Developments in Profits and Balance Sheets of Japanese Banks in Fiscal 2000 and Banks' Management Tasks

For a key to the symbols and abbreviations used in this article, see page 130.

SUMMARY

A. Profits and Balance-Sheet Developments of Japanese Banks in Fiscal 2000

1. Overview

In fiscal 2000, Japanese banks recorded small net losses for the year for the first time in two years. This was mainly because the amount of nonperforming-loan (NPL) disposal continued to exceed operating profits from core business. Financial strength weakened as unrealized capital gains on securities decreased and as risk-based capital adequacy ratios declined, mainly reflecting the net losses recorded for the fiscal year.

2. Profits and losses

Operating profits from core business, which represent the fundamental profitability of banks, recorded 4.7 trillion yen in fiscal 2000, down slightly from the 5.0 trillion yen in fiscal 1999. This was mainly because the fall in net interest income on domestic operations, which accounts for a large proportion of operating income, cancelled out the increase in net fees and commissions and cuts in general and administrative expenses.

Net interest income on domestic operations declined 4.7 percent from the previous fiscal year, owing to the decline in lending volume and in yields on securities. Net fees and commissions rose about 5 percent year on year. This was primarily due to fees and commissions from foreign exchange-related operations, sales of investment trusts, and coordination of syndicated loans. General and administrative expenses continued to decline year on year, down 1.1 percent from fiscal 1999, mainly reflecting cuts in personnel expenses.

NPL disposal reached 6.1 trillion yen and exceeded operating profits from core business for the seventh consecutive year since fiscal 1994, reflecting the prolonged weak business performance amid the worsening of the economy. This amount was approximately the same as in fiscal 1999, far above the forecast in autumn 2000.

3. Financial strength

Unrealized capital gains on securities decreased from a year earlier to 2.6 trillion yen at end-March 2001 from 10.8 trillion yen at end-March 2000. This was primarily due to the decrease in unrealized capital gains on stocks reflecting stock price falls. Risk-based capital adequacy ratios also declined year on year. This was a reflection of (a) the decrease in accumulated earned surplus given the net losses recorded in the fiscal year and (b) the increase in risk assets of internationally active banks owing to the depreciation of the yen.

Regarding the accounting standard, about 70 percent of Japanese banks, mainly regional banks and regional banks II, introduced mark-to-market accounting in fiscal 2000 ahead of the statutory schedule.

B. Banks' Management Tasks

1. Financial condition of banks

Banks' financial strength weakened, along with a slight decline after the substantial recovery in risk-based capital adequacy ratios from the position some years ago. This was because losses continued to be recorded while unrealized capital gains on stocks, which had compensated for losses, contracted. A surge in profits is unlikely in the current phase of adjustment and the prolonged low-interest-rate environment. Under these circumstances, banks are required to (a) improve asset quality, (b) reduce the risk involved in holding stocks, and (c) establish a high-profit generating business model as soon as possible. Completion of the third task, especially, is strongly urged in order for banks to overcome their balance-sheet problem as mentioned in (a) and (b) above and be reborn as competitive financial institutions.

2. Improving asset quality

Despite massive disposal of NPLs, the amount stayed high due to the continued emergence of new ones. For banks to overcome the NPL problem and improve asset quality, they should pay attention to loan assets which may possibly turn into NPLs by accurately assessing business conditions and viability of firms and taking appropriate measures based on this assessment so that they can prevent asset deterioration and turn the assets into nonclassified ones, in addition to the disposal of NPLs.

3. Reducing the risk involved in holding stocks

Unrealized capital gains on stocks have cushioned the decline in profits, especially for major banks in the past several years, when losses continued. Unrealized capital gains, however, are falling owing chiefly to stock price falls. Moreover, banks are statutorily required to introduce mark-to-market accounting from fiscal 2001. In view of these, banks should promptly reduce their stockholdings and thereby mitigate the risk of stock price fluctuations that could destabilize their business management.

4. Establishing a high-profit generating business model

Operations yielding low profits, if maintained or expanded, are likely to cause deterioration of the balance sheet in the medium to long term. Raising profitability is another important task which is closely related to the balance-sheet problem. To improve profitability, banks should (a) cut general and administrative expenses in the short run and (b) secure appropriate interest margins on lending and expand net fees and commissions in the medium term.

Since the 1990s, lending operations have been recording losses on a basis that includes general and administrative expenses and the cost of NPL disposal. In this situation, banks are expected to secure interest margins that appropriately reflect the credit risk involved. To do so, banks should (a) refine the measurement of credit cost, (b) strengthen the function in regard to the assessment of firms' viability and the risks involved, and (c) promote project financing and other new forms of lending. Moreover, banks should strive for enhanced management efficiency considering the huge cost burden of disposing of NPLs, even given the progress in curbing general and administrative expenses, especially personnel expenses.

5. Direction of the reform and establishing a proper environment

a. Direction of the reform

The task of establishing a high-profit generating business model mentioned above is especially important for major banks that aim to carry out a wide range of international operations as global financial institutions. In order to gain more credibility in markets at home and abroad and to strengthen their competitiveness, these banks are required to firmly and expeditiously establish measures to improve profitability.

Measures to raise banks' profitability include (a) improvement of interest margins, (b) cuts in general and administrative expenses, and (c) reduction of non-performing assets. Effects of these measures, however, are limited if separately implemented, given the current harsh environment for banking business. It is thus necessary for banks to select and combine measures that suit their business model and management strategy.

b. Establishing a proper environment

The tasks mentioned above are ones that should be handled by banks themselves. These tasks are, however, closely related to the structure of Japan's economy. Therefore, a proper environment should be established at the same time, for example, through implementation of various measures in a harmonious manner, to increase the effectiveness of banks' efforts.

For example, to completely solve the asset quality problem, corporate revitalization is indispensable.

To successfully reduce the risk involved in holding stocks, it is necessary to promote understanding by stock issuing firms and foster individual investors as final purchasers of stocks sold by banks.

Moreover, to gain an appropriate level of profits through financial intermediary operations in a market where the market mechanism and its discipline operate fully, a review of the presence of public financial institutions and their operations cannot be avoided.

These points are also mentioned in the "Structural Reform of the Japanese Economy: Basic Policies for Macroeconomic Management," released by the government. Prompt implementation of these measures is eagerly awaited.

I. Profits and Balance-Sheet Developments of Japanese Banks[1] in Fiscal 2000

A. Overview

Operating profits from core business,[2] which represent the fundamental profitability of banks,

1. Refers to all banks at end-March 2001; nine city banks, three long-term credit banks, six trust banks (excluding foreign-owned trust banks and trust banks that started business after October 1993), 64 member banks of the Regional Banks Association of Japan (hereafter, regional banks), and 57 member banks of the Second Association of Regional Banks (hereafter, regional banks II). Unless otherwise noted, figures in this report are not on a consolidated basis and exclude data for the following banks: Shinsei Bank (formerly Long-Term Credit Bank of Japan), Aozora Bank (formerly Nippon Credit Bank), Tokyo Star Bank (formerly Tokyo Sowa Bank), the former Niigata Chuo Bank, and Kansai Sawayaka Bank (formerly Kofuku Bank).

2. In order to gauge the fundamental profitability of banks, it is appropriate to exclude the impact of net bond-related gains/losses, net transfers to allowance for possible loan losses (APLL), and loan write-offs in trust accounts. Therefore, in this report, operating profits from core business, which is about equivalent to the sum of the profits/losses generated from interest-earning assets and those from fees and commissions minus general and administrative expenses, are used to represent the fundamental profitability of banks. They are derived from the following formula:

Operating profits from core business = operating profits – net bond-related gains/losses + APLL + loan write-offs in trust accounts.

Net bond-related gains/losses = gains on bond-selling operations + gains from redemption of bonds – losses from bond-selling operations – losses from redemption of bonds – write-offs of bonds.

declined slightly to 4.7 trillion yen in fiscal 2000 from 5.0 trillion yen in fiscal 1999, although maintaining the level of recent years. Disposal of NPLs continued to exceed operating profits from core business at 6.1 trillion yen, the same as the amount recorded in the previous fiscal year. Small net losses were recorded for the first time in two years. This resulted mainly from a decline in net stock-related gains[3] due to a fall in stock prices (Chart 1).

The average risk-based capital adequacy ratio of internationally active banks fell compared with the ratio of the previous year, to 11.03 percent (weighted average; on a consolidated basis) at end-March 2001 due to net losses and increased risk-adjusted assets.

B. Profits

1. Operating profits from core business

Operating profits from core business declined slightly to 4.7 trillion yen in fiscal 2000 from 5.0 trillion yen in fiscal 1999, as mentioned above. This resulted from the following. Net interest income on domestic operations[4]—which accounts for a larger proportion of income—decreased, due to a fall in the annual average balance of lending and a steep fall in yields on securities. However, this offset an increase in net fees and commissions from domestic operations and a continued decline in general and administrative expenses (charts 2 and 3).

a. Net interest income on domestic operations

Net interest income on domestic operations decreased. This resulted from the contraction in interest margins despite an increase in annual average balance of interest-earning assets.

The annual average balance of interest-earning assets for domestic operations as a whole increased year on year to 614 trillion yen in fiscal 2000 from 604 trillion yen in fiscal 1999. This was because the drop in lending was more than offset by the growth in securities.

Lending, which accounts for the greater part of interest-earning assets for domestic operations, continued to fall from the previous year due to firms' weak demand for funds, which reflected the deterioration in the economy and the continued restructuring of balance sheets by squeezing interest-bearing liabilities. Lending to individuals, however, was firm.

Securities increased due to growth in bond purchases, especially in Japanese government securities (JGSs) including treasury bills (TBs) and financing bills (FBs), showing that the increased portion of excess funds was mainly invested in bonds.[5] The amount outstanding of stocks held dropped to 42 trillion yen (at acquisition cost; at fiscal year-end) in fiscal 2000 from 44 trillion yen in fiscal 1999, primarily due to unwinding of cross-shareholdings (Chart 4).

The overall interest margin on domestic operations in banking accounts declined to 1.45 percentage points in fiscal 2000 from 1.54 percentage points in fiscal 1999. This was attributable to the substantial fall in interest margin on securities, i.e., the difference between yields on securities and interest rates on deposits. The fall reflected redemption of high interest-bearing bonds and the application of the amortized cost method in accounting.[6] Interest margin on lending, i.e., the difference between yields on lending and interest rates on deposits, remained more or less unchanged (Chart 5).

b. Net fees and commissions on domestic operations

Net fees and commissions[7] on domestic operations rose 5.0 percent year on year owing to the increase in fees and commissions from foreign exchange-related operations, sales of investment trusts, and coordination of syndicated loans. As a result, the ratios of net fees and commissions to gross operating profits on domestic operations increased in fiscal 2000 from the previous fiscal year. The ratio rose to 16.1 percent

3. Net stock-related gains/losses = gains on stock-selling operations – losses from stock-selling operations – stock write-offs.
4. Net interest income from loan trusts and that from jointly managed money trusts with agreements to compensate for losses on principal are usually posted as net fees and commissions in trust accounts. However, they are included here in net interest income, taking into account the characteristics of transactions that generate income. Loan write-offs in trust accounts, equivalent to the amount of the disposal of NPLs, are not deducted in calculating the figure.
5. The following two factors also contributed to the increase in securities. First, the new accounting standard requires securities purchased under repurchase agreements to be recorded as assets and as liabilities, increasing the amount of securities outstanding. All banks are statutorily required to introduce the new standard from fiscal 2001. However, a one-year transitional period was set so that the introduction of the new standard was optional in fiscal 2000. Second, due to the introduction of real-time gross settlement (RTGS) from 2001, demand for collateral in RTGS transactions contributed to the increase in the holding of TBs and FBs.
6. Since fiscal 2000, banks purchasing bonds at over-par have been obliged to amortize the amount exceeding the face value of the bonds evenly until redemption annually, causing a reduction in interest income on securities.
7. Net interest income on loan trusts and that from jointly managed money trusts with agreements to compensate for losses on principal are excluded here, and included in net interest income on domestic operations. For details, see Footnote 4.

from 14.7 percent for city banks, a long-term credit bank, and trust banks, and to 7.6 percent from 7.0 percent for regional banks and regional banks II.

c. General and administrative expenses

General and administrative expenses declined 1.1 percent year on year. This was because personnel expenses decreased for the fifth consecutive year, more than offsetting the moderate rise in premises and equipment expenses (Chart 6).

