

April 10, 2009
Bank of Japan

Establishment of “Principal Terms and Conditions for Provision of Subordinated Loans”

At a regular meeting held today, the Policy Board of the Bank of Japan decided to set “Principal Terms and Conditions for Provision of Subordinated Loans,” with the aim of ensuring the smooth functioning of financial intermediation and the financial system stability by enabling Japan’s banks to maintain sufficient capital bases even in severe financial and economic environments, and to apply for necessary official approval in accordance with the Bank of Japan Law.

Outline for Provision of Subordinated Loans

1. Eligible Banks

- Banks, subject to international capital standards, which wish to be the recipients of the loans and which are deemed creditworthy.

2. Total Amount of Loans

- 1 trillion yen

3. Limit per Bank

- 350 billion yen

4. Properties of Loans

- 10-year subordinated loans and perpetual subordinated loans
- The interest rate will increase after 5 years of loan disbursement (plus 1.5%).
- Recipient of each loan has the right to redeem the loan on the day of loan disbursement 3 years later and after.

5. Method of Loans

- The amount of each loan and the interest rate (floating rate) for the first 5 years are determined by an auction.
 - A multiple-price competitive auction is conducted for each loan in which banks bid “yield spreads,” which are calculated by subtracting the “minimum spreads” determined by the Bank of Japan from the spread which banks desire to add on the base rate (six-month yen LIBOR).
 - The minimum spread is respectively determined by the Bank at each auction for 10-year loans and perpetual loans, in light of market conditions, so as not to interfere with capital raising by financial institutions through markets.
- The frequency of auctions and loan disbursements: once every quarter

- The schedule of auctions and loan disbursements will be released around the beginning of this May.
- The first auction will be scheduled by the end of May.

6. Period of New Loan Disbursement

- By the end of March, 2010

7. Others

- The total amount of loans and the average spread in each auction will be released.
- The names of recipients of the loans will be released around the end of May, 2010.