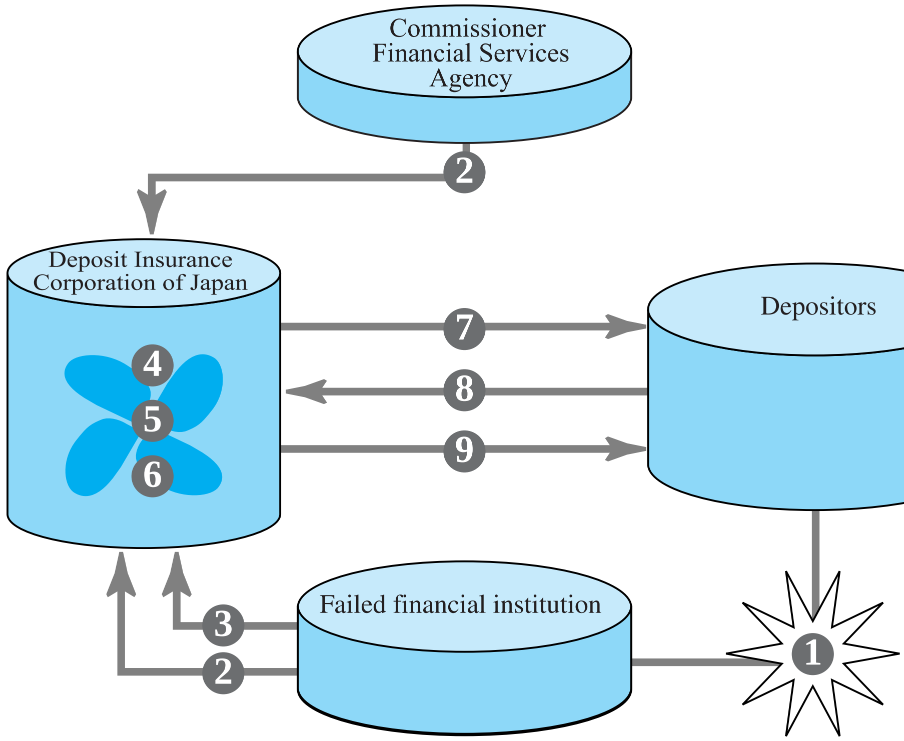


Figure 3. Insurance Payment Flow Chart



❶ Occurrence of insurable contingency

- Suspension of repayment of deposits by financial institution (Category 1 Insurable Contingency)
- Revocation of financial institution's operating license, declaration of bankruptcy, or resolution to dissolve (Category 2 Insurable Contingency)

❷ Notification of contingency (failed financial institution → DICJ, or Commissioner of FSA → DICJ)

❸ Submission of data on depositors using the "DICJ prescribed format" (failed financial institution → DICJ)

❹ Calculation of the insurance (DICJ)

❺ Decision on payment of the insurance* and details of public announcement (DICJ)

* Only needed for Category 1 Insurable Contingencies, i.e. suspension of repayment of deposits by a financial institution

❻ Public Announcements (DICJ)

❼ Insurance Payment Notification (DICJ → depositors)

❽ Claim for the insurance payment (depositors → DICJ)

❾ Payment of the insurance (DICJ → depositors)

Figure 4. Flow of Financial Assistance

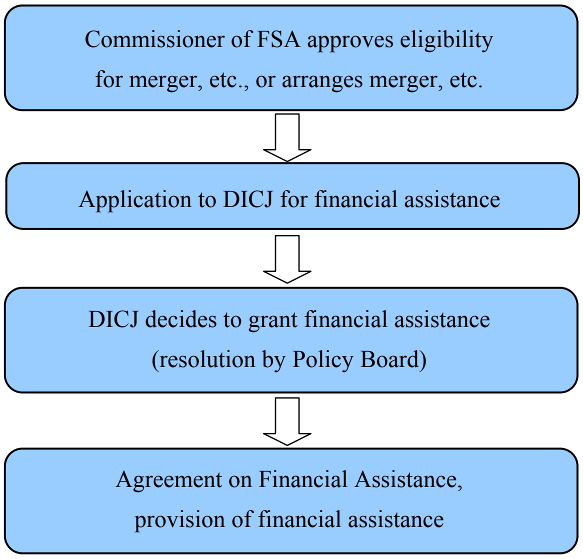


Figure 5. Scheme of Financial Assistance Involving Business Transfers, etc.

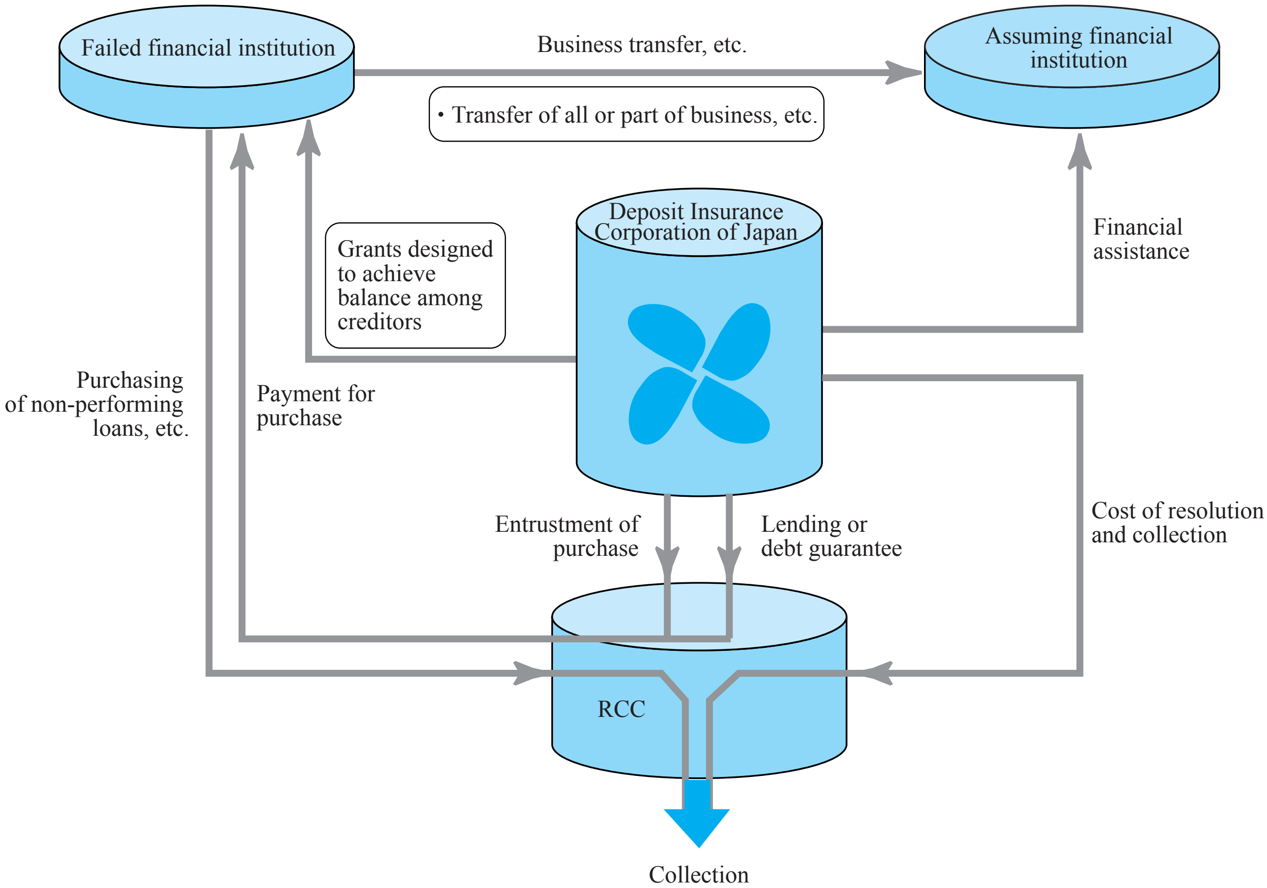
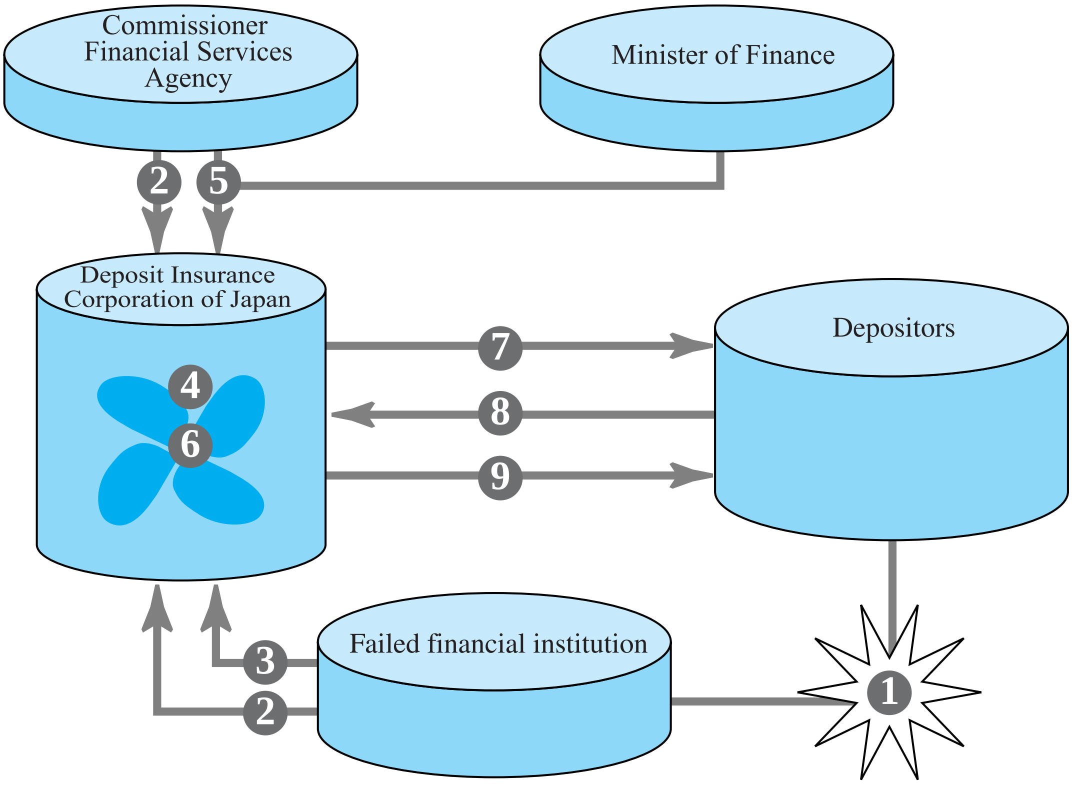


Figure 6. Estimated Proceeds Payment Flowchart



❶ Occurrence of insurable contingency

- Suspension of repayment of deposits by financial institution (Category 1 Insurable Contingency)
- Revocation of financial institution's operating license, declaration of bankruptcy, or resolution to dissolve (Category 2 Insurable Contingency)

❷ Notification of contingency (failed financial institution → DICJ, or Commissioner of FSA → DICJ)

❸ Submission of data on depositors in the "DICJ prescribed format" (failed financial institution → DICJ)

❹ Decision on purchases and estimated proceeds payment rate (DICJ)

❺ Approval of estimated proceeds payment rate (Commissioner of FSA & Minister of Finance → DICJ)

❻ Public Announcement (DICJ)

❼ Purchase Notification (DICJ → depositors)

❽ Claim for the purchase (depositors → DICJ)

❾ Purchase of deposits and other claims (estimated proceeds payment) (DICJ → depositors)