The annual decline in personnel expenses was 2.6 percent, reflecting a reduction in new job offers within the number of retirees and cuts in salaries and bonuses. The number of employees was 327,000 at end-March 2001, down from 345,000 at end-March 2000.[8] Premises and equipment expenses rose 0.5 percent from fiscal 1999. This resulted mainly from the increase in the cost of business outsourcing, causing a shift of personnel expenses to premises and equipment expenses that outweighed the continued reduction in cost by consolidating branches. The number of branches decreased to 15,300 at end-March 2001, down from 15,400 at end-March 2000 (Chart 7).

2. Net bond-related gains/losses

Net bond-related gains were recorded for the first time in two years, with gains of 0.4 trillion yen recorded in fiscal 2000 compared with losses of 0.1 trillion yen in fiscal 1999. This was because banks sold bonds to realize capital gains, given the decline in long-term interest rates in the second half of fiscal 2000 (Chart 8).

3. Recurring profits/losses and net income/losses

a. Net stock-related gains/losses

Net stock-related gains plummeted year on year to 1.5 trillion yen in fiscal 2000 from 3.8 trillion yen. This was primarily because gains on stock-selling operations plunged to less than half of those in the previous fiscal year, to 2.6 trillion yen from 6.0 trillion yen, due to the weakening of stock prices.

From fiscal 2000, impairment procedure, i.e., write-offs, was required for stocks whose market value dropped by more than a certain percentage[9] from their cost of acquisition, after taking into account the degree of probability of price recovery and the effects of the actual losses (Chart 9).

b. Disposal of NPLs

Disposal of NPLs[10] recorded 6.1 trillion yen in fiscal 2000, exceeding operating profits from core business for the seventh consecutive year. This amount was the same as that in fiscal 1999 and well above the projections in November 2000 when the interim (semiannual) book closings of September 2000 were released.[11]

The continued massive disposal of NPLs reflected the following three factors: (1) the prolonged weakness and deterioration in firms' business performance amid the worsening of the economy; (2) the continued decline in the value of collateral reflecting land price falls; and (3) more stringent asset categorization by banks in response to the situation in (1) and (2).

Sources for disposal of NPLs have been operating profits from core business and unrealized capital gains on stocks in past years. However, gains from selling stocks were pushed down in fiscal 2000 compared with the previous year due to the decrease in unrealized capital gains on stocks caused by weak stock prices (Chart 10).

c. Recurring profits/losses and net losses

Recurring profits declined sharply to 0.5 trillion yen in fiscal 2000 from 2.4 trillion yen in fiscal 1999. This was attributable to the fact that although the disposal of NPLs was the same size as in fiscal 1999, there was a drop in net stock-related gains associated with the disposal. Net losses were recorded for the first time in two years, amounting to 0.2 trillion yen in fiscal 2000 against net income of 0.9 trillion yen in fiscal 1999. This was because recurring profits fell steeply and retirement benefit expenses were recorded as extraordinary losses.

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8. Excludes temporary workers, contract employees, and those seconded to other organizations.
9. The Japanese Institute of Certified Public Accountants (JICPA), in its "Practical Guidelines Concerning Accounting for Financial Instruments," requires firms to write off stocks whose market value has fallen by 50 percent or more from their acquisition cost, unless there is a reasonable cause for the decline. Write-offs are also required even if the fall is less than 50 percent and 30 percent or more, if price recovery is unlikely. The Financial Services Agency's (FSA's) "Financial Inspection Manual" (revised in June 2001) states that this accounting rule should be applied to financial institutions.
10. The amount of NPL disposal = APLL + loan-loss provisioning and loan write-offs (direct loan write-offs + net transfers to special loan-loss provisions (SLP) + loan write-offs in trust accounts + net transfers to allowance for possible losses on special overseas loans).
11. NPL disposal of 16 banks (city banks, one long-term credit bank, and trust banks) was projected at 2.5 trillion yen in November 2000. The actual amount, however, was 4.3 trillion yen.

The number of banks recording recurring losses and net losses in fiscal 2000 was appreciably larger than in fiscal 1999. Among all banks, 35 banks recorded recurring losses, an increase from 12 banks, and 39 banks recorded net losses, an increase from 12 banks. In addition, banks not paying out dividends on common stocks at fiscal-end 2000 increased to 21 banks from 12 banks in fiscal-end 1999.

The shortfall in reserves for retirement allowances resulting from the introduction of accounting for retirement benefits from fiscal 2000 amounted to 1.6 trillion yen, after considering the transfer of stocks to trusts in the first half of fiscal 2000. At the fiscal year-end, this was reduced by 0.4 trillion yen to 1.2 trillion yen due to amortization during the fiscal year. Additional amortization is required if the value of accumulated pension assets declines, for example, due to stock price falls (Chart 11).[12]

C. Financial Strength

1. Capital and unrealized capital gains

Japanese banks' financial strength,[13] in terms of capital bases and unrealized capital gains, weakened from a year earlier reflecting the plunge in gains on securities as of end-March 2001. Specifically, unrealized capital gains on bonds increased reflecting the decline in long-term interest rates, while those on stocks decreased considerably reflecting a fall in stock prices and sales of stocks carrying such gains. Unrealized capital gains on securities before tax reduction slid to 2.6 trillion yen at end-March 2001 from 10.8 trillion yen at end-March 2000, while those on stocks plunged to 0.8 trillion yen from 10.2 trillion yen.

Deferred tax assets[14] contracted to 7.3 trillion yen at end-March 2001 from 8.2 trillion yen at end-March 2000, still, however, accounting for about 90 percent of the accumulated earned surplus, which was 8.0 trillion yen (Chart 12).

2. Risk-based capital adequacy ratios

The consolidated risk-based capital adequacy ratios of internationally active banks[15] (weighted average) at end-March 2001 declined somewhat year on year to 11.03 percent from 11.79 percent. This was attributable to the decline in accumulated earned surplus (Tier I) and hybrid debt capital instruments (Tier II, e.g., subordinated loans), and the rise in risk-adjusted assets mainly reflecting the depreciation of the yen (Chart 13).

The nonconsolidated risk-based capital adequacy ratios of banks not internationally active (weighted average) at end-March 2000 also declined slightly to 9.65 percent year on year from 9.69 percent due to the decrease in accumulated earned surplus.

Meanwhile, the risk-based capital adequacy ratios of internationally active banks made a substantial recovery due mainly to the injection of public funds compared to mid-1998 when the stability of the financial system was challenged[16] (Chart 14).

3. Impact of the introduction of mark-to-market accounting

Mark-to-market accounting was introduced from April 2000 in accordance with the "Practical Guidelines Concerning Accounting for Financial Instruments." All banks are statutorily required to introduce this new accounting standard from fiscal

12. Additional amortization is to be completed within employees' average remaining period until retirement as difference arising from calculations.
13. The financial strength of banks is determined by the total of capital, legal reserves, earned surplus, and unrealized capital gains on securities and on real estate (the latter applies only to those banks that have revalued their landholdings). Unrealized capital gains on securities are the difference between the market value and acquisition cost; those on bonds are the difference between the market value and amortized cost; and those on real estate are the sum of the revaluation differences, deferred tax liabilities relating to the revaluation, and unrealized capital gains/losses on landholdings after revaluation. Tax is deducted from the figures for real estate capital gains. When banks acquire bonds (or any assets) at a cost higher/lower than the face value, the difference between the acquisition cost and the face value is adjusted in interest income/expenses. Amortized cost is calculated taking into account such interest income/expenses in addition to the acquisition cost (amortization and accumulation).
14. In tax-effect accounting, if loan-loss provisioning that was previously nondeductible is likely to become deductible in the near future, the amount equivalent to the expected tax reduction (tax effect) is recorded as a "deferred tax asset." Accordingly, the capital account (earned surplus) increases by the same amount. The tax effect is not realized as a tax refund but as a decrease in tax from taxable income in the future. Therefore, the expected tax effect may not be realized if actual taxable income is smaller than the deferred tax asset. With regard to this point, the JICPA released in November 1999 a report titled "Judgment on Recoverability of Deferred Tax Assets," which outlined accounting rules for deferred tax assets based on past experience. In accordance with the report, a large number of banks are subject to the rule limiting the level of deferred tax assets to within that of taxable income for five years.
15. At end-March 2001, 25 banks were subject to the international standard and 109 banks to the domestic standard.
16. A large part of deferred tax assets (reflected in the capital account as an increase in earned surplus) reflected loss carryforwards under tax-effect accounting, including those before fiscal 1997. Tax-effect accounting was introduced in fiscal 1998 when large net losses were recorded for the fiscal year due to massive disposal of NPLs. For details of tax-effect accounting, see Footnote 14.

2001.[17] In fiscal 2000, about 70 percent of all banks introduced mark-to-market accounting ahead of the statutory schedule. They included 94 banks; one city bank, one long-term credit bank, one trust bank, 54 regional banks, and 37 regional banks II.

The total capital account of the above 94 banks was 15.6 trillion yen at end-March 2001, up 1.7 trillion yen from a year earlier, before the introduction of mark-to-market accounting. This was mainly because, of 3.2 trillion yen of unrealized capital gains on other securities (gains arising from revaluation, after taking into account the tax effect), 1.9 trillion yen was recorded in the total capital account (Chart 15).[18]

II. Banks' Management Tasks

A. Banks' Management Tasks Based on the Developments in Profits and Balance Sheets of Banks in Fiscal 2000

This chapter focuses on banks' management tasks based on the developments in profits and balance sheets of banks in fiscal 2000.

Features of the developments in profits and balance sheets of banks in fiscal 2000, taking into account the environment for banking business, are listed as follows.

(1) All banks continued to record net losses, and the amount of their NPL disposal exceeded operating profits from core business for the seventh consecutive year.

Although NPL disposal progressed steadily reflecting banks' stringent loan assessment, the amount outstanding of NPLs has not yet decreased significantly.

(2) Banks' financial strength weakened, although risk-based capital adequacy ratios showed a substantial recovery from the position some years ago. This was owing to a contraction in unrealized capital gains on stocks, which had compensated for losses in the past, due mainly to a fall in stock prices.

(3) Operating profits from core business are expected to remain severe for a while. Net fees and commissions increased significantly, and cuts in general and administrative expenses continued. However, given the current economic adjustment and the prolonged low-interest-rate environment, interest income from lending and securities investment, which is the main source of banks' income, is unlikely to surge.

In this situation, banks' major management tasks in the immediate future are (1) to set out measures against credit risk, which is a fundamental risk in bank management, and against price fluctuation risk in terms of stocks, and (2) to establish a high-profit generating business model as soon as possible to overcome these risks and to strengthen competitiveness.

Each of these tasks is discussed in the following sections.

B. Improving Asset Quality

1. Massive disposal of NPLs and emergence of new NPLs

Banks have been disposing of massive amounts of NPLs. The cumulative total of NPLs from fiscal 1991 to fiscal 2000 is approximately 68 trillion yen, an annual average of about 6.8 trillion yen. More than 80 percent of these NPLs have been removed from balance sheets. Despite the massive disposal of existing NPLs, the amount outstanding of NPLs (assets disclosed under the Law concerning

17. In mark-to-market accounting, securities are divided into the following four categories and their accounting treatment is determined accordingly: (1) investment securities held for trading; (2) bonds held to maturity; (3) equity interests in subsidiaries and affiliates, including joint ventures; and (4) other investment securities. From fiscal 2001, securities under the last category (4), which accounts for the majority of securities held, will be registered as assets at market value and their gains/losses arising from revaluation will, in principle, not be recognized in the statement of income but recorded directly under the capital account, after considering the tax effect.

18. A different method of calculating the risk-based capital adequacy ratios is applied to internationally active banks and banks not active internationally. For example, only internationally active banks can add 45 percent of gains arising from revaluation of "other securities" to their Tier II capital, whereas both internationally active banks and banks not active internationally must deduct capital losses arising from revaluation from Tier I after taking into account tax-effect accounting. Under the Commercial Code, profits available for dividends are the amount of the capital account excluding capital and legal reserves (more or less equal to accumulated earned surplus). Therefore, if securities carry unrealized capital losses, the capital account will be reduced and profits available for dividends will decrease. On the other hand, if securities carry unrealized capital gains, the capital account will increase but will not change the amount of profits available for dividends because the increase in profits due to mark-to-market valuation will be deducted from the profits available for dividends. Amendment to the Banking Law in June 2001 (law for establishing laws related to "Laws for the Partial Amendment of the Commercial Code") enabled the amount of legal reserves (capital surplus plus retained surplus) that exceeds common stocks to be included for profits available for dividends. The date of enactment of this new law has not been decided.

Emergency Measures for the Reconstruction of the Functions of the Financial System; hereafter referred to as the Financial Reconstruction Law or FRL; Chart 16) has not decreased and has been more or less level in the past few years. The amount of loan assets classified under the self-assessment framework as falling into categories II to IV has shown similar movements (Chart 17).

NPLs have not decreased because new NPLs continue to emerge while existing NPLs are removed from balance sheets. NPL disposal for a year is the sum of additional losses on existing NPLs, mainly arising from their removal from balance sheets and a fall in the price of land collateral, and losses arising from emergence of new NPLs, mainly the amount of loan-loss provisioning. The persistently high level of NPLs despite massive disposal of them was attributable to the latter.

In order to reduce NPLs, it is important to improve asset quality by paying close attention to loan assets that may possibly turn into NPLs, in addition to the disposal of existing NPLs (for the definition of NPLs and details of the self-assessment framework, see Box 1 on pages 105–110).

2. Emergence of new NPLs

A number of indicative factors are analyzed below as a basis for devising countermeasures against emergence of new NPLs.

The NPL problem and deterioration in firms' business performance, as represented by excessive debts of firms, are two sides of the same coin, and the progress in the adjustment of firms' debts is closely related to the amount of emergence of new NPLs. On these grounds, the ratio of the amount outstanding of bank lending to nominal GDP for fiscal 2000 is still high compared to the stable level before the "bubble" period. The ratio peaked out in the first half of the 1990s, after a sharp increase in the "bubble" period, and it followed a moderate downward trend thereafter (Chart 18).

The higher ratio than the level during the pre-"bubble" period cannot be accounted for solely by firms' excessive debts, but implies that adjustment pressure on firms' excessive debts still remained.

Loans and Discounts Outstanding by Industry shows that the amount outstanding of bank lending almost doubled during the "bubble," mainly due to increases in lending to various industries, such as real estate, construction, nonbanks, wholesaling and retailing, and services. The amount outstanding of lending to nonbanks has decreased considerably since fiscal 1993, as banks disposed of their NPLs to *jusen* (housing loan companies) and to affiliate nonbanks, thereby greatly reducing the amount of their excessive debts. On the contrary, the persistently high level of the amount outstanding of lending to other industries may indicate that adjustments in firms' excessive debts in those industries have not been sufficient (Chart 19).

The amount of risk management loans by industry at the end of March 2001 shows that in the real estate, services, wholesaling and retailing, and construction industries risk management loans account for a much higher proportion of all loans than does the amount outstanding of total lending in these industries (Chart 20).

Developments in firms' balance sheets also suggest that adjustments in firms' excessive debts have not been sufficient. Due to the expansion of borrowing and investment during the "bubble," many firms, especially small and medium-sized firms in nonmanufacturing industries such as construction, real estate, hotels and leisure, and retailing, are faced with the problem of excessive debts, which are NPLs from the viewpoint of banks (Chart 21). These firms may be caught in a vicious cycle of weak financial condition and delayed improvement in profitability: profitability tends to be weak for firms with low capital or high net debts due to delay in coping with changes in the business environment (Chart 22).[19] Banks are expected to continue assessing the conditions of these firms and to take appropriate measures when necessary.

Factors behind the creation of new NPLs are difficult to specify as they could be the economic developments and various other factors affecting borrower firms, such as firms' excessive debts. Looking at the problem of NPLs in terms of banks' practice of managing asset quality and risk, the factors can be identified roughly as follows: (1) the amount of newly emerging NPLs that can be estimated using the information on the quality of loan assets such as the distribution of assets with different internal rates,

19. For details, see Eiji Maeda, Masahiro Higo, and Kenji Nishizaki, "Wagakuni no Keizaikouzo Chousei ni Tsuite no Ichi Kousatsu (A Study on Japan's Economic Restructuring)," in the July 2001 issue of the *Nippon Ginko Chousa Geppo* (Bank of Japan Monthly Bulletin).

and assuming the empirical probability of migration in the past; and (2) the difference between the actual amount of new NPLs and the estimated amount calculated in (1). Empirically, loans to "normal" borrowers have a certain risk of turning into NPLs, and loans to borrowers that "need attention" are more likely to turn into NPLs. Debtor categorization and loan-loss provisioning based on the self-assessment of assets and internal ratings are conducted to estimate the amount of possible loan losses in order to take preemptive measures.

It is important to prevent deterioration of loans to borrowers that "need attention" and to make efforts to turn these assets into sound ones so that banks can overcome the NPL problem and improve their asset quality.[20] From a practical viewpoint, it is very important to take appropriate measures with regard to each firm in the category of borrowers that "need attention," based on an accurate assessment of their business conditions and the possibility of restoring sound management. In the current economic adjustment phase, new NPLs are likely to emerge at a faster rate than in the past. Thus, it will be important for banks to closely monitor the business conditions of borrower firms and to take preemptive countermeasures.

APLL to borrowers that "need attention" and to "normal" borrowers is in principle made in accordance with the historical loan-loss ratio[21] over a certain period, and the amount of APLL is increasing every year. However, the amount of SLP (net transfers made when loans deteriorate, i.e., fall into the category of loans to borrowers "in danger of bankruptcy" or "bankrupt and effectively bankrupt" borrowers) is exceeding the amount of APLL each fiscal year. This indicates that the deterioration of loan assets has been progressing faster than expected (Chart 23).

C. Reducing the Risk Involved in Holding Stocks

Banks, especially major banks, hold large amounts of stocks, and unrealized capital gains on stocks have been acting as a buffer against the decline in banks' profits by serving as one of the sources of funds for NPL disposal. However, unrealized capital gains plunged at the end of March 2001 due to a fall in stock prices and an increase in the book value of stocks resulting from realization of capital gains (Chart 24).

From fiscal 2001, mark-to-market accounting has been introduced in all banks, and banks' unrealized capital gains/losses on securities are directly reflected in the gains/losses in the capital account. Thus, the management of banks' operations is now exposed to a large risk because the book value of stocks is subject to price fluctuation risk (Chart 25). Major banks hold stocks whose value amounts to as much as 1.6 times the total of their capital account (while the figure is about 50 percent of capital account for regional banks and regional banks II). In view of the risk mentioned above, they are drastically reducing their stockholdings so that within the next few years they can contain the amount within their capital.

Cross-shareholding of stocks between banks and firms is an aspect of business culture that has developed through business transactions over a long period in Japan. Therefore, it may not be appropriate to discuss this subject solely from the viewpoint of banks' risk management. Nonetheless, given the current decline in unrealized capital gains on stocks, reduction of price fluctuation risk associated with stocks is indispensable for sound management of banks' operations. Banks are expected to be expeditious in cutting the amount of their stockholdings to their target levels in line with the implementation of the government's measures.

D. Establishing a High-Profit Generating Business Model

Banks are expected to establish a high-profit generating business model besides solving balance-sheet problems related to NPLs and stockholdings. Operations recording losses or yielding low profits, if maintained or expanded, are likely to cause deterioration of banks' balance sheets in the medium to long term by destroying the balance of risk (cost) and return (profits). Thus, raising profitability is another important task closely related to the balance-sheet problem.

20. Loans to borrowers that "need attention" have a higher credit risk than those to "normal" borrowers. Of the former, only loans to borrowers requiring "special attention" are defined as NPLs. Other loan assets may generate profits as long as adequate interest appropriate corresponding to credit risk is secured.

21. Historical loan loss is defined as the deterioration of loans to "normal" borrowers or borrowers that "need attention" to loans to borrowers "in danger of bankruptcy" or "bankrupt and effectively bankrupt" borrowers.

Specifically, banks should (1) cut general and administrative expenses in the short term and (2) expand net fees and commissions by providing new financial services and secure appropriate interest margins on lending in the medium term.

1. Securing appropriate interest margins on lending

a. Profitability of lending operations

As previously mentioned, banks' lending operations continued to record losses on the whole. This means that interest margins on lending were insufficient to cover general and administrative expenses as well as credit cost (cost realized from the disposal of NPLs). A comparison of Japanese and U.S. banks in regard to the relation between interest margins on lending (on a basis of gross interest income before taking into account general and administrative expenses) and credit cost reveals that (1) the level of interest margins of Japanese banks is significantly lower than that of U.S. banks and (2) taking into account the credit cost, the gap has grown much larger, especially since the latter half of the 1990s (charts 26 and 27).

b. Developments in interest margins on lending

Interest margins on lending since the 1980s have generally followed a moderate downward trend amid financial liberalization, although they increased slightly during the "bubble" period in line with an increase in firms' strong demand for funds, which reflected a rise in the expected economic growth rate.