Figure 7. Operations involving Financial Administrators

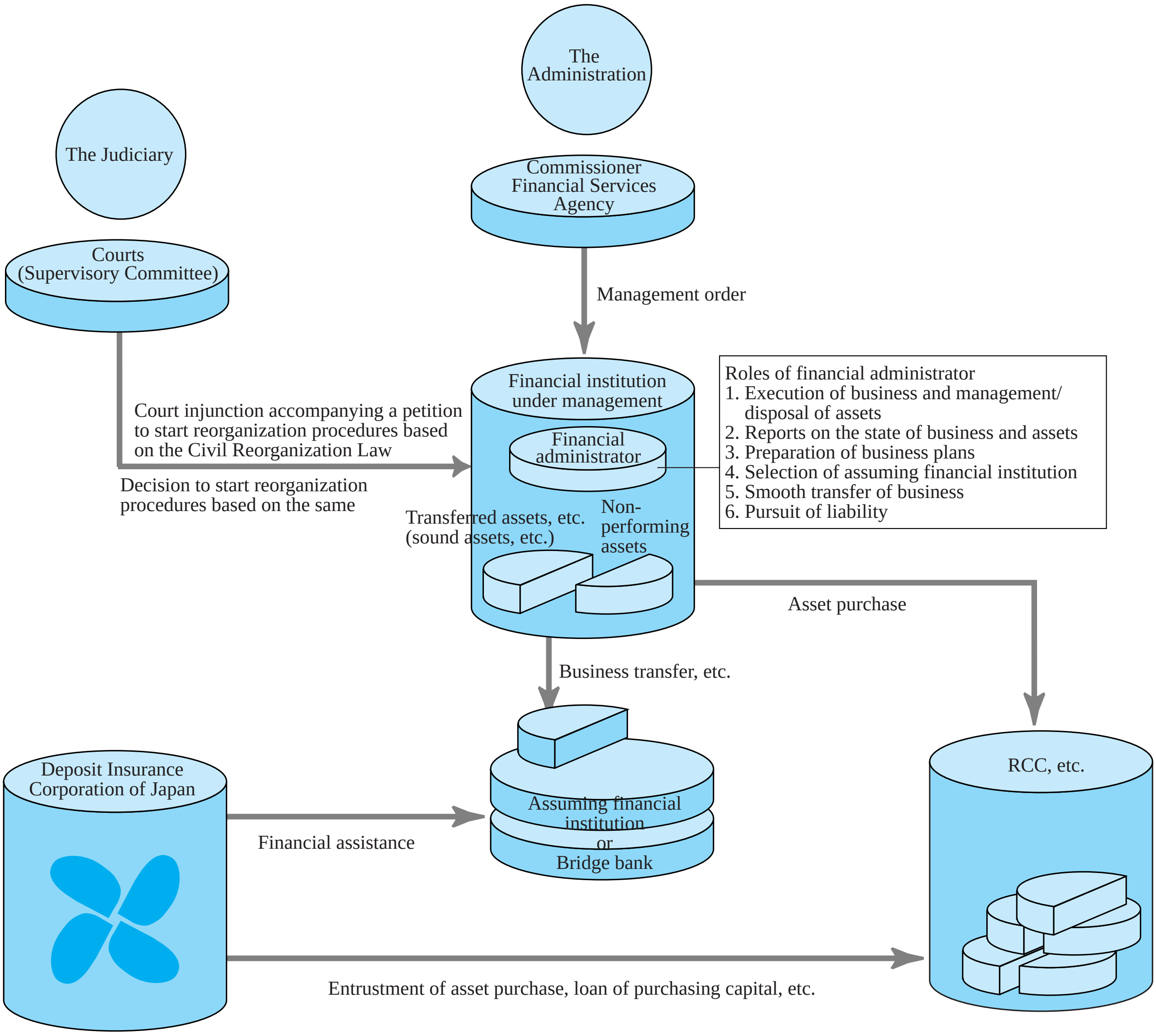


Figure 8. Operations of Bridge Banks

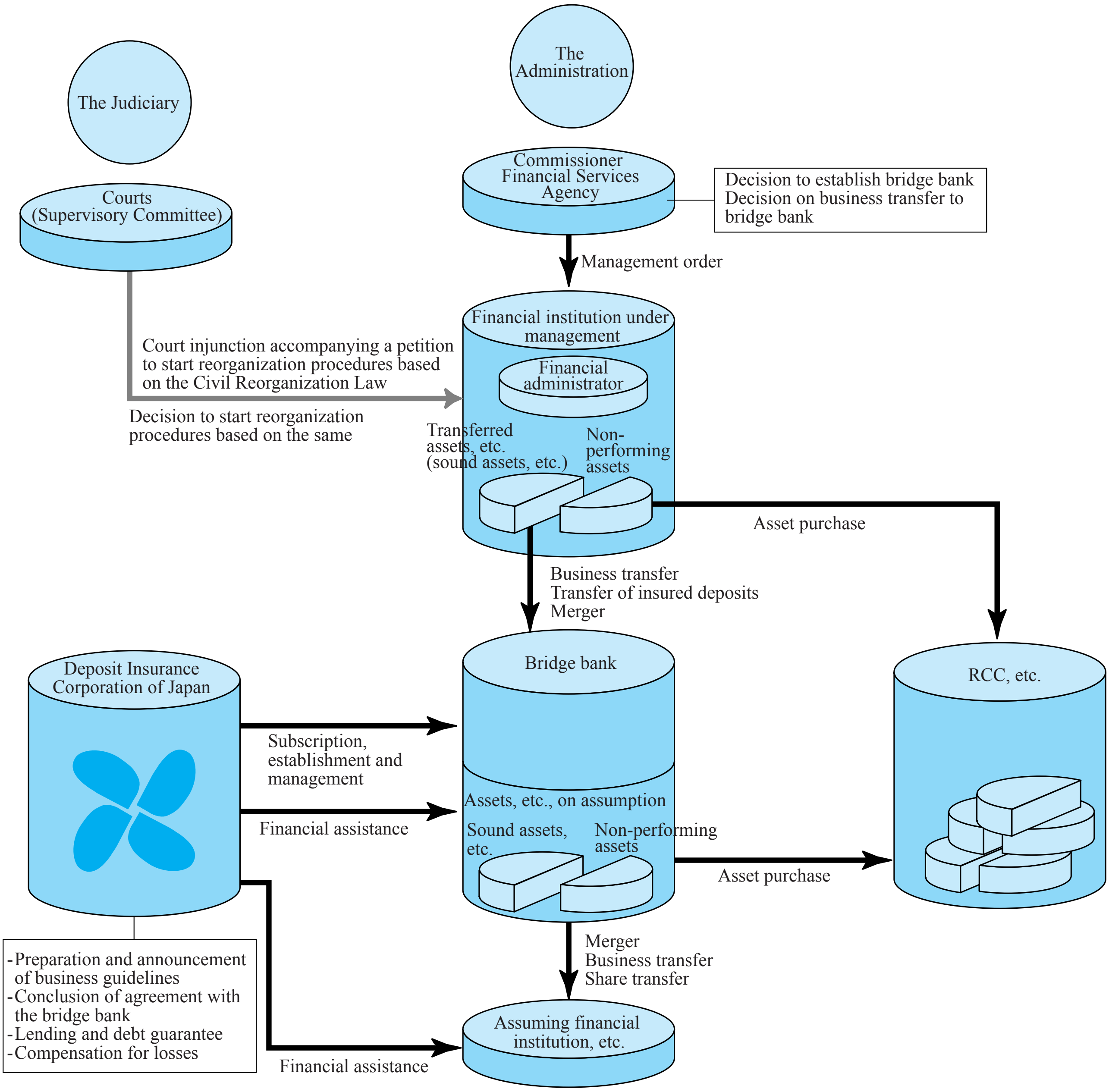


Figure 9. Capital Injection Scheme based on the Early Strengthening Law

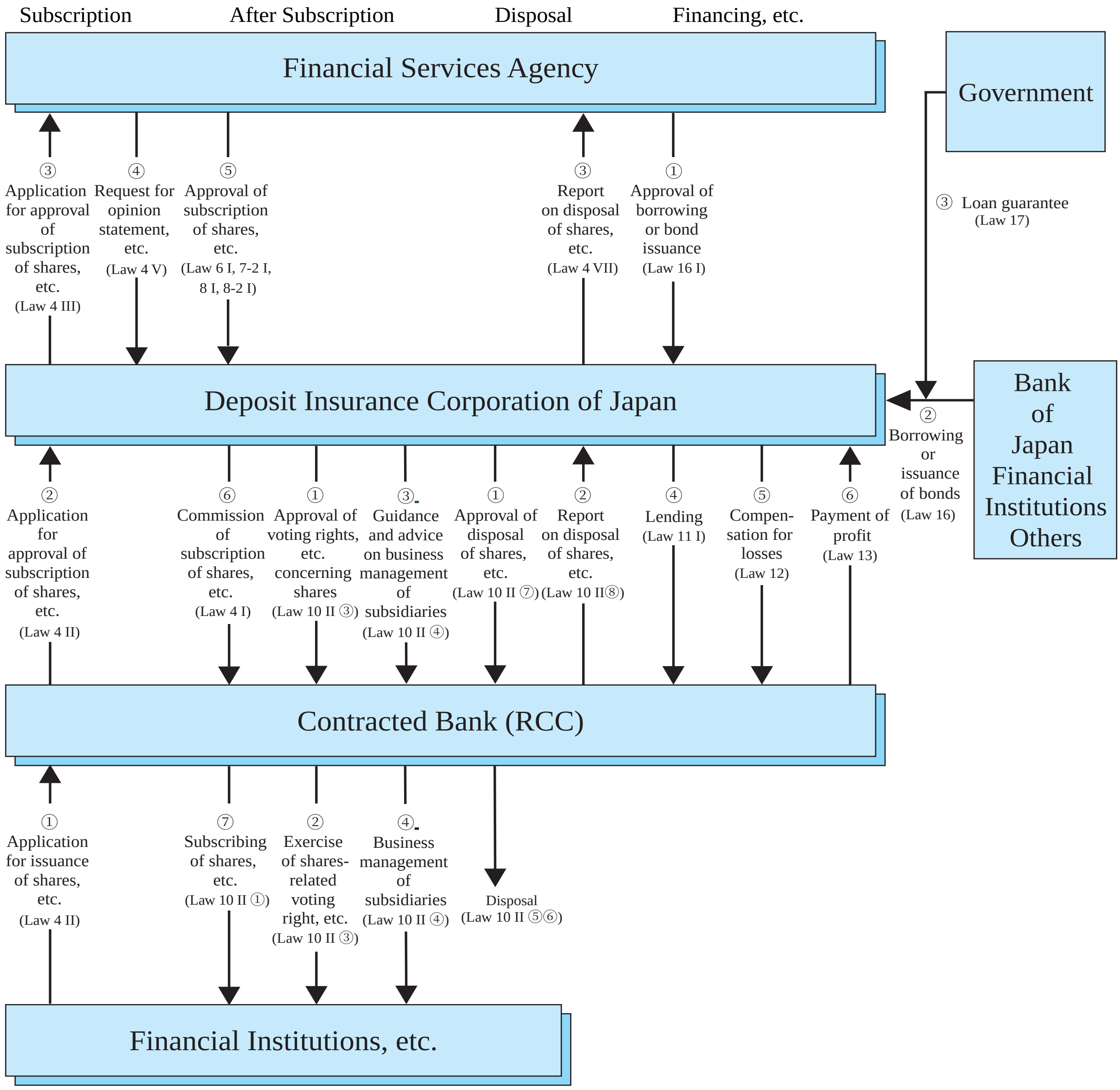
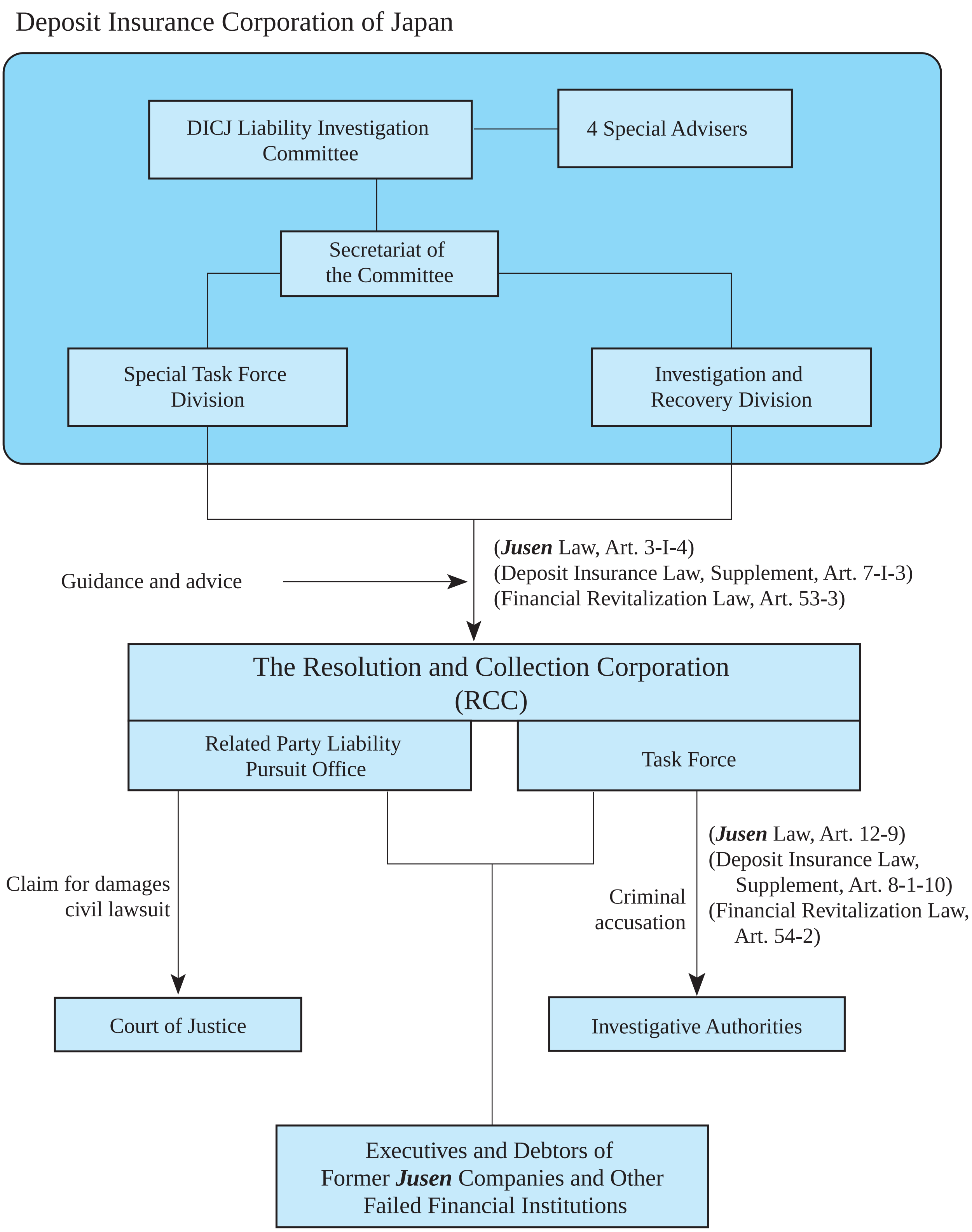


Figure 10. System of Liability Pursuit



1. Operations as a Financial Administrator

When a financial institution fails, the DICJ may be appointed as a financial administrator for the failed financial institution under the Deposit Insurance Law.

In FY2001, 56 financial institutions were newly ordered by the Financial Services Agency (FSA) to be placed under the management by financial administrators. Of these, the DICJ was appointed as a financial administrator for 2 banks. Together with the other financial administrators, the DICJ has managed the business of these financial institutions, including the execution of their operations and the disposal of their assets. For 1 shinkin bank, meanwhile, the DICJ was additionally appointed as a financial administrator at the beginning of FY2002.

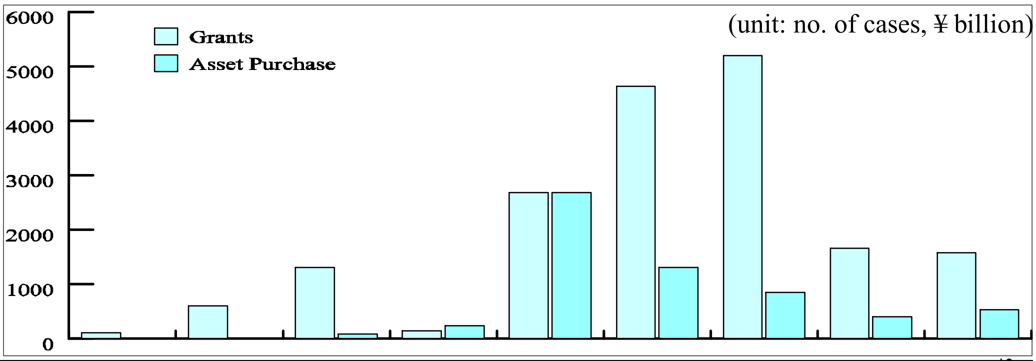
Of the financial institutions subject to orders for management in FY1999 and FY2000, the DICJ was appointed as a financial administrator for 2 banks and 2 credit cooperatives. In FY2001, the DICJ continued to conduct operations of these financial institutions under management, including the management and disposal of their assets, the selection of assuming institutions, and the transfer of business, together with the other financial administrators. Of the financial institutions under management, the transfer of business has already been completed for the 2 banks.

2. Financial Assistance

When a financial institution fails, the DICJ purchases non-performing loan (NPL), etc., from failed financial institutions as well as provides monetary grant to assuming financial institutions which wish to merge with the failed financial institution, acquires its share or transfers its business in order to facilitate such business transfer, merger and other operations. These operations are known as "financial assistance".

During FY2001, the financial assistance was implemented in 37 cases (including 32 cases of special financial assistance, in which the financial assistance exceeded the anticipated cost of paying out insurance in connection with failed financial institutions). This surpassed the previous record of 30 cases in FY1998 to reach the highest level so far. In terms of the amounts, however, grants totaled ¥1,667.1 billion (down by 67.9%) and asset purchases ¥406.4 billion (down by 52.2%), both falling vastly from the previous year, because the financial assistance in FY2001 mainly involved failure resolution of small and medium financial institutions.

Chart 1 Trends in Performance of Financial Assistance *1



Fiscal Year		1991-1994	1995	1996	1997	1998	1999	2000	2001	2002*2
Total		6	3	6	7	30	20	20	37	43
	Banks	1	1	1	1	5	3	4	2	0
	Shinkin banks	2	0	0	0	0	2	10	7	6
	Credit cooperatives	3	2	5	6	25	15	6	28	37

*1 Totals for each year are based on the date of implementation of financial assistance (date of business transfer). Grant amounts are amended from the amounts on the date of implementation for portions subject to subsequent reduction or other measures.

*2 Cases decided by the Policy Board as of May 17th, 2002.

*3 Asset purchases from the Nippon Credit Bank were divided into separate amounts for FY1999 (¥298.7 billion) and FY2000 (¥82.4 billion).

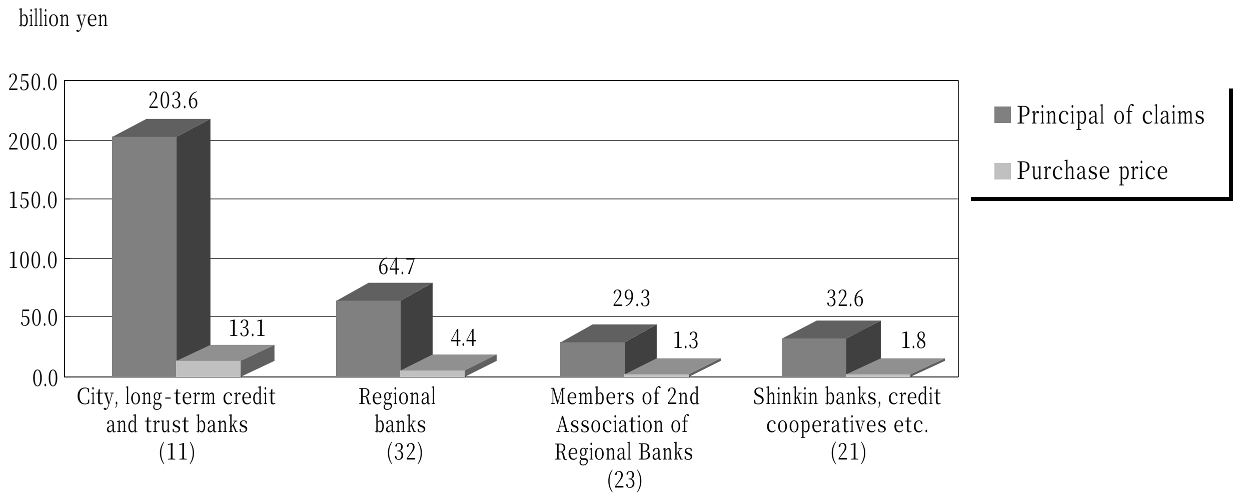
As for the types of failed institutions resolved by the implementation of financial assistance in FY2001, 2 were banks, 7 were shinkin banks, and 28 were credit cooperatives.

In FY2002, meanwhile, financial assistance aimed at protecting the full amount of deposits for the financial institutions that failed up to the end of FY2001 is continuing. Those decided by the Policy Board as of May 17th have surpassed last year's total in terms of the number of cases (43, of which 6 are shinkin banks and 37 are credit cooperatives). The total for grants is ¥1,576.5 billion, and that for the purchase of assets is ¥534.5 billion.

3. Purchase of Assets from Sound Financial Institutions, etc.

Article 53 of the Law concerning Emergency Measures for the Revitalization of the Financial System ("the Financial Revitalization Law") provides for a system of emergency measures involving the purchase of assets from financial institutions, as a means of stabilizing and reviving Japan's financial functions*. Following requests for the purchase of assets from sound financial institutions, the DICJ then makes such purchases with the approval of the Prime Minister (or the Financial Reconstruction Commission until its abolition in January 2001).

Chart 2 Record of Asset Purchases from Sound Financial Institutions, etc., under Article 53 of the Financial Revitalization Law (based on the purchase implementation date)



Note: Figures in parentheses represent the number of financial institutions

In December 2001, the system underwent major review. The functions of the Resolution and Collection Corporation (RCC) (commissioning purchasing operations from the DICJ) was strengthened by amendment to the Financial Revitalization Law (promulgated December 14, 2001, effectuated January 11th, 2002), in line with the "Advanced Reform Program (Final Report)"(October 26, 2001), aiming at intensive implementation of purchasing non-performing loans (NPLs) from financial institutions by the end of March 2004. This amendment has allowed the RCC to diversify the purchasing methods of NPLs, such as participation in bidding as well as purchase of NPLs at the market value.

* When the Financial Revitalization Law was first enacted, the deadline for asset purchases was set at the end of March 2001. The Emergency Economic Package included a measure to extend the deadline for asset purchase to resolve the non-performing loan problems of financial institutions. On this basis, following a partial amendment to the Financial Revitalization Law (promulgated and effectuated on June 27, 2001), the deadline for asset purchases from sound financial institutions and others was extended to the end of March 2004.

4. Capital Injection, etc., under the Early Strengthening Law

The DICJ is involved in the subscription of shares and other securities issued by financial institutions, by commissioning the subscription operation to the contracted bank (the RCC) based on the Law concerning Emergency Measures for Early Strengthening of Financial Functions (the “Early Strengthening Law”). The DICJ also lends the funds needed by the contracted bank for the smooth operations, guarantees debts, and collects profits arising from the operations by the contracted bank.

Among its other operations, the DICJ also approves the exercise of voting rights and other rights by the contracted bank as a shareholder or capital investor, and approves the disposal of shares and others by the contracted bank.

The application deadline for capital injection under the Early Strengthening Law was originally set at the end of March 2001. However, following an amendment to the Law, the deadline was extended by one year to the end of March 2002 for cooperative financial institutions only.

In FY2001, 5 regional banks which had applied for subscription of the shares, etc., through joint endorsement with the contracted bank got the approval from the Commissioner of the FSA. Based on this approval, the DICJ provided loans necessary to the contracted bank so that it subscribed the shares, etc amounting to a total of ¥184 billion, as approved by the FSA.

As a result, the cumulative total of capital injection under the Early Strengthening Law reached ¥8,605.3 billion (see Appendix 1. (2) Table 1 List of Capital Injections under the Early Strengthening Law).

The DICJ is also authorized to subscribe preferred stock, etc., of assuming institutions as part of financial assistance under the Deposit Insurance Law (referred to below as “capital injection to assuming institutions”). The aim of capital injection to assuming institutions is to provide appropriate financial assistance for mergers and other operations connected with the resolution of failed financial institutions, and thereby to contribute to the stability of the financial system. Capital injection helps an assuming financial institution, to recover its capital adequacy ratio when the latter has decreased due to a merger, with a failed financial institution. So far, this operation has not been implemented.

5. Debt Recovery, Real Estate Management and Disposal, etc.

(1) Record of debt recovery, etc.

As special operations based on the Law Concerning Special Measures for Promotion of Disposal of Claims and Debts of Specific Jusen Companies (the “Jusen Law”), the Deposit Insurance Law and the Financial Revitalization Law, the DICJ provides guidance and advice needed to execute the operations of the RCC. Such guidance and advice is aimed at supporting the collection of non-performing loans transferred to the RCC from specific housing loan companies (referred to as “former Jusen companies”), failed financial institutions, and others. The guidance and advice covers a wide spectrum including support for recovery operations by uncovering hidden assets (see I. 6 “Investigative Powers”), as well as pursuit of the civil and/or criminal liability of persons involved (see I. 7 “Pursuit of Liability”), making full use of the investigative powers entrusted to the DICJ.

In FY2001, debts totaling ¥1,082.3 billion were recovered, including ¥250.8 billion for the Housing Loan Administration Corporation (HLAC, forerunner of the RCC; cumulative total ¥2,548.6 billion since transfer) and ¥831.5 billion for the Resolution and Collection Bank (RCB, forerunner of the RCC; cumulative total ¥2,720.7 billion since transfer). The latter includes the commissioned recovery of Hanwa Bank debts and the purchase of assets from financial institutions under Article 53 of the Financial Revitalization Law (see Appendix 1. (5) Collection Performance of the RCC).

(2) Record of real estate management and disposal, etc.

Ensuring the proper and efficient management and disposal of real estate purchased from failed financial institutions is extremely important in order to achieve the swift disposal of non-performing assets purchased by the RCC. On this understanding, the DICJ, together with the HLAC and the RCB, forerunners of the RCC, established the Tripartite Council of Real Estate Assets in October 1996 to study and research this issue. (The Council was later renamed the Council of Real Estate Assets following the merger of the HLAC and the RCB in April 1999.)

As well as striving for appropriate management of real estate, the DICJ, in tandem with the RCC, is now making efforts to ensure efficient disposal in accordance with fair and transparent rules, based on the findings of the Council. This includes registration with the Real Estate Information Network System (REINS, a network system for the exchange of real estate information administered by the Organization for Real Estate Transactions, which is designated by the Minister of Land, Infrastructure and Transport), listings of real estate sales information on the Internet website, application of the bidding method, promoting the sale of land for official or public use through collaboration with the Urban Development Corporation and the Organization for Promoting Urban Development, and securitization or liquid assets.

1) Record of sale of real estate holdings

(i) Total sales figures

In FY2001, the RCC made 393 sales of real estate holdings worth a total of ¥50.0 billion (including real estate previously owned by the former Hanwa Bank whose management was entrusted to the RCC). This brings the cumulative total to ¥196.4 billion for 1,826 sales to date (including those transferred to the HLAC and the RCB; the same also applies below).

(ii) Sales via the bidding method

In FY2001, the head office building of the former Hokkaido Takushoku Bank (Sapporo) was sold by public tender. Apart from this, there were 13 other sales by selective tender, and the total amount of sales of real estate holdings by the RCC via the bidding method were ¥27.3 billion. This brings the cumulative total of sales via the bidding method so far to 21 cases and ¥34.5 billion.