A closer look at developments in interest margins by dividing them into the fund-raising spread (the 3-month CD rate minus the average rate on fund-raising) and the lending spread (the lending rate minus the 3-month CD rate)—with the market interest rate, represented by the 3-month CD rate, as a benchmark—reveals the following. First, throughout the 1980s, interest margins were determined mainly based on the fund-raising spread that worked as a rent under regulated interest rates. And second, from the 1990s, interest margins were determined by the lending spread, as the fund-raising spread diminished or became negative with the disappearance of such a rent as a result of the progress in liberalization of interest rates on deposits and the subsequent prevalence of a low-interest-rate environment (charts 28 and 29).

The fact that lending operations continue to record losses is partly attributable to the concentration of the massive disposal of NPLs as a temporary factor. But more basically, it is attributable to low interest margins on lending that are insufficient to cover the credit cost of lending, i.e., expected losses from lending, in recent years.

A simulation of credit cost (expected rate of losses)[22] by firms' credit ratings using the loan-loss ratio calculated based on certain assumptions and the probability of corporate bond default reveals that for low-rated firms (firms generally categorized as borrowers that are "bankrupt or effectively bankrupt," "in danger of bankruptcy," or "need attention" under the self-assessment framework) credit cost is extremely high and does not seem to be fully covered by the current level of banks' interest margins on lending. Also, it seems that the lower the credit rating of a firm, the wider the spread between its corporate bond yield and its lending rate. Although such a simple comparison of interest margins on lending and corporate bond yields may not be appropriate, the result indicates that interest rate arbitration between lending and corporate bond markets is not fully functioning. For these markets to function efficiently as firms' fund-raising markets, interest margins on lending must be set so as to properly reflect credit cost (charts 30 and 31).[23] To this end, banks should refine the measurement of credit cost and strengthen the function of assessing firms' viability and the risks involved. Furthermore, banks should diversify their financial intermediary operations by promoting new forms of lending such as project financing and nonrecourse loans.

Attention should be paid to the fact that nonperforming assets remaining on banks' balance sheets squeeze interest margins on lending excluding general and administrative expenses and credit cost. According to a simulation based on the assumption that loans to borrowers "in danger of bankruptcy," and "bankrupt and effectively bankrupt" borrowers are nonperforming assets, such nonperforming

22. The probability of corporate bond default is calculated using the average default rate by rating released by Rating and Investment Information, Inc., and the loan-loss ratio is calculated from data disclosed by each bank on loans secured by collateral.

23. If lending rates are intentionally set lower than the level which appropriately reflects firms' credit risk (credit cost), there are side effects as follows: (1) firms may lose the incentive to raise funds in the corporate bond market and (2) large credit risk may be concentrated in the banking sector through an increase in lending.

assets have the effect of lowering interest margins on lending excluding general and administrative expenses and credit cost by about 0.1 percentage point (Chart 32).

2. Promoting reduction in general and administrative expenses

Banks have been cutting general and administrative expenses significantly in the past 20 years as one means of raising their profitability. This is well evidenced by the decline in the ratio of general and administrative expenses to gross profits or the annual average balance of interest-earning assets. Even an increase in expenses such as investment in IT has not increased this ratio, thanks to the expansion of assets (Chart 33). Since the mid-1990s, cost-cutting efforts have intensified, particularly in personnel expenses (Chart 34).

Analysis of developments in general and administrative expenses by type of bank shows that all types of banks have reduced their expenses by about 10 percent from their peak, although the reduction by city banks is slightly larger than that by regional banks (Chart 35).

A comparison of the expense ratios of banks with those of nonfinancial companies reveals the following. First, the level of the ratio of general and administrative expenses to gross profits has remained relatively low at banks. Second, however, if the realized credit cost as the cost of lending operations is included in banks' expenses, the ratio has been rising significantly since the mid-1990s. And third, although banks' return on equity (ROE) on the basis of net income for the fiscal year was more or less the same as that of nonfinancial companies in the 1980s, it plunged in the latter half of the 1990s due to a substantial increase in NPL disposal (Chart 36).

A comparison of the expense ratio of Japanese and U.S. banks indicates that on average the ratio is slightly higher for Japanese banks. In the case of U.S. banks with large assets, however, the ratio is not so much lower than for Japanese city banks, partly because of expansion in the strategic IT-related investment of U.S. large banks (Chart 37).

Regarding expense management, U.S. banks did not slash expenses lower than the previous year when they faced NPL problems during the late 1980s to early 1990s. This seems to mainly reflect the fact that (1) the magnitude of cost required for NPL disposal in proportion to profits was far smaller than for Japanese banks and (2) U.S. banks implemented forward-looking business restructuring simultaneously with the NPL disposal (Chart 38).[24]

As previously mentioned, Japanese banks have been recording year-on-year net declines in general and administrative expenses in the past several years. When realized credit cost is included, however, Japanese banks have shown marked inefficiency in recent years in their expense management compared to nonfinancial companies and U.S. banks. It may not be totally appropriate to evaluate banks' expense management efficiency by comparing it with that of nonfinancial companies, and opinions may differ on the extent to which the expanded credit cost should be covered by reductions in expenses. It is, however, important to start by implementing drastic cuts in expenses when establishing a business model that generates high profits.

E. Direction of the Reform and Establishing a Proper Environment

1. Direction of the reform

The management tasks discussed in the preceding sections have to be addressed by every bank, but they are especially pressing issues for major banks, which hold a large amount of stocks relative to their capital and are burdened with a huge amount of costs arising from NPL disposal relative to their profits.

Many major banks are aiming to carry out a wide range of international operations as global financial institutions. In order to expand business operations gaining more credibility in markets at home and abroad and strengthening competitiveness, these banks are required to expeditiously establish persuasive scenarios for achieving profitability and implement them successfully.

It is the role of financial institutions' management to provide the direction of the reform, and reform plans have already been announced by each financial institution. In this section, "capital efficiency" ("return on capital" minus "capital cost"),

24. Expansion of noninterest income is one of the outcomes of business restructuring implemented by U.S. banks. The ratio of noninterest income, which consists mainly of fees and commissions (which have a slightly broader definition than "net fees and commissions"), to gross profits in recent years has now risen to over 40 percent from about 30 percent in 1990. The same ratio for Japanese banks is following an uptrend but has not risen beyond around 25 percent; the ratio increased to 26.2 percent in fiscal 2000 from 17.9 percent in fiscal 1995. Noninterest income is expected to help raise the profitability of Japanese banks in the future.

which reflects investors' expected rate of return, is employed as one of the yardsticks in establishing a high-profit generating business model. And combinations of measures are presented that may be taken by banks in implementing management reform. There are roughly three options to raise capital efficiency: (1) increasing profits by expanding interest margins on lending, reducing general and administrative expenses, and business restructuring to strengthen lucrative business; (2) redemption of treasury stocks by liquidating assets that generate losses or low profits; and (3) squeezing liabilities (Chart 39).

Box 2 on page 111 is a simulation based on the above three options and shows the magnitude of adjustment pressure required to raise banks' capital efficiency. Specifically, the adequacy of banks' return on capital relative to capital cost (investors' expected rate of return), calculated from the average capital cost of shareholders of firms in all industries other than banking, is considered to indicate the size of the adjustment pressure (for details, see Box 2).

It should be noted that the results are just for reference because capital efficiency may be calculated in other ways and the simulation is simpler than most real-life cases. The results, however, show that all three options require a tremendous degree of adjustment and thus have limits to their feasibility if separately implemented. Combining the three options, therefore, seems to be the only way to raise capital efficiency unless the environment for banking business improves dramatically in the immediate future.[25] Each bank is expected to select and combine realistic measures that suit the bank's business operations and management strategy and show a more specific and persuasive scenario for establishing a high-profit generating business model.

2. Establishing a proper environment

The management tasks mentioned above are ones that should be handled by banks themselves. These tasks are, however, closely related to the structure of Japan's economy. Individual efforts by each financial institution alone may not produce sufficient results and may even amplify the adjustment cost of the economy as a whole. Moreover, the way these management tasks are handled may to a considerable extent affect the future course and framework of the financial system as a whole. It is, therefore, desirable that various relevant measures should be implemented in a harmonious manner, based on a comprehensive vision, to make banks' initiatives in the financial sector more effective in relation to economic policy management.

For example, corporate revitalization is indispensable for solving the NPL problem, because the NPL problem and the problem of firms' excessive debt burden and low profitability are two sides of the same coin. Financial conditions of firms burdened with huge debt and suffering from bad business performance will not improve at all if banks only secure the soundness of their balance sheets through, for example, loan-loss provisioning, and this will not lead to a positive momentum in economic activity. Banks may expand the opportunity to raise profits through corporate revitalization and the resultant management efficiency, because only then can banks secure sufficient interest margins that reflect credit risk and provide new financial services. In the case of nonviable firms, their human and material resources should be utilized to generate a positive cycle in the economy by shifting them to areas of higher profitability.

Banks' cross-shareholdings should be unwound expeditiously to reduce management risk. To do so smoothly, however, it is necessary that banks share the understanding of this need with stock issuing firms and foster individual investors (including investment trusts and pensions) as final purchasers of stocks sold by banks.

In order to improve the profitability of lending operations and diversify business operations, banks should refine the method of setting interest margins on lending so that they appropriately reflect credit risk and should strengthen their assessment of firms' viability. In Japan, banks have not yet gained sufficient understanding from firms of the framework for setting interest margins on lending to reflect credit risk. This is because realized credit risk had long been very low until the early 1990s. Firms' understanding, however, is expected to deepen in the

25. Box 2 shows the results of two cases on the assumption that NPL disposal reaches an amount (1) almost equivalent to that in fiscal 1999 and (2) about half as much as in fiscal 1999. The two cases show that if the amount of NPL disposal decreases in the future, profits will increase accordingly and lead to a rise in return on capital, thereby mitigating the degree of adjustment under each measure. A bank aiming for a higher return on capital than the one (calculated from the average of investors' expected rate of return of firms in industries other than banking for fiscal 1999) assumed in the analysis would have to increase its profitability more.

future, if both lending rates and corporate bond yields are formulated to reflect credit risk so that firms are able to raise funds either through loans from banks or directly through the financial market at rates that reflect the credit risk. Appropriate setting of interest margins on lending will not only benefit banks by allowing them to secure a strong basic source of income but also contribute to the smooth functioning of the financial markets including the bond market through the interest rate mechanism. If both the direct and indirect financial markets strengthen each others' intermediary function, this will also help to stabilize the economy (Chart 40).

Furthermore, it is important to review the presence of public financial institutions and whether their operations are essential to ensure that an appropriate level of profits can be obtained through financial intermediary operations in a market where the market mechanism based on risk and return and its discipline operate fully (Chart 41).

These points are also mentioned in the solid policy framework "Structural Reform of the Japanese Economy: Basic Policies for Macroeconomic Management" decided in late June 2001 by the government. Prompt implementation of these measures is eagerly awaited.

Chart 1
Selected Profit/Loss Items

tril. yen

FY	1997	98	99	2000
Operating profits from core business	4.7	4.8	5.0	4.7
Net bond-related gains/losses	0.7	0.9	–0.1	0.4
Net transfers to APLL (A)	–0.1	–1.6	–0.1	–0.3
Operating profits	5.1	3.8	4.6	4.6
Net stock-related gains/losses	2.7	0.8	3.8	1.5
Loan-loss provisioning and loan write-offs (B)[1]	–12.3	–12.0	–6.0	–5.8
Recurring profits/losses	–4.7	–7.2	2.4	0.5
Net income/losses	–4.3	–4.4	0.9	–0.2
Disposal of NPLs (A + B)	–12.4	–13.6	–6.1	–6.1

[Reference] Developments in the Financial Markets (End-March)

Nikkei 225 Stock Average (yen)	16,527	15,836	20,337	12,999
10-year government bond yields (%)	1.876	1.745	1.770	1.275
Foreign exchange rate (yen per U.S. dollar)	133.39	119.99	105.29	125.27

Note: *1.* Loan-loss provisioning and loan write-offs = loan write-offs (direct write-offs) + net transfers to special loan-loss provisions + loan write-offs in trust accounts + net transfers to the APLL on special overseas loans.

Chart 2
Total Operating Profits and Operating Profits from Core Business

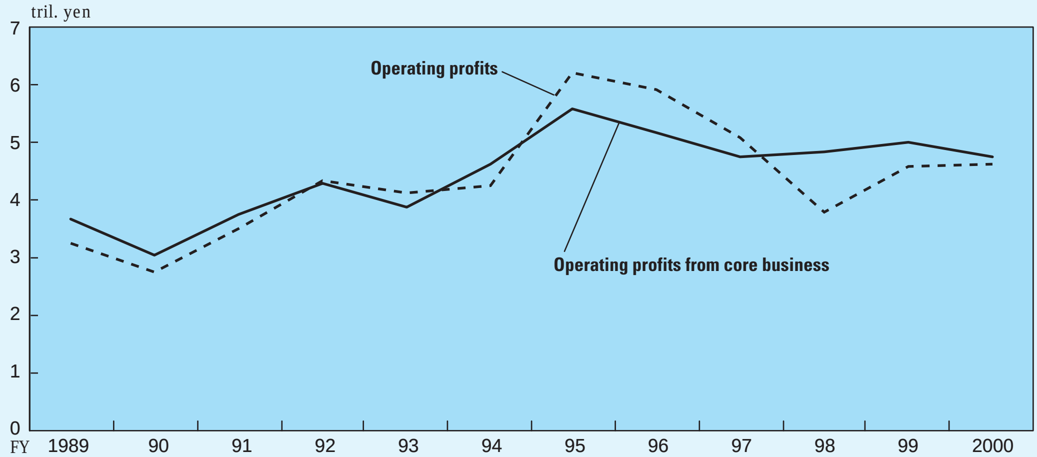
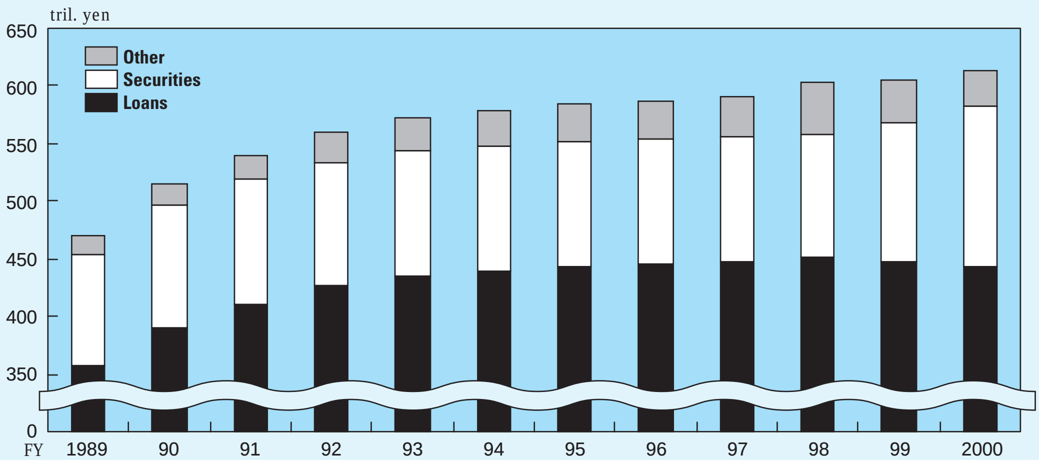


Chart 3
Breakdown of Operating Profits from Core Business

tril. yen

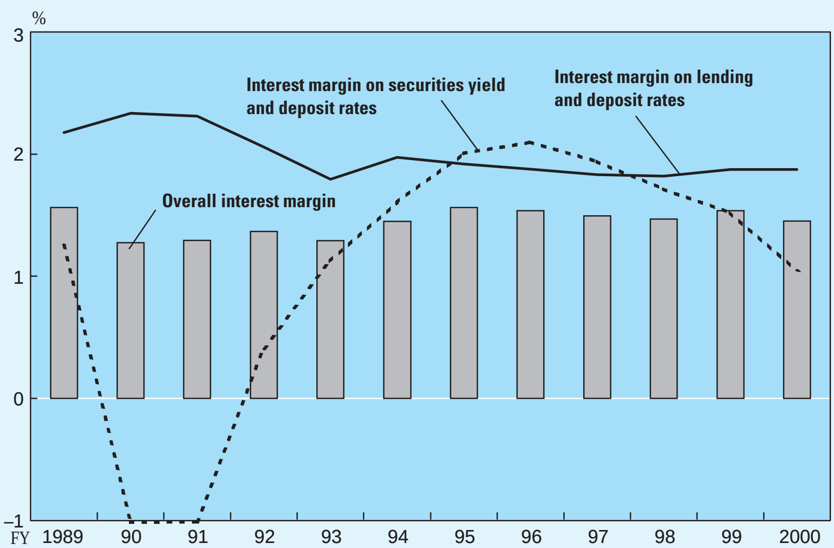
FY	1999	2000	y/y % chg.	Contribution (%)
Operating profits from core business	5.0	4.7	–5.6	—
Gross operating profits on domestic operations	10.9	10.5	–3.6	–7.7
Net interest income	9.6	9.1	–4.7	–9.0
Net fees and commissions	1.2	1.3	+5.0	+1.2
Gross operating profits on international operations	1.2	1.3	+2.4	+0.6
General and administrative expenses	7.1	7.0	–1.1	+1.6

Chart 4
Interest-Earning Assets for Domestic Operations[1]



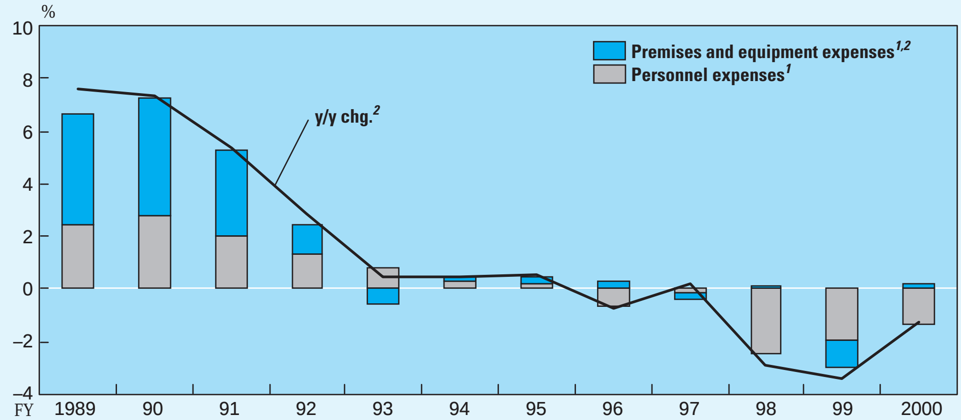
Note: *1.* Annual average balance; total of banking and trust accounts.

Chart 5
Overall Interest Margin[1]



Note: *1.* Domestic operations; banking accounts.

Chart 6
General and Administrative Expenses



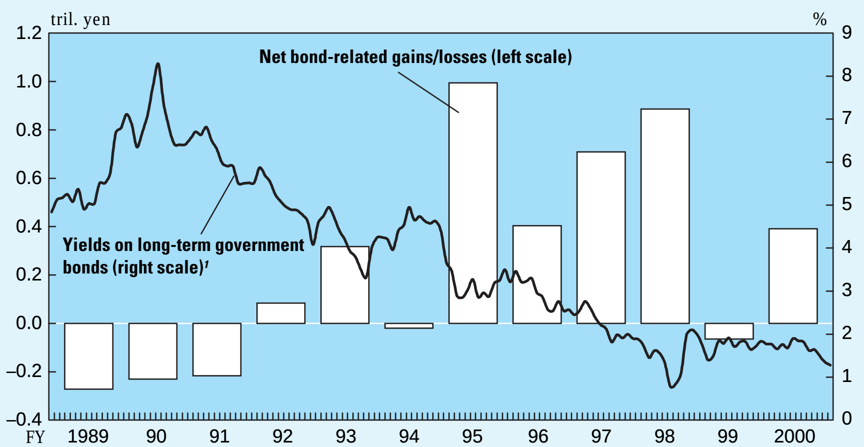
Notes: *1.* Contribution to changes in general and administrative expenses to the previous year.
2. Excludes deposit insurance premium.

Chart 7
Number of Employees and Branches

FY-end

	Peak	1999	2000	y/y % chg.	% chg. from peak
Employees (thous.)	414 (1993)	345	327	–5.1	–20.9
Branches (thous.)	16.1 (1994)	15.4	15.3	–1.0	–4.9

Chart 8
Net Bond-Related Gains/Losses



Note: *1.* Yields on 10-year newly issued bonds. For data before November 1998, yields on bonds with the longest remaining maturity.