(iii) Sale as land for official or public use

In FY2001, the RCC sold 59 real estate holdings and mortgages worth a total of ¥5.7 billion as land for official or public use. This brought the cumulative total of assets sold as land for official or public use to 225 cases, worth a total of ¥55.8 billion.

2) Record of securitization

In FY2000, the RCC started a study on recovery through securitization. In September 2001, the first securitization was made with the head office building of the former Long-Term Credit Bank of Japan (Landic Otemachi Building). The securitized assets were real estate owned by the debtor, and the scale of the securitization was around ¥40 billion.

In January 2002, meanwhile, the RCC accepted trusts for NPLs, a total principle of around ¥100 billion worth, which was transferred to a special purpose company from a number of financial institutions and the RCC, in order to securitize non-performing loans using the trust functions of the RCC.

In April 2002, moreover, an arranger was chosen to securitize 5 mortgaged real estate, including the head office building of the former Nippon Credit Bank. The total deal of this securitization accounted for around ¥40 billion, and the securities are to be issued at the end of July 2002.

3) Record of sale of claims

The RCC sold around 40 claims worth around ¥18 billion in FY2001. This brings the cumulative total for the sale of claims so far to around 50 cases worth around ¥47 billion.

Meanwhile, under the provisions of the Deposit Insurance Law and other legislation, the RCC also purchases and recovers non-performing loans from failed financial institutions and others, as well as pursues the liability of lenders and borrowers concerning the purchased loans. For this, it adopts the principle of directly recovering non-performing loans from the debtors themselves (including the disposal of mortgaged real estate). This differs from the method adopted by private financial institutions in dealing with NPLs, where they make profits by selling such loans to the market. However, since one effective means of resolving NPLs is to increase their liquidity, the RCC also uses the method of loan transfer if appropriate for the case in question, from the point of view of maximizing debt recovery, etc.

4) Aggregation and management of non-performing loans through managed trusts

The RCC has been studying the use of managed trusts as a tool to resolve NPLs in a quick and smooth manner by aggregating claims from several financial institutions against the same debtor company, using the trust functions approved in August 2001. In March 2002, the RCC was entrusted to the Japan New Town Development Corporation's NPLs worth a total principle of about ¥110 billion borrowed from 14 financial institutions to promote the smooth execution of that company's loan repayment program.

6. Investigative Powers

The DICJ makes strenuous efforts to uncover the hidden assets of debtors by exercising the investigative powers entrusted by the Jusen Law, the Deposit Insurance Law and the Financial Revitalization Law. In FY2001, the DICJ investigated 272 cases and uncovered hidden assets worth ¥53.2 billion (taking the cumulative total since June 1994 to ¥461.3 billion). In view of its highly public nature, the DICJ's authority of investigation include penal provisions, and mainly investigations of financial institutions, on-site inspections of debtors and related premises, and questioning of debtors and related parties.

Actual cases of concealment so far include (1) more than ¥120 billion in cash withdrawn from a financial institution just before its failure, concealed by transferring it to dummy company accounts and repeatedly changing them; (2) ¥1 billion in cash hidden in a safe deposit box under the name of one of the parties concerned after withdrawal of the cash from a bank account; (3) a series of "paper companies" set up with the purpose of concealing more than ¥2 billion in loan claims and other assets which were then rotated among these companies; (4) nearly ¥15 billion worth of real estate and other assets placed in an overseas subsidiary; (5) a failed financial institution which, shortly before the transfer of claims to the RCC, changed the account holders for more than ¥700 million in deposits held in other banks to the names of affiliated companies or family members, thus aiming to avoid the recovery of claims by the RCC; (6) a separate company created under the nominal presidency of a former employee, acting as a front for the hotel business that was the debtor's principal source of revenue; (7) surplus assets converted into dozens of deposit checks (¥800 million) and concealed in order to evade seizure; and (8) luxury condominiums and others purchased with capital concealed by drawing up false contracts when disposing of real estate. These examples illustrate how the tricks deployed to conceal assets are growing increasingly deliberate and sophisticated.

The DICJ, through rigorous investigation efforts under the authority mandated by the law, exposes such increasingly sophisticated attempts by devious debtors to conceal their assets. This is to provide powerful support for the recovery of non-performing loans by the RCC. In particular, attempts to recover non-collateral assets, considered especially difficult, depend largely on the DICJ's investigations.

(Reference) Results of Investigations in FY2001

All investigations	Of which, on-site inspections	(Hidden) assets confirmed
272	42	¥53.2 billion

Note: The DICJ has three Special Task Forces for Investigation in each of the Special Investigation Departments in Tokyo and Osaka. The system of asset investigation was further enhanced by the establishment of the Sapporo Branch Office on April 1, 1999. These Special Task Forces for Investigation are unique groups of experts specializing in asset investigation. They are staffed by personnel with diverse backgrounds in both public and private sectors, mainly from national tax administration and financial institutions but also including the police, customs, and the Ministry of Health, Labor and Welfare.

7. Pursuit of Liability

(1) Pursuit of criminal liability

In their pursuit of criminal liability, the DICJ and RCC brought 32 accusations and complaints against 75 suspects in FY2001, taking the cumulative total since June 1996 to 207 cases (420 defendants).

In the pursuit of liability against the executives of failed financial institutions, the DICJ, as a financial administrator under the Financial Revitalization Law, brought a complaint of aggravated breach of trust against 2 former executives of the Niigata Chuo Bank (April 2001), accusations and complaints of embezzlement of corporate funds and other offences against 4 former executives of the Chogin Tokyo Credit Cooperative (November 2001), and a complaint of breach of trust against 5 former executives of the Kansai Kogin Credit Cooperative (January and February 2002). The RCC also brought an accusation of breach of trust against 3 former executives of the Kita Hyogo Credit Cooperative (April 2001).

The pursuit of criminal liability of debtors resulted in a number of accusations including (1) 8 cases of obstruction to law enforcement, (2) 7 cases of fraud, and (3) 5 cases of auction interference. More specifically, these cases were typically characterized as in (1), whereby assets were concealed and deceptively transferred in order to avoid compulsory execution of recovery; in (2), whereby a mortgage was cancelled by making a fraudulent declaration to the mortgagee that the mortgaged asset was worth less than the actual sale price at the time of voluntary sale (known as "nakanuki" hollowed-out fraud); and in (3), whereby the fairness of official auctions was hindered by making false declarations to court executors. Unique cases were a firm that owed massive debts to a former Jusen company and tried to conceal its assets by transferring more than ¥100 million of its own deposits to an account under fictitious name in an attempt to avoid loan recovery, and a case of obstruction of an auction by a major racketeer group (fixers of shareholders' meetings).

(2) Pursuit of civil liability

The DICJ's involvement in the pursuit of civil liability includes the pursuit of managerial liability against the former executives of failed financial institutions and former Jusen companies by the RCC, and the pursuit of managerial liability against the former executives of financial institutions under management by the DICJ in its capacity as a financial administrator.

The record for pursuit of civil liability in FY2001 was as follows. Firstly, in cases pursued through the courts, 27 cases were newly initiated for claims of ¥19.1 billion. These included cases of litigation initiated by the RCC itself, cases already initiated by failed financial institutions and assumed by the RCC, and cases in which the RCC was involved as a party in litigation brought by member representatives against the executives of failed financial institutions. The cases mainly involved claims for damages due to breach of the duty of bona fide care or loyalty by former executives in managing loans, and litigation against former executives for the return of excessive profits from retirement allowances. In other cases, the RCC also pursued the liability of former executives of failed financial institutions by negotiating out-of-court settlements, and reached settlements with a total of 8 former executives from 1 bank and 2 credit cooperatives (total amount of settlements: ¥150 million). These cases of litigation and conciliation brought the cumulative total of cases pursued by the DICJ and the RCC to 86, with total claims of ¥104.6 billion (see Appendix 1. (4) Pursuit of Civil Liability via Litigation and Conciliation).

8. On-Site Inspections

The amendment to the Deposit Insurance Law of April 2001 provides that the Prime Minister may, when deeming it necessary to ensure that the provisions of the Law are implemented efficiently, authorize the DICJ to conduct on-site inspections of financial institutions (legally mandated to the Commissioner of the FSA).

The scope of on-site inspections that may be undertaken by the DICJ is defined in Article 137, paragraph 6 of the Deposit Insurance Law. Namely, the DICJ may conduct inspections to check "That payment of insurance premiums is being made properly" (subparagraph 1 of the same), “That measures are being implemented to prepare databases, an electronic data processing system and other relevant measures for aggregating data related to deposits held by the same depositor, as obligatory to financial institutions” (subparagraph 2), and “The estimated amounts to be repaid on deposits and other claims when a financial institution has been made subject to bankruptcy proceedings” (subparagraph 3). Penal provisions also exist for cases including evasion of these on-site inspections (Article 143, paragraph 2 of the Deposit Insurance Law).

In the 2001 inspection year (July 2001 to June 2002), the DICJ implemented on-site inspection under Article 137, paragraph 6 (ii) of the Deposit Insurance Law, in line with the “Program Year 2001 Basic Guidelines and Basic Plan for Inspections” published by the FSA in July 2001. As of June 7, 2002, on-site inspections had been implemented in a total of 36 financial institutions, consisting of 2 banks, 12 shinkin banks and 22 credit cooperatives.

9. Funding

For its funding, the DICJ is authorized to raise funds in the form of borrowing and/or bond issues up to the amount separately stipulated by Cabinet Order for the General Account, Crisis Management Account (set up in FY2001), Special Operations Account, Financial Reconstruction Account and Early Strengthening Account. Government guarantees can be given on the funding for all five of these accounts in the national budget (a total of ¥53.4 trillion for the 5 accounts is included in the government guarantee framework in the general provisions of the FY2002 budget).

As of the end of March 2002, funding totaled approximately ¥20.0 trillion (an increase of around ¥0.8 trillion from one year earlier). Borrowings accounted for ¥3.1 trillion in the General Account, ¥3.4 trillion in the Special Operations Account, ¥5.3 trillion in the Financial Reconstruction Account and ¥4.6 trillion in the Early Strengthening Account, bringing the total for these 4 accounts to around ¥16.4 trillion (loans from 100% private financial institutions, etc.). As for DICJ bonds (government guaranteed), the outstanding balance of issues stands at ¥3.6 trillion (Early Strengthening Account only)*.

* In FY2001, the DICJ started the issue of 2-year bonds as well as the 4-year bonds issued since FY1999.

10. International Activities

(1) Guidance for Developing Effective Deposit Insurance Systems

In February 1999, the G7 countries launched a “Financial Stability Forum”. Its aim was to stabilize international financial markets in a series of currency crises of 1997-98. Citing a deposit insurance system as an important element in stabilizing financial systems, the FSF created a Working Group on Deposit Insurance* in the spring of 2000. Its mandate was to formulate guidance whereby the deposit insurance systems in the respective countries could achieve sound development and be operated effectively. The Working Group released its final report on “Guidance for Developing Effective Deposit Insurance Systems” in September 2001, and the Guidance was approved at the General Meeting of the FSF held in London later that month.

The Guidance describes (1) issues to be studied when introducing or reviewing deposit insurance systems, (2) design characteristics needed to ensure the efficacy and reliability of the system, and (3) options for failure resolution, payment of insurance to depositors, recovery of claims, and so on.

* The Working Group consisted of members from 12 countries (including the chair nation Canada, the USA, Japan, France, Germany, and Italy), as well as the IMF, the World Bank, and other organizations.

(2) Participation in the International Association of Deposit Insurers (IADI)

In October 2001, an international conference on deposit insurance systems was held in Basle, Switzerland, following the formulation of International Guidance by the Working Group on Deposit Insurance in the FSF. At the conference, the Canadian delegate proposed that an international organization for deposit insurance should be established. In response to this proposal, a Steering

Group to prepare for the establishment of an international organization was launched in January 2002. The Steering Group studied principles for operational management, proposals for statutes, and other issues, and completed its preparatory work with a report on the statutes at its final meeting on May 5, 2002.

Following this, a constituent meeting of the IADI was held inside the Bank for International Settlements (BIS) in Basle on May 6, 2002. At the Meeting, the statutes were approved and the 1st Annual General Meeting was held immediately afterwards.

The founding members of IADI consist of 25 deposit insurance organizations from 24 countries around the world, with another 8 organizations from 7 countries as associate members and 2 organizations as observers. The DICJ participates as a founding member, and officers of the DICJ also sit on the Executive Council.

The purpose of IADI is to contribute to the stability of financial systems by expanding mutual cooperation between deposit insurers and other bodies in the various countries. Its main areas of activity are (1) enhancing the understanding of common interests and issues related to deposit insurance, (2) studying guidance to improve the effectiveness of deposit insurance systems, (3) facilitating the sharing and exchanging of expertise and information, (4) providing advice on the establishment or enhancement of effective deposit insurance system, and (5) undertaking research activities on deposit insurance.

The permanent secretariat of IADI has been established in the Bank for International Settlements. Mr. Jean Pierre Sabourin, President and Chief Executive Officer of the Canada Deposit Insurance Corporation, was appointed as its first President and Chair of the Executive Council.

(Note) The final meeting of the Steering Group was attended by delegates from Argentina, Bulgaria, Canada, France, Hong Kong, Jamaica, Japan, South Korea, Mexico, Trinidad & Tobago, Ukraine, USA, and BIS (legal adviser).

(3) International exchanges

There is increasing interest, from Asia and elsewhere, in Japan's deposit insurance system, resolution of failed financial institutions, debt recovery, and other operations. In FY2001, the DICJ received missions from China, South Korea, Thailand, and other countries. When receiving such missions, the DICJ introduces the situation of deposit insurance and efforts aimed at the stability of financial systems in Japan, to contribute to establishing and enhancing systems in various countries.

The DICJ also took part in the 2nd International Conference on Non-Performing Loans, held in China in November 2001. There, the DICJ explained Japan's efforts and attempts at speedy resolution of non-performing loans, as well as exchanging information.

Also in November 2001, the DICJ exchanged pledges of mutual cooperation with the Korea Deposit Insurance Corporation. This mainly involved information exchanges on the operation of the deposit insurance system, the resolution of bank failures, and other related issues.

11. Public Relations

The DICJ has invested considerable effort in public disclosure on the outline of the deposit insurance system (whose aim is to protect depositors and maintain the stability of the financial system), the state of operation of the system. In particular, FY2001 was the final year of the special arrangement for blanket guarantee of deposits and other claims, which has been in operation since FY1996. Therefore, various PR activities were undertaken to impart a correct understanding of the system for protection of deposits following the transition to limited coverage, methods of failure resolution, and so on. An outline of these activities is given below.

(1) Publication

In summer 2001, the DICJ produced the brochure "The New Deposit Insurance System" (FY2001 Version). This outlines the existing deposit insurance system and explains a number of issues, including the need for financial institutions to prepare data on depositors, the treatment of deposits when a financial institution fails, resolution methods of failure, and response to financial crises. As well as being distributed to financial institutions, the media, and other concerned parties, the brochure is also published on the DICJ web site, along with an English-language version. The revised version for FY2002 was produced in April 2002.

The DICJ has also produced "Q&A – All You Need to Know About the Deposit Insurance System". This

explains issues such as the treatment of deposits following the transition to limited coverage. Although it initially contained answers to 84 questions, more questions have been added from time to time and the content thereby enhanced. It has also been published on the web site.

This Annual Report, similarly, outlines the various DICJ operations, the state of the DICJ's finances, funding, organization, and other matters, while legal amendments, operational records, statistics and other detailed data are included in the Appendices. The Report is also published on the DICJ web site.

(2) Enhancing the web site

Since its launch in 1999, the DICJ website has broadly introduced information such as the organization of the DICJ, the activities and the financial situation. In the current fiscal year, in particular, a number of sections have been enhanced in order to explain the state of the DICJ's operational activities in greater detail. These include the record of financial assistance, the state of failure resolution for financial institutions, capital injection, the purchase of assets from sound financial institutions and others, the recovery of non-performing loans, the pursuit of liability, and the situation of funding. When publishing data, the DICJ always strives to include the most up-to-date information. New information on the results of bids, the record of financial assistance, the purchase of assets from sound financial institutions, etc., and other information is published in the "What's New" section.

The DICJ has now also launched an English-language site. As well as introducing Japan's deposit insurance system, the organization of the DICJ, the state of activities, and so on, it also includes English versions of the brochure and the Annual Report.

(3) Sending speakers to lecture meetings, etc.

To ensure a correct understanding of the deposit insurance system following the transition to limited coverage for deposits, the DICJ has, in collaboration with local finance bureaus, the BOJ, and others, held lecture meetings and explanatory sessions featuring personal appearances by DICJ staff members.

Also, explanations on the treatment of deposits following the transition to limited coverage, resolution methods of failure, and other issues have been given to financial journals and general publications, while positive PR activities have been pursued through interviews in newspapers, on radio, and elsewhere.

(4) Consulting Services

The DICJ has strengthened its activities to respond inquiries on the scheme for protection of deposits following the transition to limited coverage. The number of public relations staff have been increased to respond appropriately to inquiries and questions from depositors, financial institutions, and others. Of the many questions and inquiries that have been received, particularly significant ones have also been incorporated in the separately produced "Q&A – All You Need to Know About the Deposit Insurance System".

1. General Account

The General Account mainly handles financial assistance within the pay-out costs. The Account's total income in FY 2001 was ¥294.0 billion, including ¥292.0 billion from insurance premiums, ¥0.2 billion from contributions by financial institutions under management, etc., and ¥1.7 billion from refunded grants.

Total expenses, mean while, amounted to ¥884.6 billion, including ¥31.9 billion for general financial assistance (grants), ¥843.4 billion for transfers to the Special Operations Account to cover the pay-out cost portion of special financial assistance, and ¥3.9 billion as interest on borrowings. As a result, the General Account recorded a loss of ¥590.5 billion in the current term. The deficit carried to the next fiscal year is ¥3,055.3 billion, including the deficit of ¥2,464.8 billion carried from the previous fiscal year.

At the end of FY2001, the balance of borrowing stood at ¥3,117.8 billion, all of which was from private financial institutions, etc. (see Appendix 2: Financial Statements; the same applies to the other accounts below).

2. Special Operations Account

The Special Operations Account mainly handles special financial assistance exceeding the pay-out cost. The Account's total income in FY2001 was ¥1,837.6 billion, including ¥219.0 billion from special insurance premiums, ¥2.0 billion from financial assistance operations (including interest on assets purchased from the Hanwa Bank), ¥843.4 billion from transfers from the General Account for special financial assistance, ¥667.5 billion from the Special Operations Fund created through grants of government bonds, ¥48.3 billion from refunded grants, and ¥6.6 billion from earned interest from loans to the contracted bank (RCC).

Total expenses amounted to ¥1,899.6 billion, including ¥1,715.4 billion for special financial assistance, ¥47.2 billion to compensate for losses by special asset assignees, etc., ¥60.2 billion for transfers of refunded grants and others to the Special Operations Fund, ¥46.3 billion for transfers to loan loss reserves, and ¥8.6 billion as interest on borrowings. As a result, the Account recorded a loss of ¥62.0 billion in the current term. The accumulated deficit carried to the next fiscal year is ¥742.8 billion, including the deficit of ¥680.7 billion carried from the previous fiscal year.

At the end of FY2001, the balance of borrowing stood at ¥3,371.1 billion, all of which was from private financial institutions, etc.

3. Financial Reconstruction Account

The Financial Reconstruction Account mainly handles transactions from banks under special public management and purchase of assets from vital financial institutions. The Account also includes assets and liabilities related to capital injection undertaken under the Law concerning Emergency Measures for the Stabilization of the Functions of the Financial System (abolished on October 23, 1998).