Chart 9
Net Stock-Related Gains/Losses

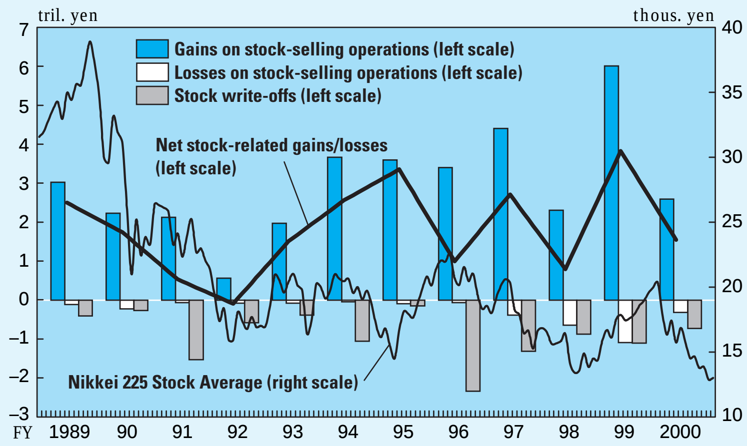


Chart 10
Disposal of NPLs and Profits

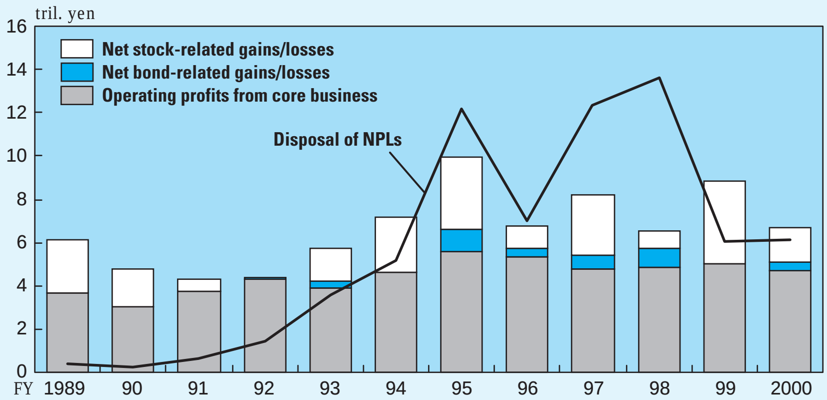
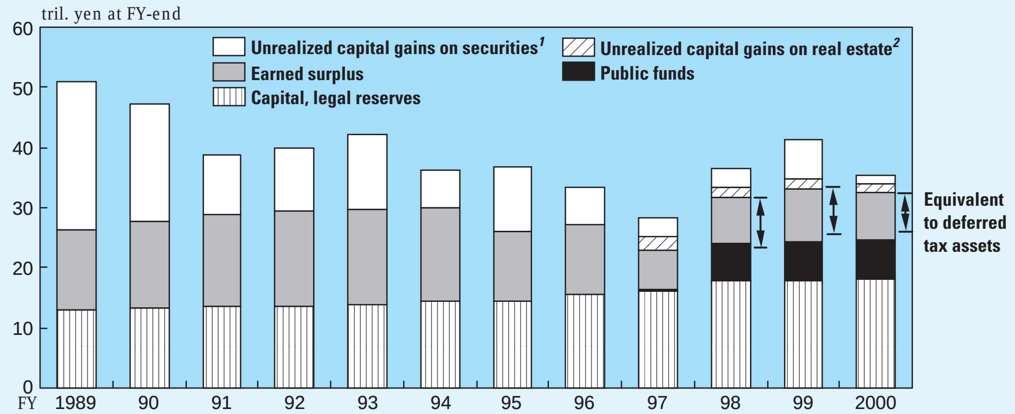


Chart 11
Settlement of Accounts by Type of Bank for Fiscal 2000

10 bil. yen; number of banks

	City banks, long-term credit bank, and trust banks	Fiscal 1999	Regional banks	Fiscal 1999	Regional banks II	Fiscal 1999
Operating profits from core business	312	327	124	135	36	39
Operating profits	302	298	124	123	35	35
Net stock-related gains/losses	141	351	14	26	–1	4
Recurring profits	40	191	11	41	–6	4
Net income/loss	1	76	–6	14	–11	1
Of which: Number of banks reporting net losses	7	1	14	5	18	6
Disposal of NPLs	428	450	133	117	48	39

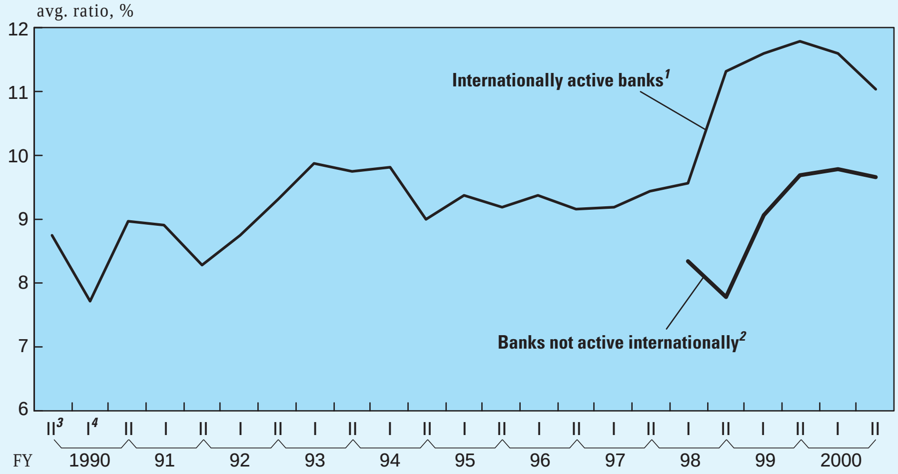
Chart 12
Banks' Financial Strength



Notes: *1.* Figures are after tax deduction.
2. For banks that adopted land revaluation after fiscal 1997.

Chart 13

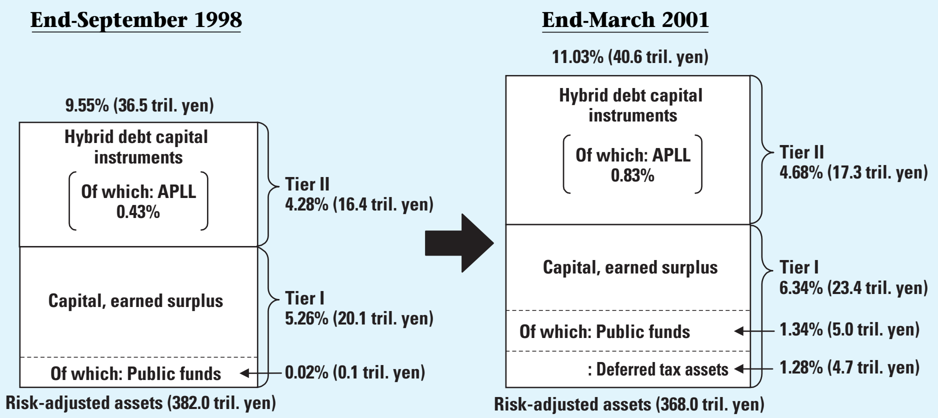
Average Risk-Based Capital Adequacy Ratios



Notes: *1.* Data are for banks subject to the international standard at end-March 2000. Consolidated basis.
2. Data are for banks subject to the domestic standard at the end of each accounting period. Nonconsolidated basis.
3. End of the fiscal year (March).
4. End of the semiannual accounting period (September).

Chart 14

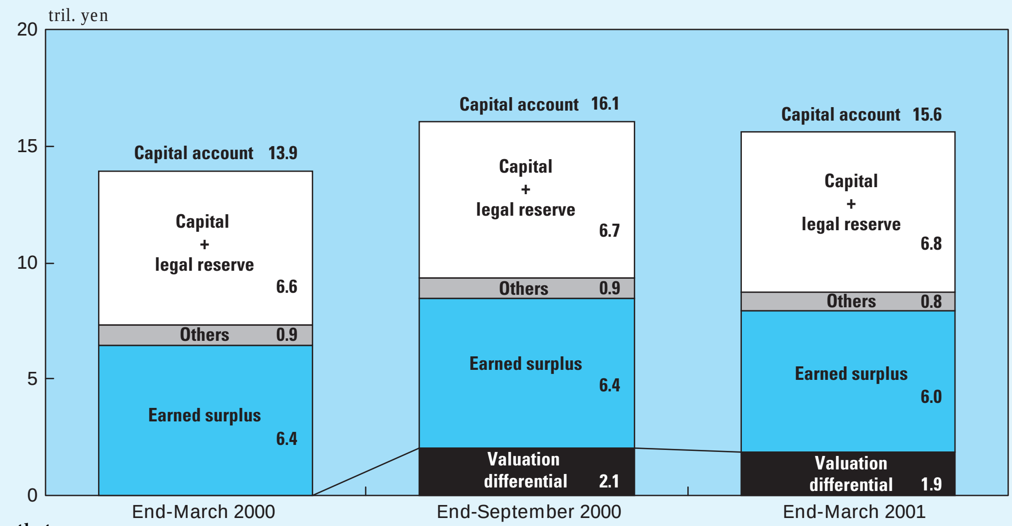
Risk-Based Capital Adequacy Ratios of Internationally Active Banks[1]



Note: *1.* Percentage figures indicate the ratio to risk-adjusted assets. Figures in parentheses indicate the amounts outstanding.

Chart 15

Changes in Capital Accounts for Banks Introducing Mark-to-Market Accounting before the Statutory Schedule



		End-March 2000	End-September 2000	End-March 2001
Unrealized capital gains on securities	Banks that introduced mark-to-market accounting	(n.a.)	(3.5 tril. yen)	(3.2 tril. yen)
	All banks	(n.a.)	(5.0 tril. yen)	(2.4 tril. yen)

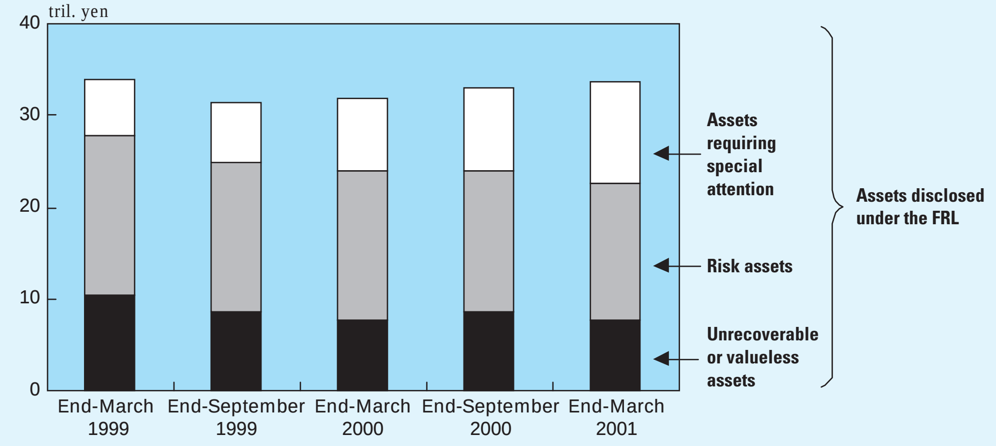
[Reference] Major Items on the Balance Sheet[1]

tril. yen; as of end-March 2001

Lending	474.4 (476.3)	Deposits	511.8 (495.3)
Securities[2]	176.1 (136.4)	Negotiable certificates of deposit	48.1 (41.2)
Bonds	127.4 (88.0)	Call money	28.0 (22.0)
Stocks	44.3 (44.5)	Commercial paper	4.7 (2.2)
Call loans	10.7 (8.8)	Corporate bonds[3]	27.6 (28.2)
Total interest-bearing liabilities	701.8 (649.6)	Payables under repurchase agreements	9.4 (0.0)
Cash and deposits	39.0 (38.6)		
Premises and movable property	9.2 (9.5)	Total interest-bearing liabilities	678.0 (631.4)
Deferred tax assets	7.3 (8.2)	Deferred tax liabilities	0.2 (0.0)
APLL	–10.5 (–12.0)	**Total liabilities**	**766.7 (703.3)**
		Capital	12.4 (12.5)
		Legal reserve	12.1 (12.0)
		Land revaluation differential	2.0 (2.1)
		Earned surplus	8.0 (8.6)
		Valuation differential	1.9 (—)
		Total capital	**36.5 (35.2)**
Total assets	**803.2 (738.5)**	**Total liabilities and capital**	**803.2 (738.5)**

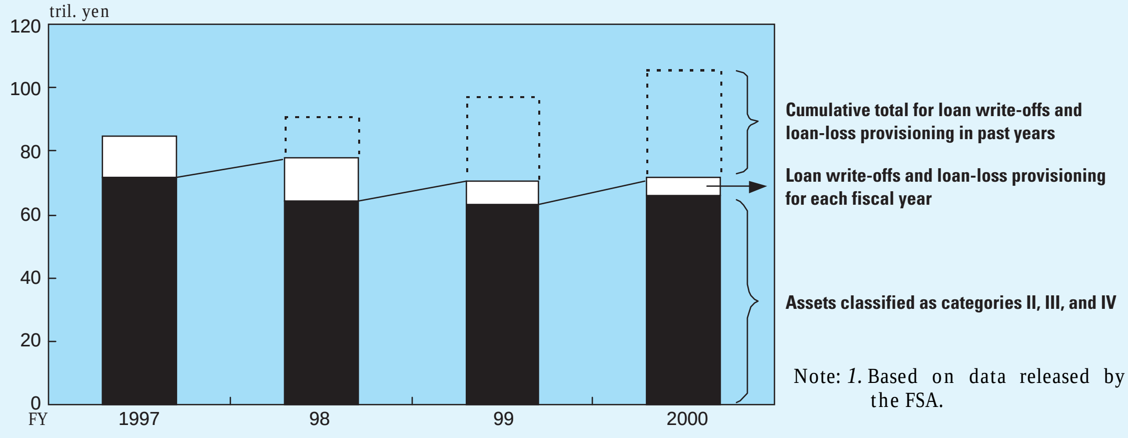
Notes: *1.* Figures in parentheses are as of end-March 2000.
2. Include bonds, stocks, and foreign securities.
3. Debentures include convertible bonds.