The Account's total income in FY2001 was ¥138.4 billion, consisting of ¥52.0 billion from shares and others acquired from the Long-Term Credit bank of Japan and the Nippon Credit Bank, ¥7.3 billion from transfer of income on acquired assets from sound financial institutions by the RCC, and ¥21.1 billion from interest on loans to the RCC for capital injection in FY2000, and ¥53.2 billion from reversal from loan loss reserves.

Total expenses amounted to ¥269.6 billion, including ¥90.7 billion for the cost of asset purchases (such as the cost of commissioning the sale of acquired shares and the purchase of assets to the RCC), ¥164.4 billion for transfers to loan loss reserves, and ¥13.8 billion for interest on borrowings.

As a result, the Account recorded a loss of ¥131.1 billion in the current term. The deficit carried forward to FY2002 is ¥769.8 billion, including the deficit of ¥638.7 billion carried from the previous fiscal year.

At the end of FY2001, the balance of borrowing stood at ¥5,265.6 billion, all of which was from private financial institutions, etc.

4. Early Strengthening Account

The early Strengthening Account mainly handles loans to the RCC for its capital injection in financial institutions, such as subscribing of their shares.

The Account's total income in FY2001 was ¥100.5 billion, including ¥64.4 billion from earnings by the RCC from capital injection in FY2000 and ¥36.0 billion from loan interest on lending to the RCC. Total expenses amounted to ¥36.4 billion, including ¥36.3 billion for interest on borrowings and bonds issued to lend the RCC. As a result, the Account made a profit of ¥64.0 billion in the current term. The surplus carried forward to FY2002 was ¥88.3 billion, including the surplus of ¥24.3 billion carried forward from the previous year.

At the end of FY2001, the total balance of borrowings and bond issued was ¥8,223.9 billion, including ¥4,623.9 billion for borrowings and ¥3,600.0 billion for the bond issues.

5. *Jusen* Account

The *Jusen* Account mainly handles subsidies, debt guarantees for borrowing, and the receipt of payments from the claim resolution company (RCC), which manages, recovers and disposes of loans and other assets transferred from former *Jusen* companies.

The DICJ decided to provide grants, totaling ¥50.1 billion, which was half of the second losses incurred (¥96.7 billion) in the RCC in FY2000, as an operational subsidy to the RCC. The subsidy was supposed to be financed by profits from managing the Financial Stabilization Fund. Although the investment profit in FY2001 was short from the expected amounts, only ¥10.7 billion, the DICJ provided the promised amount of grants to the RCC as a subsidy.

Meanwhile, the DICJ received the sum of ¥70 million, which was amounts of loan recovery in excess of the half of the second loss estimated, from the RCC, and paid the same amount to the Treasury.

As a result, the Account recorded a loss of ¥39.3 billion in the current term. The deficit carried forward to the next fiscal year is ¥95.8 billion, including the deficit of ¥56.5 billion carried forward from the previous fiscal year.

1. Establishment & Roles

(1) Establishment

The DICJ is a semi-governmental organization that was established in 1971 with the purpose of operating Japan's deposit insurance system under the Deposit Insurance Law.

As the background to the DICJ's establishment, in July 1970 the idea of a deposit insurance system was raised in a Financial System Research Committee report on policies for private financial institutions. The report stressed the need to create a system aimed at protecting depositors, and indicated basic directions to that end. Based on this, the Deposit Insurance Law was enacted in March 1971 (coming into effect on April 1 of the same year). The DICJ was then established on July 1, 1971, with funding from the government, the BOJ, and private financial institutions.

The DICJ was originally capitalized at ¥450 million (with funding of ¥150 million each from the government, the Bank of Japan, and private financial institutions). The additional participation of labor banks in July 1986 brought a further injection of ¥5 million. With funding of ¥5 billion by the government for the Jusen Account in July 1996, capitalization now stands at ¥5,455 million.

(2) Roles

The purpose of the Deposit Insurance Law, as defined in Article 1 thereof, is "to protect depositors and other parties as well as maintain an orderly financial system, by providing for the payment of deposit insurance claims and the purchase of deposits and other claims in the event that repayment of said deposits, etc., is suspended by a financial institution, and, regarding the resolution of failed financial institutions, providing appropriate financial assistance to facilitate mergers or other resolutions of failed financial institutions, providing for financial administrators for failed financial institutions, providing for the succession of business of failed financial institutions, and establishing a system for appropriate measures in response to financial crises."

The DICJ undertakes the following operations, among others, to achieve these objectives. (1) Collection of insurance premiums; (2) Reimbursement of insured deposits and other claims; (3) Financial assistance and compensation for losses; (4) Purchase of deposits and other claims; (5) Operations related to financial administrators; (6) Operations related to the business management of bridge banks; (7) Subscription of shares, etc., and other operations in response to financial crises; (8) Loans of funds to failed financial institutions; (9) On-site inspections of financial institutions; (10) Purchase of assets from financial institutions; (11) Pursuit of civil and/or criminal liability on the part of executives, etc., of failed financial institutions; (12) Capital investment in, loan of funds to, and guaranteeing debts for loans by the Resolution and Collection Corporation (RCC); (13) Guidance and advice to the RCC concerning its resolution and collection operations; and (14) Asset investigation of debtors of the RCC.

2. Policy Board

The Policy Board functions as a decision-making body that passes resolutions on important matters regarding the management of the DICJ. It consists of a maximum of 8 Board Members together with the Governor and Deputy Governors of the DICJ. Board Members are appointed by the Governor of the DICJ from persons with financial background and expertise in these areas, with the approval of the Prime Minister (mandated to the Commissioner of the Financial Services Agency) and the Minister of Finance. At present, the Policy Board includes 5 representatives of the financial community (the Chairman of each of the Japanese Bankers' Association, the Regional Banks Association of Japan, the Trust Companies Association, the National Association of Shinkin Banks, and the National Association of Labour Banks) and 3 members from non-financial circles (Masamichi Narita, Auditor, Japan Tobacco, Inc., and former Chief Commentator of the NHK; Takeshi Yoshii, Senior Corporate Auditor, Nippon Steel Corp.; and Naoyuki Yoshino, Professor of Economics, Keio University) (see Appendix 5. (1): Policy Board Members and DICJ Officials, etc.).

According to the Articles of Incorporation, a resolution of the Policy Board is required, among others, for (1) amendments to the Articles of Incorporation, (2) preparation of and amendments to the Operational Guidelines, (3) budget and funding plans, (4) settlement of accounts, (5) decisions on and changes to insurance premium rates, (6) decisions on the reimbursement of deposit insurance and partial payments thereof, (7) decisions on financial assistance, and (8) decisions on the purchase of deposits and other claims. In FY2001, the Board met on 13 occasions in all.

The Policy Board in session

3. Liability Investigation Committee

Under the amendment to the Deposit Insurance Law in February 1998, the Governor of the DICJ was required to arrange a system for efficiently conducting operations based on the Agreement on Resolution and Collection. This served to intensify legal demands for the pursuit of liability. In response to this, a Liability Investigation Committee, chaired by the Governor of the DICJ and with DICJ officials as its members, was established in February of the same year. It is in charge of clarifying the civil and criminal liability of debtors, executives, etc., of failed financial institutions, former Jusen companies and others with a view to properly implementing criminal accusations, compensation claims, and other requisite measures. During FY2001, the Liability Investigation Committee met on 21 occasions and discussed important issues concerning the pursuit of liability.

The Liability Investigation Committee includes four special advisers, who counsel on the above measures. The current advisers are Hisao Kamiya (former Prosecutor-General), Shigeru Kobori (former President of the Japan Federation of Bar Associations), Kozo Fujita (former Chief Judge of the Court of Appeal of Hiroshima) and Tadao Ando (former Superintendent-General of the Metropolitan Police).

4. Purchase Price Examination Board

In June 1999, a Purchase Price Examination Board consisting of three external experts (a lawyer, a certified public accountant and a real estate appraiser) was set up as an advisory body to the Governor of the DICJ. Its purpose is to ensure the correct operation of the system for purchasing assets from sound financial institutions, etc., under Article 53 of the Financial Revitalization Law.

The Purchase Price Examination Board met on five occasions in FY1999 and twice in FY2000. However, with the enforcement of the Amended Financial Revitalization Law in January 2002, it became possible to participate in bidding, in addition to the conventional one-to-one purchases (in principle, twice a year*1). Reflecting this, the number of meetings in FY2001 increased dramatically from January 2002 onwards, with nine meetings over the whole year.

Another feature of the amendment was that purchases at current market price were permitted for the first time. Therefore, to guarantee the rationality of purchase prices, the structure of the Purchase Price Examination Board was reinforced with the addition of two new members *2.

*1 Approx. 4 times from FY2002

*2 Purchase Price Examination Board: Chairman – Yoshinori Fujimura (lawyer); Deputy Chairman – Nobuo Nagaba (real estate appraiser); Member – Somitsu Takehara (certified public accountant); New Member – Soichiro Moridaira (academic expert); New Member – Yasuyuki Kuratsu (financial practitioner)

5. Operations of Departments

(1) Planning & Coordination Department

The Planning & Coordination Department is in charge of overall coordination of the DICJ's administrative work, convening Policy Board and other meetings, public relations, personnel affairs, organization, recruitment, budgets, closing accounts, accounting, international affairs, guidance and advice to the RCC, liaison with the RCC, and other administrative work not handled by other departments.

The Department consists of 4 divisions and 2 offices, the Personnel Management and Corporate Services Division, the Planning Division, the PR and Information Disclosure Office, the Office of Operations Management and Compliance, the 1st Budget and Accounting Division, and the 2nd Budget and Accounting Division.

(2) Financial Reconstruction Department

The Financial Reconstruction Department is in charge of work related to financial administrators and others, the transfer of business of failed financial institutions, special public management of banks, asset purchases from and capital injection to financial institutions, etc., and other work.

The Department consists of 5 divisions, the Planning and Management Division, the Strengthening Operations Division, the Reconstruction Operations Division, the 1st Financial Reorganization Division, and the 2nd Financial Reorganization Division.

(3) Deposit Insurance Department

The Deposit Insurance Department is in charge of work related to financial assistance for resolution of failed financial institutions (grants, asset purchases, etc.), reimbursement of deposit insurance and other payments, purchase of deposits and other claims, receipt of insurance premiums, funding for the various deposit insurance accounts, development and operation of information systems, on-site inspections, preparation of lists of depositors in line with the Law Concerning Exceptions to Reorganization and Bankruptcy Procedure for Financial Institutions (the "Special Corporate Reorganization Law"), and other work.

The Department consists of 7 divisions, the Planning and Research Division, the 1st Planning Division, the 2nd Planning Division, the Fund Planning Division, the Fund Operation Division, the Information Systems Division, and the Inspection Division.

(4) Special Investigation Department

The Special Investigation Department is in charge of investigating cases in pursuit of criminal and civil liability, investigatory guidance and advice to the RCC, investigating debtors and others regarding claims transferred to the RCC, collection commissioned by the RCC, the management, collection and disposal of purchased assets, and other work.

The Department has 6 divisions and 1 branch office, the Policy Planning and Coordination Division, the Investigation and Recovery Division, the Special Task Force Division, the 1st Special Task Force for Investigation, the 2nd Special Task Force for Investigation, the 3rd Special Task Force for Investigation and the Sapporo Branch Office.

(5) Osaka Deposit Insurance Department

The Osaka Deposit Insurance Department is in charge of general affairs and accounting for its own Office as well as the Osaka Special Investigation Department (together referred to as the "Osaka Headquarters"), and overall coordination of administrative work at the Osaka Headquarters. It also takes care of work related to financial assistance, the reimbursement of deposit insurance and other payments, the purchase of deposits and other claims, etc., guidance and advice on the main operations of the RCC, overall coordination concerning the management, recovery and disposal of purchased assets, and work related to financial administrators, mainly when such work pertains to the Kansai region and further west.

The Department has 3 divisions and 1 office, the Division of Corporate Services, Policy Planning and Coordination, the Financial Reorganization Office, the 1st Planning Division, and the 2nd Planning Division.

(6) Osaka Special Investigation Department

The Osaka Special Investigation Department is in charge of investigating cases in pursuit of criminal and civil liability, guidance and advice to the RCC, investigating debtors and others regarding claims transferred to the RCC, collection commissioned by the RCC, the management, recovery and disposal of purchased assets, and other work (except when handled by the Division of Corporate Services, Policy Planning and Coordination of the Osaka Deposit Insurance Department), mainly when such work pertains to the Kansai region and further west.

The Department consists of 5 divisions, the Investigation and Recovery Division, the Special Task Force Division, the 1st Special Task Force for Investigation, the 2nd Special Task Force for Investigation, and the 3rd Special Task Force for Investigation.

6. Organizational Changes

Under the Amended Deposit Insurance Law that came into effect in April 2001, the DICJ was given certain powers to conduct on-site inspections of financial institutions (see I.10 On-Site Inspections). In line with this, an Inspection Division was created in the Deposit Insurance Department on April 1st, 2001.

Meanwhile, an Office of Operations Management and Compliance was set up in the Planning and Coordination Department to plan and survey the efficient operational arrangement under the Amended Deposit Insurance Law. The Legal Affairs Office, which had been in charge of examining the DICJ's Articles of Incorporation, Operational Guidelines, etc. among other works, was closed and its business was transferred to the Office of Operations Management and Compliance.

Similarly, the functions of the Public Relations Office in the Planning and Coordination Department were enhanced, leading to its reorganization as the PR and Information Disclosure Office. This was in response to the need to further enhance PR activities in readiness for the transition to limited coverage, and to develop a system for efforts to prepare and provide basic information on the DICJ's organization, operations, assets, etc., in view of the demand for information disclosure by semi-governmental corporations and others.

Finally, in order to improve the efficiency of administrative work and boost the overall coordination capability of the Osaka Headquarters, the Personnel Management and Corporate Services Division and the Policy Planning and Coordination Office of the Osaka Deposit Insurance Department were combined and reorganized as the Management and Coordination Division.

7. Resolution and Collection Corporation (RCC)

Following amendments to the Deposit Insurance Law and the Jusen Law in October 1998, the RCC was established as a 100% subsidiary (limited company) of the DICJ (capitalization ¥212 billion) through a merger between the HLAC and the RCB on April 1, 1999. Its purpose was to achieve quick and efficient collection of non-performing loans using fair and transparent means, and to minimize the injection of public funds.

As of April 2002, the RCC had 28 officers (25 directors and 3 auditors) and 2,369 employees. Its organization consists of a head office, 30 branches, and 20 offices. Its collection operations are handled by 8 Business Divisions, a Loan Operation Department, and Special Collection Divisions in Tokyo and Osaka.

The main business of the RCC includes (1) recovery of loans transferred from 7 former Jusen companies, (2) purchase and collection of non-performing loans, etc., from failed financial institutions, (3) purchase and collection of NPLs from sound financial institutions and others in line with Article 53 of the Financial Revitalization Law, and (4) subscription of shares, etc., as capital injections under the Early Strengthening Law. In addition, the RCC acquired a servicer license in June 1999 and now also acts as a servicer. On March 30, 2001, meanwhile, following an amendment to the Agricultural & Fishery Cooperative Savings Insurance Law, it entered an agreement on collection operations with the Agricultural & Fishery Cooperative Savings Insurance Corporation and became a contracted claim collection company on April 1, 2001.

On June 27, 2001, the deadline for applications for the purchase of non-performing loans from sound financial institutions and others was extended to the end of March 2004 under an amendment to the Financial Revitalization Law. The functions of the RCC were to be enhanced to facilitate the disposal of non-performing loans of financial institutions, partly in response to "Basic Policies for Macroeconomic Management and Structural Reform of the Japanese Economy" (so-called "Honebuto no Hoshin") announced on June 26, 2001. Specifically, the RCC was authorized to conduct trust business on August 31, 2001, enabling it to subscribe non-performing loans via the trust method after setting up a Trust Business Department. On November 1st of the same year, meanwhile, it added a Headquarters for Corporate Revival, which actively engages in corporate reconstruction of debtors for whom such reorganization was possible. On March 5, 2002, finally, it set up a Headquarters for Asset Purchase Promotion to enhance and strengthen the organization and functions of its operations for purchasing non-performing loans from sound financial institutions and others (see IV. 7: Relationship Between DICJ and RCC Concerning Collection Operations, and Appendix 1. (5): Collection Performance of RCC).

8. Bridge Bank of Japan (BBJ)

On March 11, 2002, the BBJ was established as a 100% subsidiary (limited company) of the DICJ (capitalization ¥2.05 billion) following a decision by the Prime Minister (legally mandated to the Commissioner of the FSA). Its purpose is to provisionally assume the business of financial institutions under management in the event that no assuming financial institution is found for them before March 31, 2002. The BBJ acquired a banking license and other approvals on March 19, 2002.

The BBJ's business is (1) to take over the deposits, loan claims, etc., of financial institutions under management and to provisionally maintain and continue their operations, and (2) to find an assuming financial institution to which to transfer the business. For failures of financial institutions after April 2002, it is also expected to act as a provisional assuming institution to facilitate the quick resolution of failures.

When the Ishikawa Bank and the Chubu Bank failed in FY2001, it was thought unlikely that assuming financial institutions would be found for them by March 31, 2002. Therefore, the BBJ signed business transfer agreements with both banks on March 28, 2002, thus ensuring protection of the full amount of their deposits, etc.

As of May 1, 2002, the BBJ had 6 officers (3 directors and 3 auditors) and 9 employees.

1. Insured Financial Institutions

Financial institutions covered by the deposit insurance system include the following types of financial institutions with head offices in Japan*. An insurance relationship between the DICJ, a financial institution and its depositors, etc., automatically arises when the institution accepts the insured deposits and others listed in 2) below.

(i) Banks as defined in the Banking Law

(ii) Long-term credit banks as defined in the Long-Term Credit Bank Law

(iii) Shinkin banks

(iv) Credit cooperatives

(v) Labor banks

(vi) The Shinkin Central Bank

(vii) The Shinkumi Federation Bank

(viii) The Rokinren Bank

* • Overseas branches of the above financial institutions, government-related financial institutions, and Japanese branches of foreign banks are not covered by this system.

• The Norinchukin Bank, agricultural cooperatives, fishermen's cooperatives, seafood processing cooperatives, and others are members of the savings insurance system for the Agricultural and Fisheries Cooperative Sector.

2. Insured Deposits, etc.

The scope of deposits and others insured under the deposit insurance system is as follows:

(1) Deposits

(2) Installment savings

(3) Money in trusts with guarantee of principal (including loan trusts)

(4) Bank debentures (custody products)

(5) Accumulating or asset-forming instruments using the deposit, etc., in (1) to (4) above

The following types of deposits, etc., are not insured:

(1) Foreign currency deposits

(2) Negotiable certificates of deposit (NCD)

(3) Deposits in special international financial transaction accounts (Japan off-shore market accounts)

(4) Deposits and others from the Bank of Japan (except treasury funds)

(5) Deposits and others from insured financial institutions (except those related to the investment of fixed contribution pension reserves)

(6) Deposits and others from the DICJ

(7) Deposits under another party's name (including those under a fictitious name)

(8) Bearer deposits

(9) Money in trusts with no guarantee of principal

(10) Bank debentures (other than custody products)

3. Insurance Premiums

From FY1996 to FY2001, insurance premiums were divided into "ordinary premiums" and "special premiums". The latter were abolished at the end of FY2001*. Ordinary insurance premiums are used to fund operations such as insurance payments ("pay-out") and financial assistance not exceeding the pay-out cost (i.e. the cost expected to be borne by the DICJ if insurance is paid to depositors).

* Special premiums were used to fund an account set up especially to implement financial assistance exceeding the pay-out cost (special financial assistance) and other special operations under the special arrangement for full protection of deposits, etc. (in operation from FY1996 to FY2001). Insured financial institutions were obliged to pay these special insurance premiums (the premium rate being prescribed by Cabinet Order as 0.036% of the balance of insured deposits).

The insurance premium rate, subject to a resolution by the Policy Board, is decided with the approval of the Prime Minister (legally mandated to the Commissioner of the FSA) and the Minister of Finance.

In FY2001 and FY2002, deposits are divided by law into "Specific deposits" (current deposits, ordinary deposits, and specified deposits) and "Other deposits" (time deposits, etc.). The insurance premium rate is stipulated separately for each type.

In FY2001, both rates were set at 0.048% (the same as in FY2000). Among others, this reflected the fact that the special arrangement for full protection of deposits, etc., was still in force, and that the special insurance premium rate had been pegged back by Cabinet Order.

In FY2002, the scope of protection of deposits will become different for each type. "Specific deposits" will continue to be protected in full, while "Other deposits" will shift to limited coverage (protection for a maximum principal of ¥10 million, plus interest). In line with the abolition of special insurance premiums, the gist of the Deposit Insurance Law and the report by the Financial System Council in December 1999, the premium rate for "Specific deposits" has been set at 0.094% and that for "Other deposits" at 0.080%.

The premium is calculated by multiplying the balance of insured deposits in the previous fiscal year (in FY2002 this will change from the final balance at the end of the previous fiscal year to the average daily balance throughout the previous fiscal year) by the premium rate. Insured financial institutions must pay insurance premiums to the DICJ within 3 months after the beginning of each business year (although the premium may be split into two semi-annual payments).

4. Resolution of Failed Financial Institutions

(i) Financial Assistance

a. Outline

When a financial institution fails, the DICJ may extend financial assistance to an assuming financial institution or bank holding company (referred to below as "assuming financial institution, etc.") that implements a business transfer, merger, or other operation, or to the failed financial institution, etc., to facilitate the merger or other operation.

As a result of the financial assistance, deposits and other claims are taken over and protected by the assuming financial institution. Financial assistance may take the form of a monetary grant, loan or deposit of funds, purchase of assets, guarantee or assumption of debts, subscription of preferred stock, or loss sharing.

Under the system of full protection of deposits, etc., financial assistance for business transfers was limited to transfer of the entire business. With the transition to limited coverage from FY2001 onwards, however, financial assistance now remains, in principle, within the scope of the pay-out cost, and mainly concerns cases of partial business transfer. This includes transfer of the deposits of a failed financial institution that are protected by deposit insurance (insured deposits), sound assets, and others to the assuming financial institution, etc.

In cases of partial transfer of business, the DICJ can provide financial assistance to failed financial institutions (limited to monetary grants) to enable them to equally treat creditors. This has the aim of securing a liquidating dividend for creditors who were not covered by the business transfer.

b. Procedure for Financial Assistance

An assuming financial institution, etc., may apply to the DICJ for financial assistance, pending authorization* of the eligibility of the merger, etc., or recommendation of the merger, etc., by the Prime Minister (legally mandated to the Commissioner of the FSA). Upon receipt of the application, the DICJ decides, subject to a resolution by the Policy Board, whether or not to extend financial assistance and, if so, the amount, method, and other details. When making such a resolution, the Policy Board is required to take account of the financial condition of the DICJ, the estimated amount of financial assistance required, and the pay-out cost, as well as aiming for efficient utilization of DICJ assets. After making this decision, the DICJ enters a financial assistance agreement with the assuming financial institution, etc., and provides financial assistance.

* Authorization of eligibility may only be given when all of the following three conditions are met.

(i) The implementation of the merger, etc., will contribute to the protection of depositors and other creditors.

(ii) The financial assistance of the DICJ is indispensable to the merger, etc.

(iii) The absence of such a merger, etc., and the total suspension of operations or dissolution of the failed financial institution subject to the merger, etc., could greatly obstruct the smooth flow of funds in the area or sector in which the failed financial institution operates, as well as hindering the convenience of its users.

(ii) Payment of Deposit Insurance

Insurable contingencies resulting in insurance payments by the DICJ are divided into the following two types. Payments of deposit insurance are made against claims filed by depositors, etc., of the financial institution subject to the insurable contingency.

Category One Insurable Contingency:

Suspension of repayment of deposits, etc., by a financial institution

In such cases, the DICJ decides whether or not to make insurance payments within 1 month of the occurrence of the insurable contingency, subject to a resolution by the Policy Board (if necessary, this period may be extended by a further month).

Category Two Insurable Contingency:

Revocation of a financial institution's operating license, declaration of bankruptcy, or resolution to dissolve the financial institution

In such cases, insurance payments are made without requiring any decision by the DICJ.

The amount of insured deposits to be reimbursed to each depositor, etc., is the total principal of insured deposits deposited by the said depositor, etc., in the financial institution subject to the insurable contingency, plus interest, etc. The principal should not exceed the sum of ¥10 million per depositor, etc., as prescribed by Cabinet Order (however, insurance payments on deposits pledged as security may be deferred until the right of pledge has lapsed).

When insurance payments are to be made, the DICJ is required to notify depositors, etc., of details such as the period, place, method, and times of payment, and the procedure for filing claims. This is to be done by placing public notices in the Official Gazette and daily newspapers, as well as posting notices in the branches of the failed financial institution, financial institutions commissioned to handle insurance payments, and elsewhere.

(iii) Partial Payments

Partial payments are made to cover the immediate living costs and other expenses of depositors, etc., in a financial institution that has been subject to an insurable contingency, when it is anticipated that insurance payments or the reimbursement of insured deposits will not begin for a considerable length of time. The DICJ is required to decide whether or not to make partial payments within one week of the occurrence of the insurable contingency, subject to a resolution by the Policy Board.

In accordance with Cabinet Orders, a maximum partial payment of ¥600,000 per account is to be paid against the balance of ordinary deposits (principal only) held by depositors, etc. If insurance payments are subsequently made or insured deposits reimbursed, the amount of the partial payment is deducted from the insurance payments or insured deposits reimbursed to the depositors, etc.

When making partial payments, the DICJ is required to follow the same procedure with respect to public announcement, etc., as for insurance payments.

(iv) Purchase of Deposits and Other Claims

The purchase of deposits and other claims is a system whereby the DICJ purchases deposits and other claims not covered by deposit insurance (for example, the principal of insurable deposits in excess of ¥10 million, plus interest accrued thereon, or non-insurable foreign currency deposits, plus interest accrued) of financial institutions that have been subject to an insurable contingency, in response to requests from depositors, etc. The purchase price, known as "estimated proceeds payment", is to be calculated by multiplying the balance of claims on the date of the insurable contingency by a rate determined in consideration of the estimated liquidating dividend of the failed financial institution (the "estimated proceeds payment rate"), among other factors.

When the amount recovered by the DICJ from purchased deposits and other claims (excluding expenses related to their purchase) exceeds the estimated proceeds payment, the surplus is to be refunded to the depositors, etc. ("settlement payment").

When the DICJ purchases deposits and other claims, it must first obtain the approval of the Prime Minister (legally mandated to the Commissioner of the FSA) and the Minister of Finance concerning the estimated proceeds payment rate, then decide the period and place of purchase, the method of payment, and other details, and inform depositors and others via public notices.

(v) Procedures Based on the Special Corporate Reorganization Law

Under the Special Corporate Reorganization Law, the DICJ is empowered to perform various functions designed to improve the efficiency of reorganization, reconstruction and bankruptcy procedures for failed financial institutions. This includes acting on behalf of depositors in filing claims for reorganization, reconstruction and bankruptcy (i.e. by submitting lists of depositors to the courts) and in exercising voting rights on proposed reorganization or reconstruction plans.

When wishing to exercise these voting rights, the DICJ is required to inform depositors and others in advance, through notifications and public notices, of the proposed reorganization or reconstruction plans to which it intends to agree.

5. Borrowing and Bond Issues

The DICJ handles accounting for general operations via its General Account. This Account's Deposit Insurance Fund is used to finance insurance payments, financial assistance, and others. If the revenue in any business year exceeds the expenditure, the difference is carried forward to the following year. Conversely, if revenue falls short of expenditure, the difference is deducted from the Fund.

The DICJ may borrow funds (including refinancing) for the General Account from financial institutions or other lenders except the Bank of Japan, up to a limit stipulated by Cabinet Order (¥13 trillion since April 2002). It may also issue bonds (including issues for refunding bond), and is authorized to make loans from the BOJ (including refinancing) when necessary for short-term liquidity management.

Meanwhile, the government may guarantee liabilities related to borrowings from the Bank of Japan, financial institutions, and other lenders, as well as bonds, within a range approved by the National Diet.

6. Special Arrangements

(i) Special Financial Assistance

In processing financial institutions that failed during the special arrangement for full protection of deposits, etc. (FY1996-FY2001), the DICJ was authorized to provide financial assistance exceeding the pay-out cost (“special financial assistance”) to assuming financial institutions. This was conditional upon an approval by the Prime Minister (through legal mandate to the Commissioner of the FSA) and the Minister of Finance that a merger or other operation connected with an application for financial assistance was necessary to maintain the stability of the financial system*.

* For special financial assistance, the law required that the assuming institution applied for financial assistance to the DICJ and completed other procedures by the end of FY2001.

(ii) Special Arrangement for the RCC

The amendment to the Deposit Insurance Law in June 1996 provided for a special arrangement to promote the smooth resolution of failed credit cooperatives. Under this arrangement, the DICJ was empowered to enter an agreement with and make capital subscriptions to the Resolution and Collection Bank (RCB), whose main purpose was the resolution and recovery of business transferred from failed credit cooperatives, among others. Under the amendment, the DICJ was also able, among others, to guarantee the RCB’s borrowing, compensate for losses arising from resolution and recovery operations, and provide guidance and advice.

As well as the above, the DICJ was empowered to investigate the assets of debtors if clarification of the state of such assets was deemed particularly necessary in relation to loans transferred or purchased by the RCB from failed credit cooperatives. It could also conduct debt recovery operations which required particularly specialized knowledge, under commission from the RCB.

Under the amendment of February 1998, the objectives of resolution and recovery operations by the RCB were expanded to include asset purchases not only from credit cooperatives but also from other financial institutions, and the function of an assuming bank for failed financial institutions. In addition, DICJ employees were given powers of asset investigation including penal provisions, in connection with claims transferred to the RCB and assets purchased by the DICJ under special financial assistance.

The amendment of October 1998 included provisions dealing with the policy of amalgamating the RCB with the HLAC (Housing Loan Administration Corporation) to create the Resolution and Collection Corporation (merger effected on April 1, 1999).

Under the amendment of May 2000, the RCC could also, as a limited term arrangement up to March 31, 2001, purchase non-performing loans and others from financial institutions, etc., to which such loans had been transferred as payment in substitute from failed credit cooperatives. This was only applicable when the failed credit cooperatives were subject to recovery operations by associations of credit cooperatives, in line with the resolution of failed credit cooperatives prior to the Amendment to the Deposit Insurance Law in 1996.

(iii) Fiscal Measures Accompanying Special Arrangements

The DICJ handles accounting for special operations in its Special Operations Account. The Deposit Insurance Fund in this Account is used to furnish special financial assistance, special purchases of deposits and other claims, compensation for losses by the contracted bank, and other outlays.

The Special Operations Account may borrow funds (including refinancing) from the Bank of Japan, financial institutions, and other lenders, or issue DICJ bonds (including issues for refunding), up to a limit stipulated by Cabinet Order (¥6.5 trillion since April 2002).

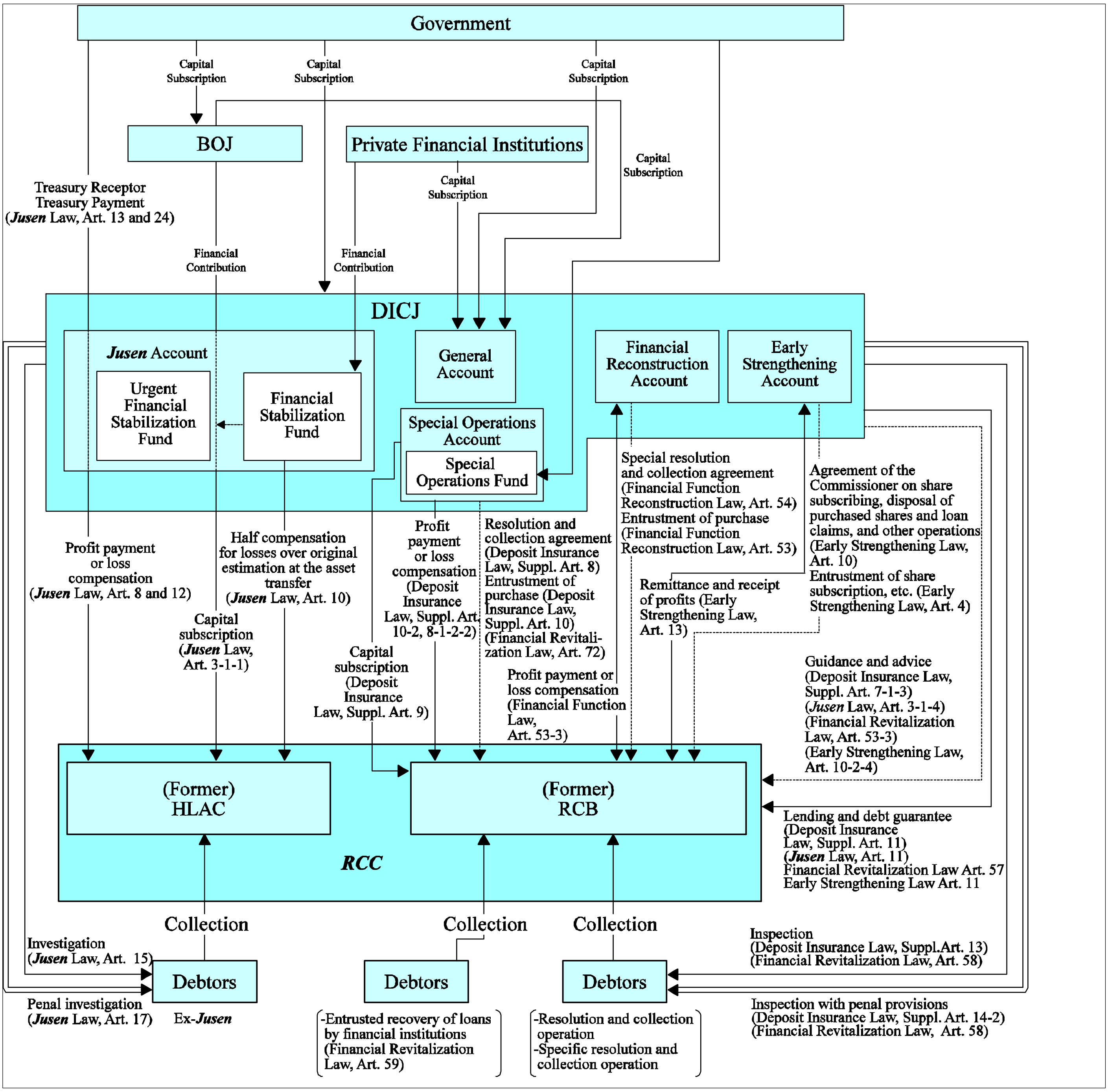
Meanwhile, the government may guarantee debts connected with borrowings from the Bank of Japan, financial institutions, and other lenders, as well as bond issues, within a range approved by the National Diet.

In addition, a Special Operations Fund has also been set up to ensure the soundness of the Special Operations Account and the smooth implementation of special operations. Furnished by a grant of government bonds (¥13 trillion*), the Fund may be used by category of operations (e.g. special financial assistance). It may also be used if there is an accumulated deficit in the Special Operations Account on the date of completion of operations.

The Special Operations Account is to be closed down at the end of FY2002, whereupon its assets and liabilities will revert to the General Account.

* The amount of government bonds needed to finance the Special Operations Fund was increased by ¥6 trillion to a total of ¥13 trillion on June 30, 2000.

7. Relationship Between DICJ and RCC Concerning Collection Operations



1. Operational Results

(1) Past Trend of Financial Assistance

(as of May 17, 2002)
(Unit: ¥ billion)

Fiscal Year	Number of Cases	Total	Grants	Asset Purchases	Others
1992	2	28.0	20.0	-	8.0
1993	2	45.9	45.9	-	-
1994	2	42.5	42.5	-	-
1995	3	600.8	600.8	-	-
1996	6	1,406.0	1,316.0	90.0	-
1997	7	394.9	151.8	239.1	4.0
1998	30	5,366.2	2,684.7	2,681.5	-
1999	20	5,941.1	4,636.7	1,304.4	-
2000	20	6,042.0	5,191.9	850.1	-
2001	37	2,073.5	1,667.1	406.4	-
2002	43	2,111.0	1,576.5	534.5	-
Total	172	24,051.9	17,933.9	6,106.0	12.0

Note: Figures of each fiscal year are based on date of execution of financial assistance (date of business transfer). Grant amounts are figures after deductions, etc.

In the case of the Midori Bank (asset purchases in fiscal 1998 and a grant in fiscal 1999), however, only cases for fiscal 1998 are counted.

(2) List of Capital Injection Operations Pursuant to Early Strengthening Law, etc.