Chart 16
NPLs (Assets Disclosed under the FRL)[1]



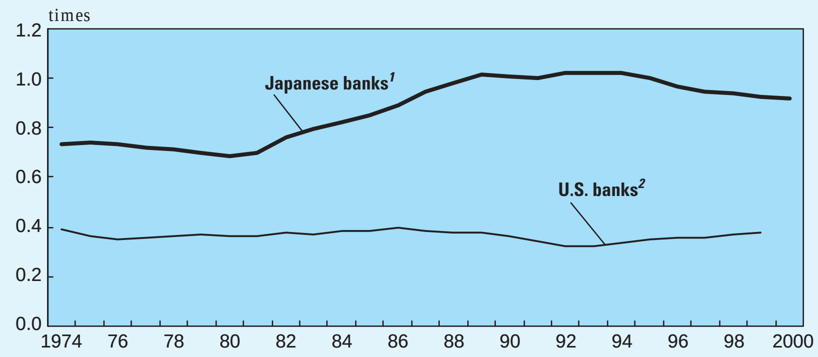
Note: *1.* Based on data released by the Financial Services Agency (FSA).

Chart 17
Classified Assets Based on Self-Assessment and Cumulative Total for Loan Write-Offs and Loan-Loss Provisioning[1]



Note: *1.* Based on data released by the FSA.

Chart 18
Ratio of Lending Amount Outstanding to Nominal GDP



Notes: *1.* In fiscal years. Figures are based on domestic lending by all banks.
2. In calendar years. Gross loans and leases of the member banks of the Federal Deposit Insurance Corporation (FDIC), released by the Federal Reserve Board (FRB) and the FDIC.

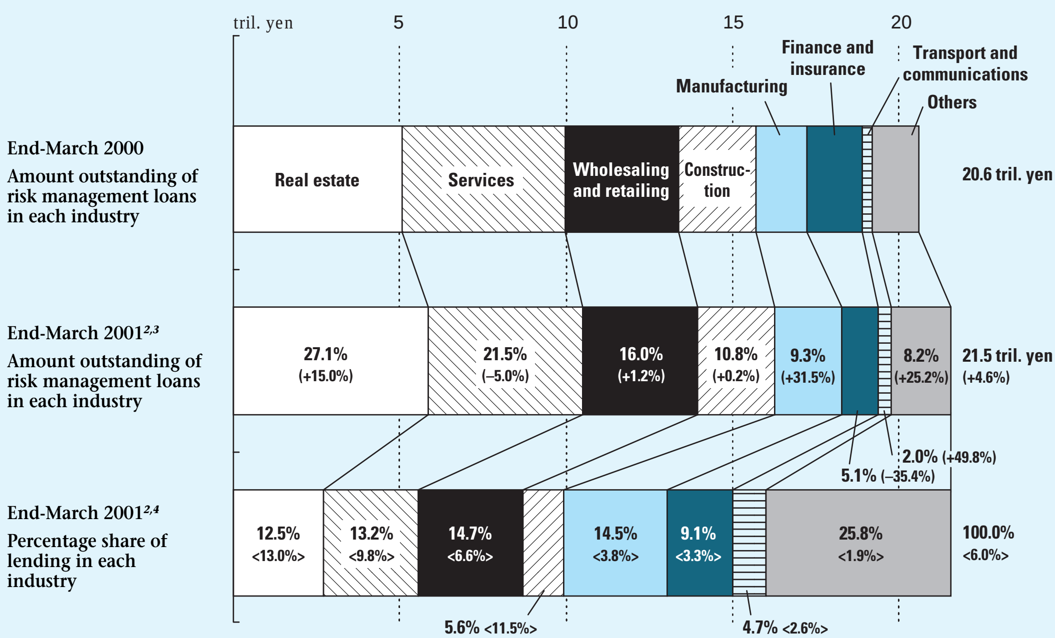
Chart 19
Amount Outstanding of Lending by Industry[1]

tril. yen

	End-March 1985	End-March 1993	Changes from end-March 1985	End-March 2001	Changes from end-March 1993
Total of all banks	250.8	481.7	+230.8	450.0	–31.6
Manufacturing	67.5	77.7	+10.1	66.4	–11.3
Construction	16.1	30.0	+13.8	28.1	–1.9
Transport and communications	9.7	18.0	+8.3	20.4	+2.4
Wholesaling and retailing	58.7	78.2	+19.5	65.4	–12.8
Nonbanks	26.5	74.5	+48.0	38.7	–35.8
Real estate	20.6	58.6	+38.0	58.0	–0.6
Services	18.8	56.3	+37.5	49.8	–6.4
Individuals	28.4	82.3	+53.9	96.7	+14.4

Note: *1*. Based on domestic lending.

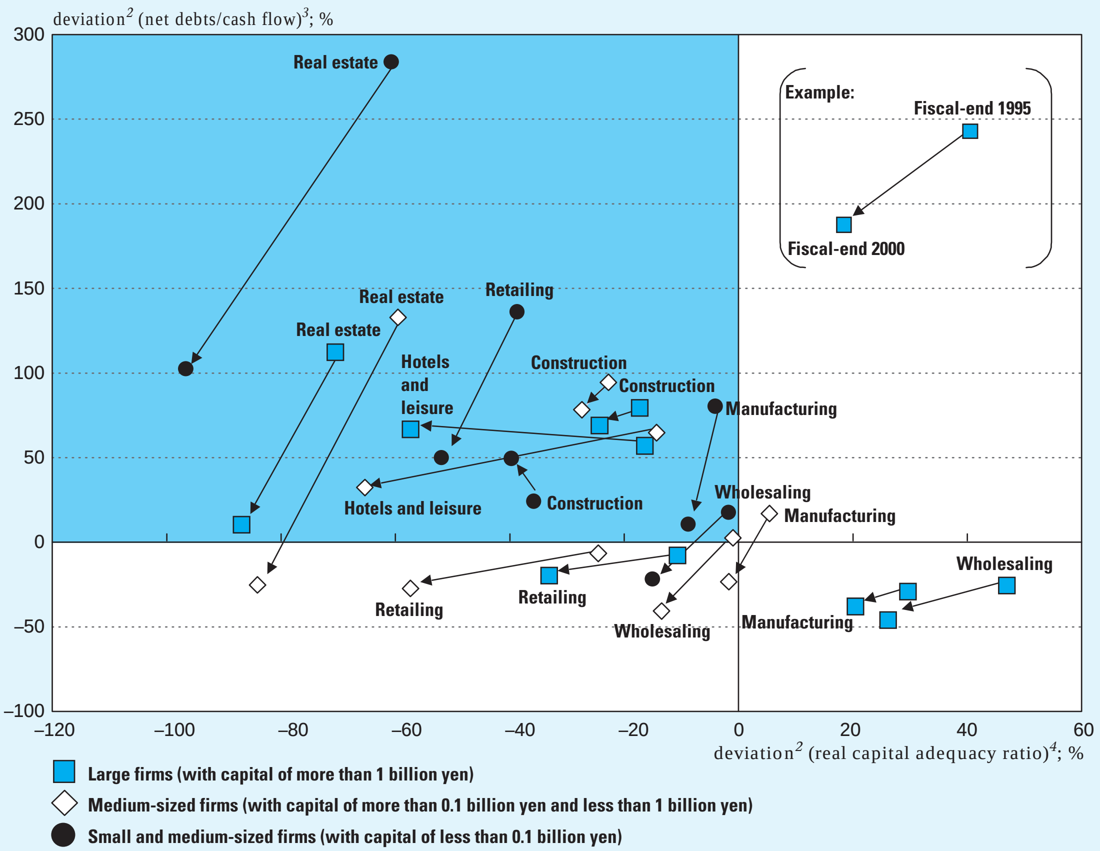
Chart 20
Proportion of Risk Management Loans by Industry[1]



Notes: *1*. Based on risk management loans disclosed by 8 city banks, 1 long-term credit bank, 6 trust banks, and 54 regional banks and regional banks II.
2. Figures are percentage share of amount outstanding of risk management loans.
3. Figures in parentheses are changes from amount outstanding at end-March 2000.
4. Figures in angular brackets are the ratios of risk management loans to total lending in each respective industry.

Chart 21

Changes in Firms' Balance Sheets by Industry and by the Size of Firms[1]



Notes: *1.* Shaded area indicates lower real capital adequacy ratio and higher debt ratio compared to the first half of the 1980s.

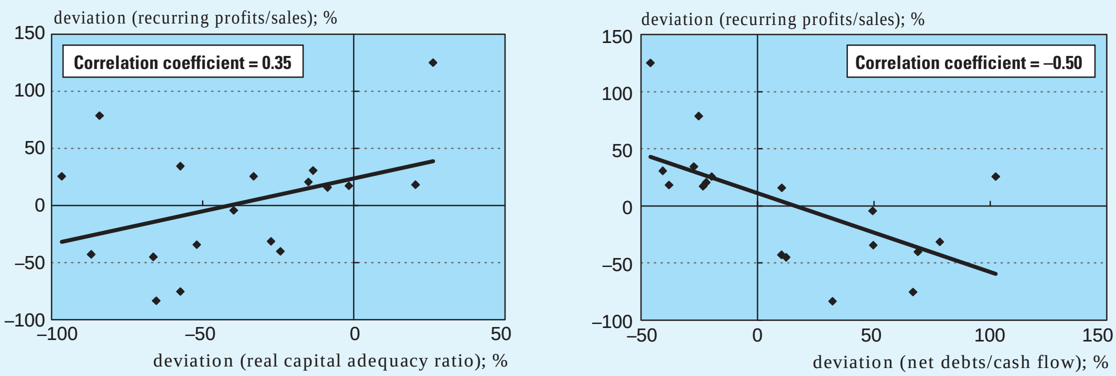
2. Percentage changes from the average of fiscal 1980–85.

3. Net debts/cash flow = (short- and long-term borrowings + corporate bonds + amount outstanding of bills discounted – cash and deposits)/sum of the moving average for the past four fiscal years of cash flow (cash flow = operating profits/2 + depreciation and amortization).