Table 1 List of Capital Injection Operations Pursuant to the Early Strengthening Law (figures as of March 31, 2002) (¥billion, %)

Name of Financial Institution	Month/Year of Injection	Preferred Stock: Type	Preferred Stock: Amount (¥billion)	Preferred Stock: Rate Approved	Preferred Stock: Beginning of Transfer	Subordinated Bonds / Loans: Type	Subordinated Bonds / Loans: Amount (¥billion)	Subordinated Bonds / Loans: Rate Approved	Subordinated Bonds / Loans: Beginning of Step-Up	Subordinated Bonds / Loans: Rate after Beginning of Step-Up	Subordinated Bonds / Loans: Period
Mizuho (Dai-Ichi Kangyo Bank)	March 1999	Convertible (1)	200.0	0.41	After 5 years and 4 months	Terminable subordinated loan	100.0	L+0.75	From 6 years later	L+1.25	10 years
		Convertible (2)	200.0	0.70	After 6 y. and 4 m.	Terminable subordinated loan	100.0	L+0.75	From 7 y. later	L+1.25	11 y.
		Debenture	300.0	2.38	–	–	–	–	–	–	–
Mizuho (Fuji Bank)	March 1999	Debenture	300.0	2.10	–	Perpetual subordinated bond	200.0	L+0.65	From 6 y. later	L+1.35	Perpetual
		Convertible (1)	250.0	0.55	After 7 y. and 6 m.				From 11 y. later	L+2.15	
		Convertible (2)	250.0	0.40	After 5 y. and 6 m.	–	–	–	–	–	–
Mizuho (Industrial Bank of Japan)	March 1999	Convertible (1)	175.0	1.40	After 4 y. and 5 m.	Perpetual subordinated bond	250.0	L+0.98	From 6 y. later	L+1.48	Perpetual
		Convertible (2)	175.0	0.43	After 4 y. and 3 m.						
Sumitomo Mitsui (formerly Sakura Bank)	March 1999	Convertible	800.0	1.37	After 3 y. and 6 m.	–	–	–	–	–	–
Sumitomo Mitsui (formerly Sumitomo Bank)	March 1999	Convertible (1)	201.0	0.35	After 3 y. and 1 m.	–	–	–	–	–	–
		Convertible (2)	300.0	0.95	After 6 y. and 4 m.						
UFJ (formerly Sanwa Bank)	March 1999	Convertible	600.0	0.53	After 2 y. and 3 m.	Perpetual subordinated bond	100.0	L+0.34	From 5 y. and 7 m. later	L+1.34	Perpetual
UFJ (formerly Tokai Bank)	March 1999	Convertible (1)	300.0	0.93	After 3 y. and 3 m.	–	–	–	–	–	–
		Convertible (2)	300.0	0.97	After 4 y. and 3 m.						
UFJ (formerly Toyo Trust & Banking)	March 1999	Convertible	200.0	1.15	After 3 m.	–	–	–	–	–	–
Daiwa Bank (Daiwa Bank)	March 1999	Convertible	408.0	1.06	After 3 m.	–	–	–	–	–	–
Daiwa Bank (Asahi Bank)	March 1999	Convertible (1)	300.0	1.15	After 3 y. and 3 m.	Perpetual subordinated loan	100.0	L+1.04	From 11 y. later	L+2.54	Perpetual
		Convertible (2)	100.0	1.48	After 4 y. and 3 m.						
MTFG (Mitsubishi Trust & Banking)	March 1999	Convertible	200.0	0.81	After 4 y. and 4 m.	Perpetual subordinated bond	100.0	L+1.75	From 6 y. later	L+2.25	Perpetual
Sumitomo Trust & Banking	March 1999	Convertible	100.0	0.76	After 2 y.	Terminable subordinated bond	100.0	L+1.53	From 8 y. later	L+2.03	12 y.
Mitsui Trust (formerly Mitsui Trust & Banking)	March 1999	Convertible	250.2	1.25	After 3 m.	Terminable subordinated loan	150.0	L+1.49	From 6 y. later	L+1.99	10 y.
Mitsui Trust (formerly Chuo Trust & Banking)	March 1999	Convertible	150.0	0.90	After 3 m.	–	–	–	–	–	–

Name of Financial Institution	Month/Year of Injection	Preferred Stock				Subordinated Bonds / Loans					
		Type	Amount (¥billion)	Rate Approved	Beginning of Transfer	Type	Amount (¥billion)	Rate Approved	Beginning of Step-Up	Rate after Beginning of Step-Up	Period
Bank of Yokohama	March 1999	Convertible (1)	70.0	1.13	After 2 y. and 4 m.	Perpetual subordinated loan	50.0	L+1.65	From 6 y. later	L+2.15	Perpetual
		Convertible (2)	30.0	1.89	After 5 y. and 4 m.	Terminable subordinated loan	50.0	L+1.07	From 6 y. later	L+1.57	10 y. and 2 m.
Ashikaga Bank	September 1999	Convertible	75.0	0.94	After 1 y.	-	-	-	-	-	-
	November 1999	Convertible	30.0	0.94	After 1 y.						
Hokuriku Bank	September 1999	Convertible	75.0	1.54	After 1 y. and 5 m.	-	-	-	-	-	-
Bank of Ryukyu	September 1999	-	-	-	-	Perpetual subordinated bond	40.0	1.50	-	-	Perpetual
Momiji (Hiroshima-Sogo Bank)	September 1999	Convertible	20.0	1.41	After 5 y.	Perpetual subordinated loan	20.0	L+2.80	From 6 y. later	L+4.14	Perpetual
Kumamoto Family Bank	February 2000	Convertible	30.0	1.33	After 2 y. and 6 m.	-	-	-	-	-	-
Hokkaido Bank	March 2000	-	-	-	-	Perpetual subordinated bond	45.0	1.16	-	-	Perpetual
Shinsei Bank	March 2000	Convertible	240.0	1.21	After 5 y. and 5 m.	-	-	-	-	-	-
Chiba Kogyo Bank	September 2000	Convertible	60.0	1.33	After 2 y.	-	-	-	-	-	-
Yachiyo Bank	September 2000	-	-	-	-	Perpetual subordinated bond	35.0	1.13	-	-	Perpetual
Aozora Bank	October 2000	Convertible	260.0	1.24	After 5 y.	-	-	-	-	-	-
Kansai Sawayaka Bank	March 2001	Convertible	8.0	1.08	After 1y. and 6 m.	Terminable subordinated loan	4.0	L+1.87	From 6 y. later	L+2.37	10 y.
Higashi-Nippon Bank	March 2001	Convertible	20.0	1.10	After 2 y.	-	-	-	-	-	-
Daiwa Bank (Kinki Osaka Bank)	April 2001	Convertible	60.0	1.36	After 9 m	-	-	-	-	-	-
Gifu Bank	April 2001	Convertible	12.0	1.21	After 11 m	-	-	-	-	-	-
Fukuoka City Bank	January 2002	-	-	-	-	Perpetual subordinated bond	70.0	1.20	-	-	Perpetual
Wakayama Bank	January 2002	-	-	-	-	Perpetual subordinated bond	12.0	1.34	-	-	Perpetual
Kyushu Bank	March 2002	-	-	-	-	Perpetual subordinated bond	30.0	1.25	-	-	Perpetual
Total			7,049.3				1,556.0				

Ground Total	8,605.3

Note 1: L stands for 6 months LIBOR of yen

2: Perpetual subordinated bonds issued by the Ryukyu Bank and the Hokkaido Bank were converted to preferred stock on Sept. 29th, 2000, and those of the Yachiyo Bank on Feb. 28th, 2001.

3: Perpetual subordinated bonds issued by Mitsubishi Trust & Banking were repaid by the Bank (cancellation by purchase) on Dec. 22nd, 2000 (payment amount ¥101,807 million). The Bank’s preferred stock (proceeds from sale ¥210.35 billion) was also re-sold on Jan. 24th, 2001.

Table 2 List of Capital Injection Operations Pursuant to the Financial Function Stabilization Law (figures as of March 31, 2002) (¥billion, %)

Name of Financial Institution	Month/Year of Injection	Preferred Shares				Subordinated Bonds/Loans				
		Type	Amount (¥billion)	Rate Approved	Beginning of Transfer	Type	Amount (¥billion)	Rate Approved (L for LIBOR of yen)		Period
								0 - 5th Year	5th Year Onwards	
Mizuho (Dai-Ichi Kangyo Bank)	March 1998	Convertible	99.0	0.75%	After 4 months	-	-	-	-	-
Mizuho (Fuji Bank)	March 1998	-	-	-	-	PSB	100.0	L + 1.10	L + 2.60	Perpetual
Mizuho (Industrial Bank of Japan)	March 1998	-	-	-	-	TSB	100.0	L + 0.55	L + 1.25	10 years
Sumitomo Mitsui (formerly Sakura Bank)	March 1998	-	-	-	-	PSB	100.0	L + 1.20	L + 2.70	Perpetual
Sumitomo Mitsui (formerly Sumitomo Bank)	March 1998	-	-	-	-	PSB	100.0	L + 0.90	L + 2.40	Perpetual
MTFG (Tokyo Mitsubishi Bank)	March 1998	-	-	-	-	PSB *	100.0	L + 0.90	L + 2.40	Perpetual
MTFG (Mitsubishi Trust & Banking)	March 1998	-	-	-	-	PSB *	50.0	L + 1.10	L + 2.60	Perpetual
UFJ (formerly Sanwa Bank)	March 1998	-	-	-	-	TSB	100.0	L + 0.55	L + 1.25	10 years
UFJ (formerly Tokai Bank)	March 1998	-	-	-	-	PSL	100.0	L + 0.90	L + 2.40	Perpetual
UFJ (formerly Toyo Trust & Banking)	March 1998	-	-	-	-	PSB	50.0	L + 1.10	L + 2.60	Perpetual
Daiwa Bank (Asahi Bank)	March 1998	-	-	-	-	PSL	100.0	L + 1.00	L + 2.50	Perpetual
Daiwa Bank (Daiwa Bank)	March 1998	-	-	-	-	PSL***	100.0	L + 2.70	L + 2.70	Perpetual
Sumitomo Trust & Banking	March 1998	-	-	-	-	PSB	100.0	L + 1.10	L + 2.60	Perpetual
Mitsui Trust (formerly Mitsui Trust & Banking)	March 1998	-	-	-	-	PSB	100.0	L + 1.45	L + 2.95	Perpetual
Mitsui Trust (formerly Chuo Trust & Banking)	March 1998	Convertible	32.0	2.50%	After 4 months	PSL	28.0	L + 2.45	L + 3.95	Perpetual
Yasuda Trust & Banking	March 1998	-	-	-	-	PSB	150.0	L + 2.45	L + 3.95	Perpetual
Bank of Yokohama	March 1998	-	-	-	-	PSL	20.0	L + 1.10	L + 2.60	Perpetual
Hokuriku Bank	March 1998	-	-	-	-	PSL	20.0	L + 2.45	L + 3.95	Perpetual
Ashikaga Bank	March 1998	-	-	-	-	PSB	30.0	L + 2.95	L + 4.45	Perpetual
Shinsei Bank	March 1998	Convertible**	130.0	1.00%	After 7 months	PSL	46.6	L + 2.45	L + 3.95	Perpetual
Aozora Bank	March 1998	Convertible**	60.0	3.00%	After 7 months	-	-	-	-	-
Total			321.0				1,494.6			

Grand Total	1,815.6

Notes

PSB = perpetual subordinated bond; TSB = terminable subordinated bond; PSL = perpetual subordinated loan

* Perpetual subordinated bonds issued by the Tokyo Mitsubishi Bank were repaid (cancellation by purchase) by the bank on February 28th, 2000 (amount of payment: ¥100.56 billion).

* Perpetual subordinated bonds issued by Mitsubishi Trust & Banking were repaid (cancellation by purchase) by the bank on Dec. 22nd, 2000 (amount of payment ¥50,002 million).

** The DIC acquired the preferred stock of the Shinsei Bank (formerly the Long-Term Credit Bank of Japan) on Oct. 28th, 1998, through the decision to start special public management. Similarly, the DIC acquired the preferred stock of the Aozora Bank (formerly the Nippon Credit Bank) on Dec. 17th, 1998, through the decision to start special public management. The preferred stock of the Shinsei Bank was reduced by 25,472,000 shares (of 100,000,000 shares) on March 31st, 2000. The preferred stock of the Aozora Bank was reduced by 71,856,000 shares (of 120,000,000 shares) on Oct. 3rd, 2000, and its dividend rate cut from 3% to 1%.

*** The approved added rate for perpetual subordinated loans of the Daiwa Bank will be 3.95% after 11 years and 4 months.

(3) Arrests, Accusations and Complaints

1) Number of Cases

(Unit: Cases)

	DICJ	RCC	HLAC	RCB	Total
Arrested	17 (50)	90 (183)	76 (149)	23 (37)	206 (419)
Under investigation	-	-	-	-	0 (0)
Others *	-	-	1 (1)	-	1 (1)
Total	17 (50)	90 (183)	77 (150)	23 (37)	207 (420)

Figures in parentheses represent the number of persons involved in each category.

* Statute of limitation expired

2) Breakdown of Cases

○ From the establishment of the Special Investigation Department (June 26, 1996) to March 31, 1999

(Unit: Cases)

Category		DICJ	HLAC	RCB	Total
Cases Related to Borrowers	Sub-Total	-	77 (150)	14 (19)	91 (169)
	Auction Interference	-	27 (49)	3 (7)	30 (56)
	Fraud	-	18 (44)	2 (2)	20 (46)
	Obstruction of Law Enforcement	-	15 (36)	4 (5)	19 (41)
	False entry on notarial documents	-	4 (7)	-	4 (7)
	Threat/Extortion	-	3 (3)	-	3 (3)
	Fraudulent Bankruptcy*	-	1 (1)	1 (1)	2 (2)
	Others	-	9 (10)	4 (4)	13 (14)
Cases Related to Lenders	Sub-Total	-	-	9 (18)	9 (18)
	Breach of Trust/ Aggravated Breach of Trust	-	-	4 (11)	4 (11)
	Others	-	-	5 (7)	5 (7)
Total		0	77 (150)	23 (37)	100 (187)

Figures in parentheses represent the number of persons involved in each category.

* Stipulated in the Bankruptcy Law (Article 374)

○ From the establishment of the RCC (April 1, 1999) to March 31, 2002.

(Unit: Cases)

Category		DICJ	RCC			Total
			HLAC	RCB	Article 53**	
Cases Related to Borrowers	Sub-Total	1 (2)	37 (70)	43 (79)	3 (9)	84 (160)
	Auction Interference	-	7 (9)	15 (32)	3 (9)	25 (50)
	Fraud	-	12 (26)	8 (12)	-	20 (38)
	Obstruction of Law Enforcement	1 (2)	12 (24)	8 (13)	-	21 (39)
	False entry on notarial documents	-	3 (7)	5 (12)	-	8 (19)
	Threat/Extortion	-	-	1 (1)	-	1 (1)
	Fraudulent Bankruptcy*	-	-	3 (6)	-	3 (6)
	Others	-	3 (4)	3 (3)	-	6 (7)
Cases Related to Lenders	Sub-Total	16 (48)	-	7 (25)	-	23 (73)
	Breach of Trust/ Aggravated Breach of Trust	12 (34)	-	7 (25)	-	19 (59)
	Others	4 (14)	-	-	-	4 (14)
Total		17 (50)	37 (70)	50 (104)	3 (9)	107 (233)

Figures in parentheses represent the number of persons involved in each category.

* Stipulated in the Bankruptcy Law (Article 374)

** Article 53: Assets purchased from sound financial institutions under Article 53 of the Financial Revitalization Law

(4) Pursuit of Civil Liability via Litigation and Conciliation

Claimant / Reason for Claim	DICJ		RCC		HLAC		RCB		Total	
	No. of Cases	Amount Claimed (¥ million)	No. of Cases	Amount Claimed (¥ million)	No. of Cases	Amount Claimed (¥ million)	No. of Cases	Amount Claimed (¥ million)	No. of Cases	Amount Claimed (¥ million)
Management Liability [1]	9	30,154.51[2]	56	35,650.44	1	3.595.0	15	30,281.78	81	99,681.73
Mediators Liability	-	-	3	[3]	2	5,010.0[4]	-	-	5	5,010.0
Total	9	30,154.51	59	35,650.44	3	8,605.0	15	30,281.78	86	104,691.73

From the establishment of the HLAC and the RCB to March 31st, 2002

Notes

1) Including cases where borrowers were sued together with executives on grounds of joint illegal conducts.

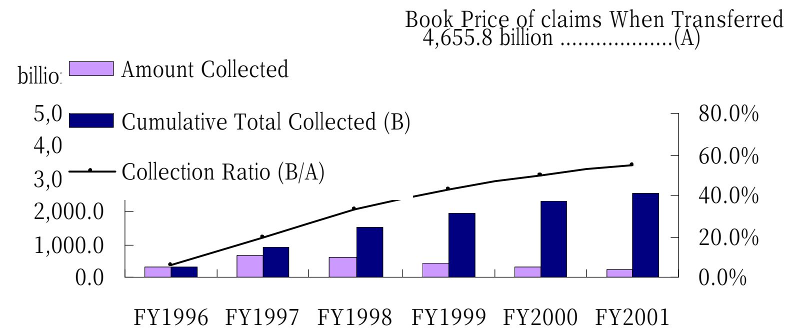
2) Including 6 cases in which the DICJ initiated litigation as a financial administrator.

3) One case was settled at ¥1,012 million on November 17, 1999 while the other two cases were also settled at ¥1 billion and ¥500 million respectively on March 22, 2000.

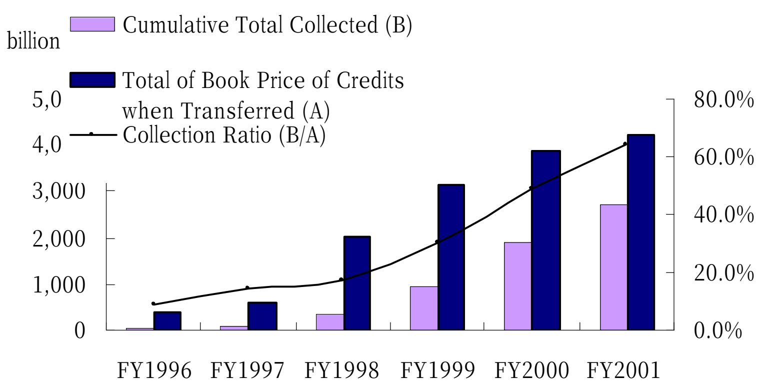
4) Cases of mediators liability were settled at ¥3 billion on February 1, 1999.

(5) Collection Performance of the RCC

○Former HLAC



○Former RCB



(6) Record of Asset Purchases from Sound Financial Institutions, etc., under Article 53 of the Financial Revitalization Law (based on the purchase implementation date)

FY1999 (unit: ¥100 million)

	No. of institutions	Principal of claims	Purchase price
City, long-term credit and trust banks	16	2,521	96
Regional banks	39	1,135	69
Members of 2nd Association of Regional Banks	19	521	23
Shinkin banks, credit cooperatives, etc.	17	333	29
Total	91	4,510	217

FY2000 (unit: ¥100 million)

	No. of institutions	Principal of claims	Purchase price
City, long-term credit and trust banks	12	965	31
Regional banks	40	1,312	57
Members of 2nd Association of Regional Banks	22	2,694	29
Shinkin banks, credit cooperatives, etc.	21	296	9
Total	95	5,222	126

FY2001 (unit: ¥100 million)

	No. of institutions	Principal of claims	Purchase price
City, long-term credit and trust banks	11	2,036	131
Regional banks	32	647	44
Members of 2nd Association of Regional Banks	23	293	13
Shinkin banks, credit cooperatives, etc.	21	326	18
Total	87	3,302	206

(Note) As well as purchases under Article 53, from FY2001 the RCC also accepts trusts in connection with non-performing loans. In FY2001 it signed trust agreements to the value of ¥213.1 billion, bringing the combined total for FY2001 to ¥543.2 billion (Article 53 purchases + trusts).

TOTAL (unit: ¥100 million)

	No. of institutions	Principal of claims	Purchase price
City, long-term credit and trust banks	14	5,522	259
Regional banks	54	3,095	171
Members of 2nd Association of Regional Banks	33	3,464	64
Shinkin banks, credit cooperatives, etc.	39	954	55
Total	140	13,035	549

Notes 1. "Number of institutions" does not include duplication.
2. Some totals may not tally as the individual amounts have been rounded off.

(7) Outline of Funding of DICJ (Fiscal 2002)

Table 1 Outline of Funding Program by Accounts

	General Account	Crisis Management Account	Special Operations Account	Financial Reconstruction Account	Early Strengthening Account
Borrowing / bond issues					
Legal Base	Deposit Insurance Law, Art. 42, Para.1 and 2	Deposit Insurance Law, Art. 126, Para.1	Deposit Insurance Law, Supplements, Art. 20, Para.1	Financial Function Reconstruction Law, Art. 65, Para.1	Early Strengthening Law, Art. 16, Para.1
Ceiling	¥13 trillion (Deposit Insurance Law, Cabinet Order Art. 2)	¥15 trillion (Deposit Insurance Law, Cabinet Order Art. 29)	¥6.5 trillion (Deposit Insurance Law, Supplements, Cabinet Order Art.4)	¥12 trillion (Financial Function Reconstruction Law, Cabinet Order, Art. 13)	¥10.5 trillion (Early Strengthening Law, Cabinet Order, Art. 5)
Method (Source)	(1) borrowing: ① financial institutions and others ②Bank of Japan (BOJ) (2) bond issues	(1) borrowing: (BOJ, financial institutions and others) (2) bond issues	(1) borrowing: (BOJ, financial institutions and others) (2) bond issues	(1) borrowing: (BOJ, financial institutions and others) (2) bond issues	(1) borrowing: (BOJ, financial institutions and others) (2) bond issues
Spent on	① payment of insurance claims ② financial assistance ③ purchase of deposits, etc. ④ Shares to establish bridge banks ⑤ loans, etc., to bridge banks ⑥ loans to failed financial institutions etc.	① share subscription, etc., by DICJ ② financial assistance to financial institutions under public management ③ financial assistance to banks under special crisis management etc.	① special financial assistance ② special purchase of deposits ③ Loss compensation for contracted bank ④ lending to contracted bank etc.	① asset purchase from financial institutions, etc. ② lending of funds needed by contracted bank for subscribing shares, etc., in line with former Financial Function Stabilization Law etc.	① lending of funds needed by contracted bank for subscribing shares, etc. ② loss compensation for contracted bank etc.
Government guarantee					
Legal Base	Deposit Insurance Law, Art. 42-2	Deposit Insurance Law, Art. 126, Para.2	Deposit Insurance Law, Supplements, Art. 20, Para.2	Financial Revitalization Law, Art. 66	Early Strengthening Law, Art. 17
Appropriation in general provisions of budget in fiscal 2002	Within the limit approved by the Diet (¥13 trillion in the original budget for fiscal 2002)	Within the limit approved by the Diet (¥15 trillion in original budget for fiscal 2002)	Within the limit approved by the Diet (¥6.5 trillion in original budget of fiscal 2002)	Within the limit approved by the Diet (¥12 trillion in original budget of fiscal 2002)	Within the limit approved by the Diet (¥6.9 trillion in original budget of fiscal 2002) (Note)
Other fiscal operations					
Operation			Government bonds: ¥13 trillion (Note) (allotted for special operations fund)		
Legal Base			Deposit Insurance Law, Supplements, Art. 19-4, Para. 2, 3 (and 19-2)		

	General Account	Crisis Management Account	Special Operations Account	Financial Reconstruction Account	Early Strengthening Account
Spent on			① special financial assistance ② special purchase of deposits ③ compensation for accumulated deficit of special operations account as of the end of the fiscal year etc.		
Substantial amount of financial operations	¥13 trillion	¥15 trillion	¥19.5 trillion	¥12 trillion	¥10.5 trillion

(Note) The figure for government guarantees in the Early Strengthening Account is the amounts which are due to be converted with government guarantee in fiscal 2002. The actual amounts of fiscal operations are ¥10.5 trillion including ¥3.6 trillion of previously issued DIC bonds.

Table 2 Outstanding Balance of Funds Raised in Each Fiscal Year

(Unit: ¥ billion)

Account Title \ Fiscal Year		End of Fiscal 1999	End of Fiscal 2000	End of Fiscal 2001
General Account		1,312.9 (71.1)	2,464.2 (394.2)	3,117.8 (-)
Special Operations Account		3,567.6 (-)	3,491.5 (-)	3,371.1 (-)
Jusen Account		-	-	-
Financial Reconstruction Account		3,924.3 (-)	5,118.3 (-)	5,265.6 (-)
Early Strengthening Account		8,040.2 (197.8)	8,104.6 (-)	8,223.9 (-)
	Raised by Issue of Bonds	600.0	1,800.0	3,600.0
Total		16,845.0 (268.9)	19,178.6 (394.2)	19,978.4 (-)
	Raised by Issue of Bonds	600.0	1,800.0	3,600.0

Notes: 1. The parenthesized values are borrowings from the BOJ within the amount raised.

2. On February 18, 1998, the Common Financial Institutions Special Account and the Credit Cooperatives Special Account were integrated into the Special Operations Account.

3. The Financial Function Stabilization Law was abolished after the Financial Function Reconstruction Law was enforced on October 23, 1998. As a result, the Financial Crisis Management Account based on the former law was abolished and the assets and liabilities of this account came to be charged to the Financial Reconstruction Account.

4. Since October 1999, bonds have been issued under the Early Strengthening Account.

2. Financial Statement

Table 1 Statement of Profit and Loss for Fiscal 2001

(Unit: ¥ million)

Item	General Account	Special Operations Account	Total	Excluding Inter-Account Transfers
Insurance Premiums	292,049	219,037	511,087	511,087
Income from Financial Assistance Related Business	-	2,092	2,092	2,092
Income from Contracted Bank	-	6,647	6,647	6,647
Income from Investment	-	0	0	0
Transfer from General Account	-	843,471	843,471	-
Income from Contributions by Banks Under Management, etc.	234	-	234	234
Income from Contributions by Contracted Bridge Bank	2	-	2	2
Transfer from Special Operations Fund (Redemption of Government Bonds)	-	667,547	667,547	667,547
Refunded Grants	1,766	48,300	50,067	50,067
Reversal from Loan Loss Reserves	-	44,663	44,663	44,663
Non-Operating Income	2	5,863	5,866	5,866
Total Income	294,056	1,837,623	2,131,680	1,288,209
Financial Assistance	31,949	1,782,727	1,814,676	1,814,676
General Administrative Expenses	5,255	1,682	6,937	6,937
Transfer to Other Accounts	843,471	-	843,471	-
Transfer to Special Operations Fund	-	60,270	60,270	60,270
Transfer to Loan Loss Reserves	-	46,387	46,387	46,387
Non-Operating Expenses	3,966	8,631	12,597	12,597
Total Expenses	884,641	1,899,699	2,784,341	1,940,870
Net Surplus/Deficit	Δ590,585	Δ62,080	Δ652,666	Δ652,666
Outstanding Balance of Deposit Insurance Fund (End of Fiscal 2000)	Δ2,464,810	Δ680,754	Δ3,145,565	
Outstanding Balance of Deposit Insurance Fund (End of Fiscal 2001)	Δ3,055,395	Δ742,835	Δ3,798,231	

Note: Figures are rounded down to the nearest ¥ million.

Table 2 Balance Sheet and Statement of Profit and Loss

1) General Account

Balance Sheet (as of March 31, 2002)

(Unit: ¥ million)

Item	Amount
Assets	
< Current Assets >	61,731
- Cash and Deposits	154
- Securities	61,519
- Accrued Income	0
- Accounts Receivable	56
< Fixed Assets >	2,565
- Financial Assistance Related Assets	
Purchased Assets	180
- Contracted Bridge Bank Related Assets	
Subsidiary Stock	2,050
- Tangible Fixed Assets	190
Buildings	135
Tools/Equipment/Fixtures	54
- Intangible Fixed Assets	1
- Investment and Other Assets	
Guarantee Money and Other Security Deposits	144
Total	64,296
Liabilities and Capital Accounts	
< Current Liabilities >	3,119,182
- Short-Term Loans	3,117,800
- Accounts Payable	145
- Accrued Expenses Payable	1,205
- Money on Deposit	32
< Fixed Liabilities >	54
- Reserves for Retirement Allowance	54
<<Liabilities Total>>	3,119,237
< Capital >	455
- Government Capital	150
- Bank of Japan Capital	150
- Private Capital	155
< Deficit >	Δ3,055,395
- Deficit Brought Forward	Δ2,464,810
- Current Deficit	Δ590,585
<<Capital Total>>	Δ3,054,940
Total	64,296

Note: All figures are rounded down to the nearest ¥ million.

Profit and Loss (April 1, 2001 to March 31, 2002)

(Unit: ¥ million)

Revenue	
Item	**Amount**
< Current Revenue >	294,056
- Income from Deposit Insurance	
Insurance Premiums	292,049
- Income from Contributions by Banks Under Management, etc.	234
- Income from Contributions by Contracted Bridge Bank	2
- Refunded Grants	1,766
- Non-Operating Income	2
< Current Deficit >	590,585
Total	884,641

Expenses	
Item	**Amount**
< Current Expenses >	884,641
- Financial Assistance Expenses	
Grants	31,949
- General Administrative Expenses	5,255
- Transfer to Other Accounts	
Transfer to Special Operations Account	843,471
- Non-Operating Expenses	
Interest on Borrowing	3,966
<Extraordinary Expenses>	0
- Loss from Retirement of Fixed Assets	0
Total	884,641

Notes:
1. Current deficit of ¥590,585 million is carried forward to the next fiscal year pursuant to the provision of Article 15, Paragraph 4, of the Deposit Insurance Law Enforcement Regulations.
2. All figures are rounded down to the nearest ¥ million.

Important Accounting Principles and Other Relevant Matters

1. Evaluation Criteria/Method for Securities
   Cost method based on the periodic average method.
2. Depreciation Method for Fixed Assets
   Fixed installment method using the criteria under the Corporation Tax Law. The aggregate depreciation amount of tangible fixed assets is ¥72 million.
3. Appropriation Criteria for Reserves
   Reserves for retirement allowance: the required remuneration at the end of the fiscal year is used as the criterion for the appropriation of reserves in preparation for payment of the retirement allowance for employees.
4. Other Important Matters Relating to Preparation of Financial Statements
   (1) Accounting method for consumption tax: tax inclusive method
   (2) Accounting criteria for revenue and expenses: accrual method

2) Special Operations Account

Balance Sheet (as of March 31, 2002)

(Unit: ¥ million)

Assets	
Item	Amount
< Current Assets >	64,425
- Cash and Deposits	82
- Money Deposited	929
- Securities	61,089
- Suspense Payments	626
- Prepaid Expenses	84
- Accrued Income	1,615
- Account Receivable	0
- Loan Loss Reserves	Δ3
< Fixed Assets >	6,844,118
- Financial Assistance Related Assets	75,919
Purchased Assets	121,827
Compensation Claims	476
Loan Loss Reserves	Δ46,384
- Assets Related to Contracted Bank	2,490,200
Contracted Bank Shares	12,000
Loans for Contracted Bank	2,478,200
- Tangible Fixed Assets	136
Buildings	97
Tools/Equipment/Fixtures	39
- Intangible Fixed Assets	1
- Investments and Other Assets	4,277,861
Assets of Special Operation Fund	3,977,739
Guarantee Money and Other Security Deposits	116
per contra on Loan Guarantee for Contracted Bank	300,000
Other Assets	4
Total	6,908,544

Liabilities and Capital Accounts	
Item	Amount
< Current Liabilities >	3,373,596
- Short-Term Loans	3,371,100
- Accounts Payable	33
- Accrued Expenses Payable	2,177
- Money on Deposit	0
- Advance Payments Received	2
- Suspense Receipts	283
< Fixed Liabilities >	300,042
- Reserves for Retirement Allowance	42
- Loan Guarantees	
Loan Guarantee for Contracted Bank	300,000
< Statutory Reserves >	3,977,739
- Special Operations Fund	3,977,739
per contra for Special Operations Fund Assets	3,977,739
per contra for Operating Revenue	0
<< Liabilities Total >>	7,651,379
< Deficit >	Δ742,835
- Deficit Brought Forward	Δ680,754
- Current Deficit	Δ62,080
<< Capital Total >>	Δ742,835
Total	6,908,544

Notes: All figures are rounded down to the nearest ¥ million.

Profit and Loss (April 1, 2001 to March 31, 2002)

(Unit: ¥ million)

Revenue	
Item	**Amount**
< Current Revenue >	1,837,623
- Income from Deposit Insurance	
Special Insurance Premiums	219,037
- Revenue from Financial Assistance-Related Business	2,092
Return from Purchased Assets	1,399
Profit on Purchased Assets Sold	692
- Revenue from Contracted Bank-Related Business	
Interest on Loans to Contracted Bank	6,647
- Operating Income	0
- Transfer from General Account	843,471
- Transfer from Special Operations Fund	667,547
- Refunded Grants	48,300
- Transfer back from Loan Loss Reserves	44,663
- Non-Operating Revenue	5,863
< Current Deficit >	62,080
Total	1,899,704

Expenses	
Item	**Amount**
< Current Expenses >	1,899,699
- Financial Assistance Expenses	1,782,727
Grants	1,715,428
Loss from Purchased Assets	441
Administrative Expenses for Purchased Assets	12
Cost of Commissioning Management and Collection Businesses	1,559
Cost of Commissioning Asset Purchase Business	18,048
Special Compensation for Commissioning Asset Purchase Business	47,235
- General Administrative Expenses	1,682
- Transfer to Special Operations Fund	60,270
- Transfer to Loan Loss Reserves	46,387
- Non-Operating Expenses	
Interest Payment on Borrowing	8,631
<Extraordinary Expenses>	5
- Loss from Retirement of Fixed Assets	5
Total	1,899,704

Notes:
1. Current deficit of ¥62,080 million is carried forward to the next fiscal year pursuant to the provisions of Article 15, Paragraph 4, of the Deposit Insurance Law Enforcement Regulations.
2. All figures are rounded down to the nearest ¥ million.

Important Accounting Principles and Other Relevant Matters

1. Evaluation Method for Securities

   Cost method based on the periodic average method.

2. Depreciation Method for Fixed Assets

   Fixed installment method using the criteria under the Corporation Tax Law. The aggregate depreciation amount is as follows:

   Financial assistance operation assets : ¥101 million

Tangible fixed assets	:	¥69 million
Investment and other assets	:	¥18 million

3. Appropriation Criteria for Reserves

(1) Loan Loss Reserves

For claims related to debtors for whom statutory facts of business failure (e.g. bankruptcy or composition) have occurred, or debtors in an equivalent position, the estimated disposable collateral and estimated recoverable amount through guarantees are subtracted from the amount of the claim, and the remainder is aggregated. For debtors who are not in a state of bankruptcy at present but are likely to face bankruptcy in the future, the estimated disposal amount as well as the estimated collectable amount through guarantee are deducted from the amount of claims and the amount which is considered necessary, based on the general judgement of the payment capability of the debtor, is accounted for vis-à-vis the remaining amount after the above reduction. For claims other than those described above, the amount for Loan Loss Reserves is based on the actual loan loss ratio calculated from actual cases of loan loss which occurred in a specific period of time in the past.

(2) Reserves for Retirement Allowance

The required remuneration at the end of the fiscal year is used as the criterion for appropriating reserves in preparation for payment of retirement allowances for employees.

(3) Special Operations Fund

To ensure the soundness of the Special Operations Account and implement special operations smoothly, the balance of bonds provided by the government is aggregated in line with Article 19-4 (2) and (3) of the Supplementary Provisions to the Deposit Insurance Law (Law No. 34 of 1971).

4. Other Important Matters Relating to Preparation of Financial Statements

(1) Accounting method for consumption tax: tax inclusive method

(2) Accounting criteria for revenue and expenses: accrual method

3) Financial Reconstruction Account

Balance Sheet (as of March 31, 2002)

(Unit: ¥ million)

Assets	
Item	**Amount**
< Current Assets >	22,075
- Cash and Deposits	1,055
- Deposits Received	6,162
- Securities	1,299
- Suspense Payments	35
- Accrued Income	1,737
- Account Receivable	11,788
- Loan Loss Reserves	Δ2
< Fixed Assets >	4,476,741
- Assets from Assets Purchase Business	2,965,321
Purchased Assets	3,129,814
Loan Loss Reserves	Δ164,493
- Tangible Fixed Assets	17
Buildings	8
Tools/Equipment/Fixtures	9
- Intangible Fixed Assets	0
- Investment and Other Assets	1,511,402
Loans to Specified Contracted Bank	31,900
Loans to Contracted Bank	1,479,500
Guarantee Money and Other Security Deposits	2
Total	4,498,817
Liabilities and Capital Accounts	
Item	**Amount**
< Current Liabilities >	5,268,688
- Short-Term Loans	5,265,600
- Accounts Payable	255
- Accrued Expenses Payable	2,432
- Money on Deposit	11
- Advance Payment Received	3
- Suspense Receipts	386
< Fixed Liabilities >	5
- Reserves for Retirement Allowance	5
<<Liabilities Total>>	5,268,694
< Deficit >	Δ769,876
- Deficit Brought Forward	Δ638,737
- Current Deficit	Δ131,139
<<Capital Total>>	Δ769,876
Total	4,498,817

Note: All figures are rounded down to the nearest ¥ million.

Profit and Loss (April 1, 2001 to March 31, 2002)

(Unit: ¥ million)

Revenue	
Item	Amount
< Current Revenue >	138,481
- Income from Asset Purchase Business	52,032
Income from Purchased Assets	19,922
Profits from Purchased Assets	32,110
- Income from the Specified Contracted Bank	7,319
- Income from the Contracted Bank	21,102
- Interest on Loans to Specified Contracted Bank	41
- Interest on Loans to Contracted Bank	4,490
- Reversal from Loan Loss Reserves	53,200
- Non-Operating Income	292
< Current Deficit >	131,139
Total	269,620

Expenses	
Item	Amount
< Current Expenses >	269,620
- Expenses for Asset Purchase Business	90,739
Loss on Purchased Assets	87,108
Administrative Expenses for Purchased Assets	1,862
Cost of Commissioning Management and Recovery	300
Cost of Commissioning Asset Purchase Business	1,469
- General Administrative Expenses	510
- Transfer to Loan Loss Reserves	164,495
- Non-Operating Expenses	
Interest Paid	13,874
Total	269,620

Notes: 1. Current deficit of ¥131,139 million is charged against the accumulated fund and the remaining deficit is carried forward to the next fiscal year pursuant to the provisions of Article 25, Paragraph 2 of the Financial Revitalization Law Enforcement Regulations.

2. All figures are rounded down to the nearest ¥ million.

Important Accounting Principles and Other Relevant Matters

1. Evaluation Method for Securities
   Cost method based on the periodic average method
2. Depreciation Method for Fixed Assets
   Fixed installment method using the criteria under the Corporation Tax Law. The aggregate depreciation amount is as follows:
   Tangible fixed assets: ¥5 million
3. Appropriation Criteria for Reserves
   (1) Loan loss reserves: For debtors who have succumbed to business failure or effective business failure, and those who face or are highly likely to face serious problems in the repayment of debts although not yet in a state of business failure, the estimated amount recovered through collateral, etc., and the estimated amount recovered in light of the debtors' financial status and business performance are reduced from the amount of the claim, the remainder being aggregated as loan loss reserves. Claims other than the above are aggregated on the basis of a bad debt ratio deemed reasonable.
   (2) Reserves for retirement allowance: The required remuneration at the end of the fiscal year is used as the criterion for appropriating reserves in preparation for payment of retirement allowances for employees.
4. Other Important Matters Relating to Preparation of Financial Statements
   (1) Accounting method for consumption tax: tax inclusive method
   (2) Accounting criteria for revenue and expenses: accrual method

4) Early Strengthening Account

Balance Sheet (as of March 31, 2002)

(Unit: ¥ million)

Assets	
Item	Amount
< Current Assets >	2,760
- Cash and Deposits	351
- Accrued Income	2,409
- Accounts Receivables	0
< Fixed Assets >	8,308,462
- Tangible Fixed Assets	6
Buildings	4
Tools/Equipment/Fixtures	1
- Intangible Fixed Assets	0
- Investment and Other Assets	8,308,456
Loans to Contracted Bank	8,308,455
Guarantee Money and Other Security Deposits	1
< Deferred Charge >	4,603
Cost of Issuing Bonds	3,479
Discount on Bonds	1,124
Total	8,315,827
Liabilities and Capital Accounts	
Item	Amount
< Current Liabilities >	4,626,647
- Short-Term Loans	4,623,900
- Accounts Payable	1
- Accrued Expenses Payable	2,144
- Advance Payments Received	601
< Fixed Liabilities >	3,600,823
- DICJ Bonds	3,600,000
- Long-Term Advance Payment Received	821
- Reserves for Retirement Allowance	2
<<Liabilities Total>>	8,227,471
<Surplus>	88,355
- Balance Brought Forward	24,305
- Current Profit	64,049
<<Capital Total>>	88,355
Total	8,315,827

Note: All figures are rounded down to the nearest ¥ million.

Profit and Loss (April 1, 2001 to March 31, 2002)

(Unit: ¥ million)

Revenue	
Item	Amount
< Current Revenue >	100,511
- Income from the Contracted Bank	64,470
- Interest on Loans to Contracted Bank	36,038
- Non-Operating Income	2
Total	100,511
Expenses	
Item	Amount
< Current Expenses >	36,461
- General Administrative Expenses	159
- Non-Operating Expenses	36,301
Interest on Borrowing	15,547
Interest on Bonds	16,893
Administrative Expenses for Bonds	36
Amortization of Bond Issuing Cost	3,512
Amortization of Discount on Bonds	312
< Current Profit >	64,049
Total	100,511

Notes: 1. Current profit of ¥64,049 million is added to the accumulated fund, pursuant to the provisions of Article 8, Paragraph 1 of the Early Strengthening Law Enforcement Regulations (Provision No. 3 of the Financial Reconstruction Commission, 1998).

2. All figures are rounded down to the nearest ¥ million.

Important Accounting Principles and Other Relevant Matters

1. Evaluation Method for Securities

   Cost method based on the periodic average method

2. Depreciation Method for Fixed Assets

   Fixed installment method using the criteria under the Corporation Tax Law. The aggregate depreciation amount is as follows:

   Tangible fixed assets: ¥1 million

3. Accounting Criteria for Allowances

   Retirement Allowance

   The required amount of payment at the end of the fiscal year is used as the criterion to prepare for the payment of retirement allowances for officials and staff members.

4. Other Important Matters Relating to Preparation of Financial Statements

   (1) Accounting Method for Consumption Tax

   Tax inclusive method

   (2) Accounting Method for Deferred Assets

   1) Bond Issuing Cost: equal depreciation over three years

   2) Difference in Bond Issue: equal depreciation over the period up to the term of bond redemption (four years)

   3) Accounting Criteria for Revenue and Expenses: accrual method

5) *Jusen* Account

Balance Sheet (as of March 31, 2002)

(Unit: ¥ million)

Assets	
Item	Amount
< Current Assets >	5,143
- Cash and Deposits	136
- Securities	4,994
- Accrued Income	11
- Account Receivable	0
< Fixed Assets >	4,299,345
- Tangible Fixed Assets	102
Buildings	65
Tools/Equipment/Fixtures	36
- Intangible Fixed Assets	1
- Investment and Other Assets	4,299,242
Assets Relating to Financial Stabilization Fund	908,755
Shares of Affiliated Companies	200,000
Guarantee Money and Other Security Deposits	110
per contra on Loan Guarantees	3,190,377
Total	4,304,489

Liabilities and Capital Accounts	
Item	Amount
< Current Liabilities >	95,997
- Accounts Payable	95,929
- Advance Payments Received	68
< Fixed Liabilities >	3,290,618
- Reserves for Retirement Allowance	28
- Repayable Payments Received from Bank of Japan	100,000
- Charges against Assets Allotted in Operation	213
- Loan Guarantees	3,190,377
< Statutory Reserves >	1,008,755
- Financial Stabilization Fund	1,008,755
Counterpart of Private-Sector Contributions	1,007,000
Counterpart of Operating Income	1,755
<<Liabilities Total>>	4,395,371
< Capital >	5,000
- Government Capital	5,000
< Deficit >	Δ95,882
- Deficit Brought Forward	Δ56,506
- Current Deficit	Δ39,375
<<Capital Total>>	Δ90,882
Total	4,304,489

Note: All figures are rounded down to the nearest ¥ million.

Profit and Loss (April 1, 2001 to March 31, 2002)

(Unit: ¥ million)

Revenue	
Item	Amount
< Current Revenue >	22,635
- Payment from Claim Resolution Company	
Payment of Collection Profits of Transferred Claims, etc.	77
- Income from Investment	
Income from Investment of Financial Stabilization Fund	10,788
- Revenue from Special Operations Contributions	938
- Transfer Back from Financial Stabilization Fund	10,728
- Non-Operating Income	88
- Transfer Back from Charge Against Assets Allotted in Operation	13
< Current Deficit >	39,375
Total	62,011

Expenses	
Item	Amount
< Current Expenses >	62,011
- Grant for Claim Resolution Company	
Operation Promotion Grant	50,116
- Payments to Government	
Payment of Collection Profits of Transferred Claims, etc.	77
- General Administrative Expenses	1,029
- Transfer to Financial Stabilization Fund	10,788
Total	62,011

Notes: 1. Current deficit of ¥39,375 million is carried forward to the next fiscal year pursuant to the provisions of Article 5, Paragraph 2, of the *Jusen* Law Enforcement Regulations.

2. All figures are rounded down to the nearest ¥ million.

Important Accounting Principles and Other Relevant Matters

1. Evaluation Method for Securities

   Cost method based on the periodic average method

2. Depreciation Method for Fixed Assets

   Fixed installment method using the criteria under the Corporation Tax Law. The aggregate depreciation amount is as follows:

   Tangible fixed assets: ¥62 million

3. Appropriation Criteria for Reserves

   (1) Reserves for Retirement Allowance

   The required remuneration at the end of the fiscal year is used as the criterion for appropriating reserves in preparation for payment of retirement allowance for employees.

   (2) Financial Stabilization Fund

   Contributions made by financial institutions which were investors or creditors of *Jusen* companies and interest income, etc., accrued by the operation of such contributions are accounted for pursuant to the provisions of Article 9, Paragraph 1, and Article 9, Paragraph 2, of the *Jusen* Law, respectively, for investment in the claim resolution company and for the provision of grants for such companies for the smooth implementation of their business.

4. Other Important Matters Relating to Preparation of Financial Statements

   (1) Accounting method for consumption tax: tax inclusive method

   (2) Accounting criteria for revenue and expenses: accrual method

3. Statistical Tables

Table 1. Income and Expenditure
(General Account and Special Operations Account)

(Unit: ¥ million)

Fiscal Year	Income			Expenditure	Net Earnings	Deposit Insurance Fund (Ending on March 31)
	Insurance Premiums	Paid into Special Operations Fund	Total (including others)			
1971	2,800	-	3,090	23	3,066	3,066
1972	4,560	-	5,030	43	4,987	8,053
1973	5,638	-	6,369	40	6,328	14,381
1974	6,364	-	7,563	57	7,505	21,887
1975	7,214	-	8,958	61	8,896	30,784
1976	8,402	-	10,739	69	10,670	41,454
1977	9,401	-	12,252	78	12,174	53,629
1978	10,571	-	14,024	105	13,919	67,548
1979	11,818	-	16,084	95	15,988	83,536
1980	12,767	-	18,392	104	18,288	101,825
1981	13,631	-	20,314	127	20,187	122,012
1982	20,107	-	28,209	119	28,090	150,103
1983	21,624	-	31,519	123	31,396	181,500
1984	23,232	-	34,769	118	34,651	216,151
1985	25,274	-	38,569	134	38,435	254,586
1986	40,739	-	55,236	140	55,096	309,683
1987	44,195	-	62,015	155	61,860	371,543
1988	48,759	-	68,021	143	67,878	439,421
1989	53,757	-	74,333	145	74,187	513,608
1990	60,381	-	87,944	156	87,788	601,396
1991	63,202	-	95,154	165	94,987	696,384
1992	63,149	-	94,411	20,169	74,241	770,626
1993	63,792	-	96,081	46,137	49,944	820,570
1994	64,972	-	98,140	42,680	55,459	876,030
1995	66,643	-	111,581	601,033	Δ489,452	386,578
1996	461,993	-	532,744	1,314,429	Δ781,685	Δ395,107
1997	462,956	-	464,318	163,229	301,089	Δ94,018
1998	465,004	1,199,232	1,675,820	2,769,430	Δ1,093,610	Δ1,187,628
1999	480,736	3,645,679	4,216,932	4,926,059	Δ709,127	Δ1,896,755
2000	482,837	3,640,683	4,204,983	5,453,792	Δ1,248,809	Δ3,145,565
2001	511,087	667,547	1,288,209	1,940,870	Δ652,666	Δ3,798,231

Notes: 1. Figures from fiscal 1996 exclude inter-account transfers.
2. Any fractional sum of less than one million yen is disregarded.

Table 2. Insured Deposits and Deposit Insurance Fund

(Unit: ¥ billion, %)

Fiscal Year (ending on March 31)	Deposits of Insured Financial Institutions			Deposit Insurance Fund***	
	Total* (A)	Insured** (B)	Percentage of Insured Deposits (B/A)	Amount	Ratio of Deposit Insurance Fund to Insured Deposits
1971	81,195	72,253	89.0	3	0.004
1972	102,833	90,864	88.4	8	0.009
1973	116,313	104,187	89.6	14	0.014
1974	129,839	116,632	89.8	22	0.019
1975	150,630	136,198	90.4	31	0.023
1976	169,410	153,636	90.7	41	0.027
1977	189,873	172,002	90.6	54	0.031
1978	213,417	192,942	90.4	68	0.035
1979	235,571	209,822	89.1	84	0.040
1980	255,141	227,185	89.0	102	0.045
1981	285,301	251,346	88.1	122	0.049
1982	305,115	270,301	88.6	150	0.056
1983	331,491	290,403	87.6	182	0.062
1984	362,385	315,928	87.2	216	0.068
1985	407,760	339,109	83.2	255	0.075
1986	453,846	366,709	80.8	310	0.084
1987	515,952	404,749	78.4	372	0.092
1988	594,627	446,397	75.1	439	0.098
1989	685,242	501,598	73.2	514	0.102
1990	703,459	526,686	74.9	601	0.114
1991	694,901	526,243	75.7	696	0.132
1992	695,014	531,607	76.5	771	0.145
1993	704,975	541,445	76.8	821	0.152
1994	710,350	555,711	78.2	876	0.158
1995	717,604	550,601	76.7	387	0.070
1996	713,480	551,271	77.3	Δ395	—
1997	705,772	556,394	78.8	Δ94	—
1998	703,260	572,730	81.4	Δ1,188	—
1999	698,382	575,717	82.4	Δ1,897	—
2000	728,864	611,513	83.9	Δ3,146	—
2001	718,543	609,375	84.8	Δ3,798	—

* Includes installment savings, money in trust, foreign currency deposits, and negotiable certificates of deposit.

** Excludes deposits, etc., under Article 3 of the Deposit Insurance Law Enforcement Regulations. From FY 2001, insurance premiums are calculated from average balance of deposits.

*** Deposit Insurance Fund, etc., for fiscal 2001 = Deficits carried forward (General Account 3,055.3 + Special Operations Account 742.8)

Table 3. Number of Insured Financial Institutions

Fiscal Year (ending: March 31)	Total**	Banks						*Shinkin* Banks	Credit Coopera-tives	Labor Banks	Federa-tions***
		Bank total	City Banks	Regional Banks	Regional Banks II*	Trust Banks	Long-Term Credit Banks				
1971	1,163	156	14	61	71	7	3	483	524	—	—
1972	1,151	159	14	63	72	7	3	484	508	—	—
1973	1,140	158	13	63	72	7	3	484	498	—	—
1974	1,126	158	13	63	72	7	3	476	492	—	—
1975	1,118	158	13	63	72	7	3	471	489	—	—
1976	1,114	157	13	63	71	7	3	469	488	—	—
1977	1,115	157	13	63	71	7	3	468	490	—	—
1978	1,109	157	13	63	71	7	3	466	486	—	—
1979	1,103	157	13	63	71	7	3	462	484	—	—
1980	1,094	157	13	63	71	7	3	461	476	—	—
1981	1,087	157	13	63	71	7	3	456	474	—	—
1982	1,082	157	13	63	71	7	3	456	469	—	—
1983	1,082	157	13	63	71	7	3	456	469	—	—
1984	1,074	156	13	64	69	7	3	456	462	—	—
1985	1,065	160	13	64	69	11	3	456	449	—	—
1986	1,113	164	13	64	68	16	3	455	447	47	—
1987	1,106	164	13	64	68	16	3	455	440	47	—
1988	1,085	164	13	64	68	16	3	455	419	47	—
1989	1,080	164	13	64	68	16	3	454	415	47	—
1990	1,069	163	12	64	68	16	3	451	408	47	—
1991	1,047	162	11	64	68	16	3	440	398	47	—
1992	1,036	160	11	64	66	16	3	435	394	47	—
1993	1,023	164	11	64	65	21	3	428	384	47	—
1994	1,009	167	11	64	65	23	3	421	374	47	—
1995	1,007	174	11	64	65	30	3	416	370	47	—
1996	997	176	10	64	65	33	3	410	364	47	—
1997	976	176	10	64	64	33	3	401	352	47	—
1998	933	173	9	64	61	34	3	396	323	41	—
1999	890	171	9	64	60	33	3	386	292	41	—
2000	863	167	9	64	57	31	3	372	281	40	3
2001	784	164	7	64	56	29	3	349	247	21	3

* Regional Banks II are Member Banks of the Second Association of Regional Banks. Up to 1991, inclusive of *Sogo* Banks (mutual loan and savings banks). Up to fiscal 1987, figures are for *Sogo* Banks only.

** Financial institutions ordered to be placed under financial administrators are included.

*** Federations include the Shinkin Central Bank, the Shinkumi Federation Bank and the Rokinren Bank, central banks for shinkin banks, credit cooperatives and labor banks respectively.

Table 4. Insured Deposits by Sector of Financial Institutions

(Unit: ¥ billion)

Fiscal Year (ending: March 31)	Total	Banks						*Shinkin* Banks	Credit Coopera-tives	Labor Banks	Federa-tions
		Bank total	City Banks	Regional Banks	Regional Banks II*	Trust Banks	Long-Term Credit Banks				
1971	72,253	60,775	29,189	15,582	7,229	7,512	1,264	9,161	2,317	—	—
1972	90,864	76,405	36,165	19,788	9,246	9,489	1,716	11,603	2,856	—	—
1973	104,187	86,505	39,038	23,497	11,281	10,761	1,929	14,196	3,486	—	—
1974	116,632	96,133	42,210	26,537	13,019	12,312	2,055	16,347	4,151	—	—
1975	136,198	112,260	49,228	30,984	15,089	14,466	2,494	19,008	4,930	—	—
1976	153,636	126,426	54,968	34,936	16,882	16,887	2,754	21,639	5,570	—	—
1977	172,002	141,872	61,698	39,221	18,945	19,158	2,850	23,944	6,186	—	—
1978	192,942	158,927	68,035	44,717	21,615	21,616	2,944	27,084	6,932	—	—
1979	209,822	171,728	71,685	49,556	23,852	23,545	3,091	30,372	7,722	—	—
1980	227,185	185,573	77,550	53,474	25,762	25,498	3,288	33,163	8,449	—	—
1981	251,346	205,435	85,877	59,498	28,471	28,085	3,504	36,604	9,307	—	—
1982	270,301	220,683	90,963	64,099	30,573	31,418	3,631	39,491	10,127	—	—
1983	290,403	237,449	98,093	68,333	32,445	34,762	3,816	42,075	10,878	—	—
1984	315,928	258,664	107,585	76,233	33,195	37,523	4,128	45,607	11,657	—	—
1985	339,109	273,540	117,049	79,948	34,461	37,964	4,120	48,412	12,372	4,784	—
1986	366,709	296,483	128,829	86,622	37,045	39,814	4,173	51,909	13,188	5,129	—
1987	404,749	327,984	145,975	95,996	40,019	41,304	4,690	56,738	14,551	5,475	—
1988	446,397	361,564	158,960	107,207	44,179	46,064	5,154	62,575	16,349	5,909	—
1989	501,598	405,036	180,209	120,168	47,904	50,384	6,369	70,973	19,172	6,417	—
1990	526,686	421,730	184,900	125,264	50,723	55,185	5,658	76,735	21,307	6,914	—
1991	526,243	417,523	175,188	129,149	51,682	57,126	4,378	79,876	21,474	7,370	—
1992	531,607	418,975	169,169	133,250	52,708	59,379	4,469	82,933	21,854	7,844	—
1993	541,449	424,776	169,657	137,051	53,880	59,842	4,347	85,735	22,589	8,345	—
1994	555,711	434,071	172,414	142,631	55,795	58,629	4,540	89,632	23,158	8,849	—
1995	550,601	428,676	170,717	144,615	55,864	52,825	4,548	91,224	21,513	9,187	—
1996	551,271	428,207	168,766	147,132	55,818	51,924	4,567	92,552	20,976	9,535	—
1997	556,394	432,488	172,244	150,615	55,549	49,483	4,588	93,726	20,099	10,081	—
1998	572,730	446,812	178,508	154,772	58,991	49,445	5,090	96,119	19,267	10,532	—
1999	575,717	448,927	181,490	160,422	53,933	48,496	4,583	97,372	18,440	10,978	—
2000	611,513	479,229	193,101	174,360	55,918	48,794	7,017	102,202	17,854	11,710	519
2001	609,375	478,098	200,167	173,501	55,326	45,994	2,994	101,748	16,599	12,304	626

* Regional Banks II are Member Banks of the Second Association of Regional Banks. Up to 1991, inclusive of *Sogo* Banks (mutual loan and savings banks). Up to fiscal 1987, figures are for *Sogo* Banks only. From fiscal 2000, the Shinkin Central Bank and others were added.

5. Organization

Policy Board Members and DICJ Officials, etc.

(As of August 1, 2002)

< Policy Board >

Chairman	Noboru Matsuda	(Governor of the DICJ)
Members	Atsushi Takahashi	(Chairman, Companies Association of Japan)
	Masashi Teranishi	(Chairman, Japanese Bankers Association
	Yukihiko Nagano	(Chairman, National Association of Shinkin Banks)
	Masamichi Narita	(Auditor, Japan Tobacco, Inc.)
	Eisuke Hamamoto	(Chairman, National Association of Labour Bank)
	Sadaaki Hirasawa	(Chairman, Regional Association of Japan)
	Takeshi Yoshii	(Senior Corporate Auditor, Nippon Steel Corporation)
	Naoyuki Yoshino	(Professor of Economics, Keio University)
	Keiji Matsuda	(Deputy Governor)
	Hajime Shinohara	(Deputy Governor)
	Hakaru Hirose	(Deputy Governor)
	Tatsuo Watanabe	(Deputy Governor)

Tetsuaki Isshiki (Chairman, The Second Association of Regional Banks, resigned June 30, 2002)

Yoshitomo Tazuke (Chairman, The National Central Society of Credit Cooperatives, resigned June 30, 2002)

Akio Hanano (Deputy Governor, resigned June 25, 2002)

< Officials of the DICJ >

- Governor : Noboru Matsuda
- Deputy Governors : Keiji Matsuda
  Hajime Shinohara
  Hakaru Hirose
  Tatsuo Watanabe
- Auditor (Part-Time) : Norio Nakajima (former Vice President, The Japanese Institute of Certified Public Accountants)

< Department Heads of the DICJ >

- Planning and Coordination Department
  Executive Director : Satoru Toda
- Financial Reconstruction Department
  Executive Director : Kenjiro Suzuki
- Deposit Insurance Department
  Executive Director : Hiroshi Nakagawa
- Special Investigation Department
  Executive Director : Yoshiaki Iwahashi
- Osaka Office of Deposit Insurance Department
  Executive Director : Takao Yumoto
- Osaka Office of Special Investigation Department
  Executive Director : Ichiro Matsuda

Masaru Honma, Exective Director of Planning and Coordination Department resigned July 31, 2002

< Special Advisors for Liability Investigation Committee >

Hisao Kamiya	(former Prosecutor-General)
Shigeru Kobori	(former President of Japan Federation of Bar Associations)
Kozo Fujita	(former Chief Judge of Court of Appeal of Hiroshima)
Tadao Ando	(former Superintendent-General of the Metropolitan Police)

< Members of Purchase Price Examination Board >

Chairman	:	Yoshinori Fujimura (Lawyer)
Deputy Chairman	:	Nobuo Nagaba (Real Estate Appraiser)
Member	:	Somitsu Takehara (Certified Public Accountant)
		Yasuyuki Kuratsu (Banker)
		Soichiro Moridaira (Academic)

DICJ Logo

The logo with four blades presents the main business area of the DICJ. They are:

1. Resolution of failed financial institutions;
2. Collection of NPLs;
3. Pursuit of management liabilities of failed financial institutions;
4. Reconstruction and strengthening of financial sector in Japan.

The logo also incorporates the hope of the DICJ, as a group, to be a propeller to drive forward to the early stabilization of financial sector in Japan.

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