4. Real capital adequacy ratio = (owned capital + unrealized capital gains/losses from land and stocks)/(total assets + unrealized capital gains/losses from land and stocks).

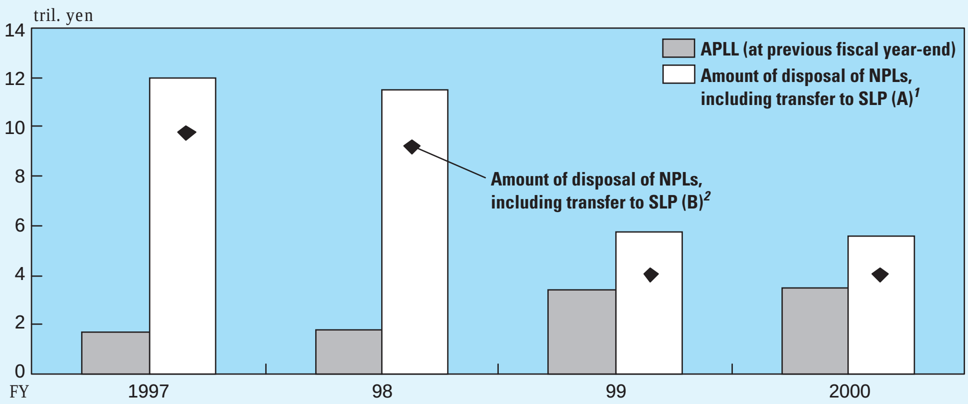
Calculation is based on the Urban Land Price Index (manufacturing: land for industrial use in six large city areas; nonmanufacturing: land for commercial use in six large city areas) and TOPIX.

Chart 22
Relationship between Firms' Balance Sheets and Profitability[1]



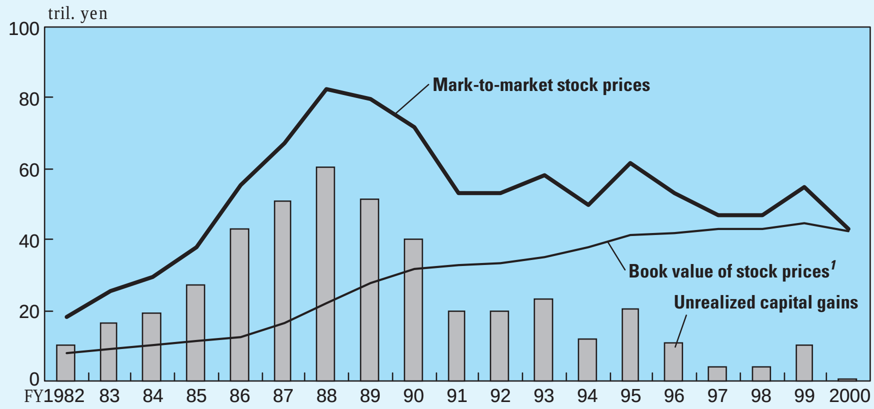
Note: *1.* Percentage changes from the average of fiscal 1980–85 to the actual figures at fiscal-end 2000.

Chart 23
Amount Outstanding of APLL and Amount of Disposal of NPLs Each Fiscal Year, Including Transfers to SLP



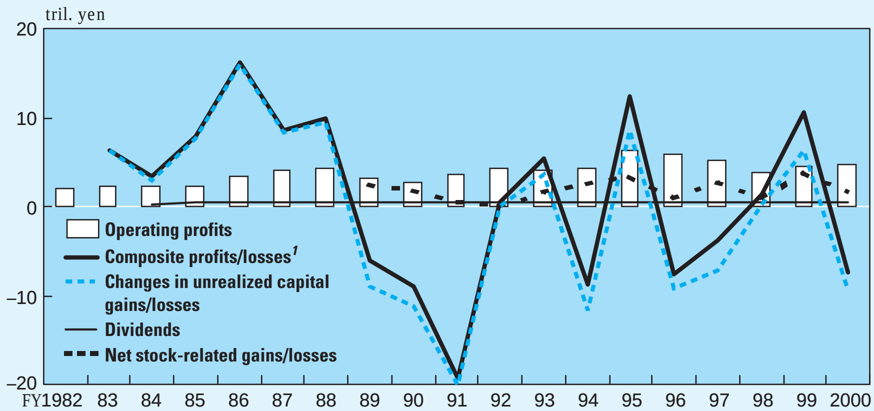
Notes: *1.* Disposal of NPLs after deducting net transfers to APLL, loan write-offs in trust accounts, and net transfers to the APLL on special overseas loans.
2. Calculated by subtracting expected additional losses arising from devaluation of collateral of borrowers "in danger of bankruptcy" and "bankrupt and effectively bankrupt" borrowers from the amount of transfer to SLP (A).

Chart 24
Unrealized Capital Gains on Stocks



Note: *1.* Figure for fiscal 2000 is based on acquisition cost.

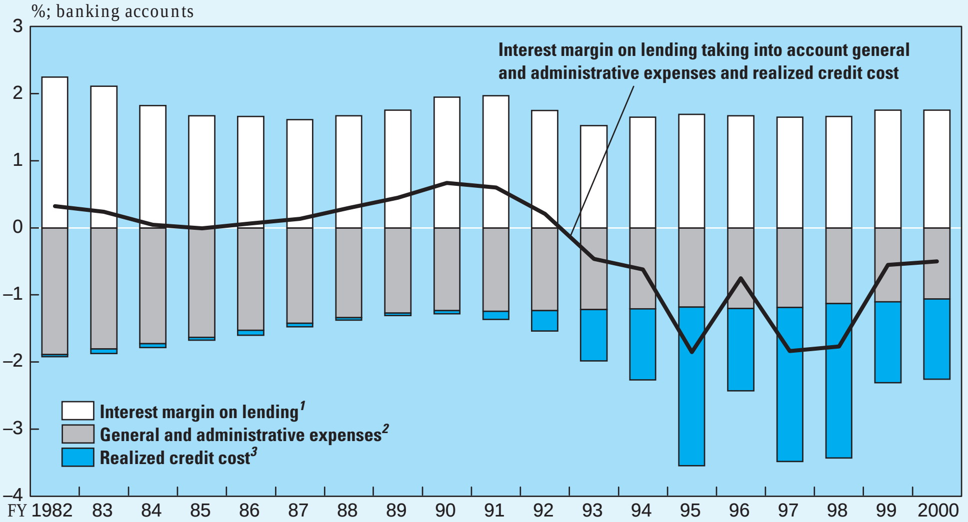
Chart 25
Composite Profits/Losses on Stocks[1]



Note: *1.* Calculated by adding net stock-related gains/losses, dividends receivable, and changes in unrealized capital gains/losses, which reflect changes in unrealized capital gains/losses in statement of income. However, before fiscal 1988, they were calculated using unrealized capital gains/losses and dividends, because net stock-related gains/losses could not be calculated.

Chart 26

Interest Margin on Lending of Japanese Banks



Notes: *1.* Interest margin on lending = yields on lending (domestic operations) – average rate on banks' interest-bearing liabilities (domestic operations; excluding interest expense on interest swaps).

2. Expense ratio = general and administrative expenses/average annual balance of interest-earning assets. Based on overall domestic operations because data for operations by sector are not available.

3. The percentage of disposal of NPLs (loan-loss provisioning and loan write-offs) to the average amount outstanding of loans. However, it differs from expected losses calculated from the loan-loss ratio.

Chart 27

Interest Margin on Lending (Gross Interest) in Japan and the United States

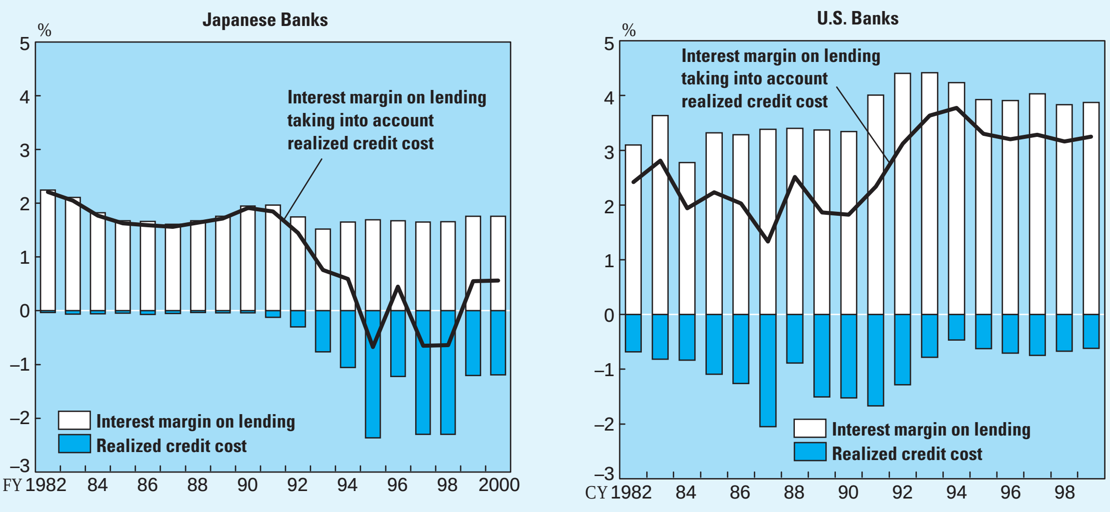


Chart 28
Yields on Lending and Average Rate on Interest-Bearing Liabilities

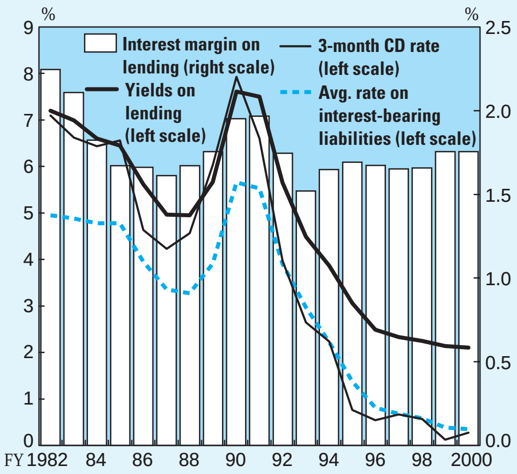
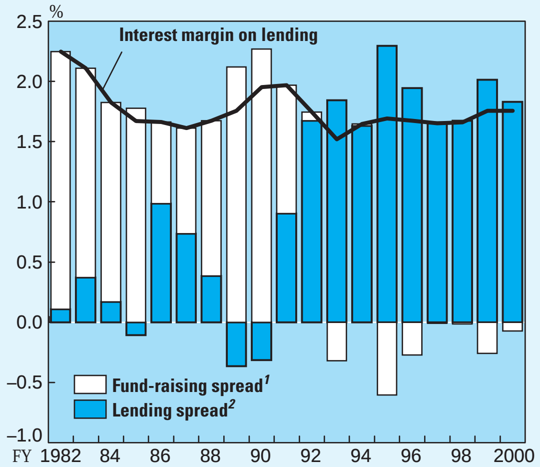


Chart 29
Fund-Raising and Lending Spreads



Notes: *1.* Fund-raising spread = 3-month CD rate – average rate on interest-bearing liabilities.
2. Lending spread = yields on lending – 3-month CD rate.

Chart 30
Credit Cost by Rating

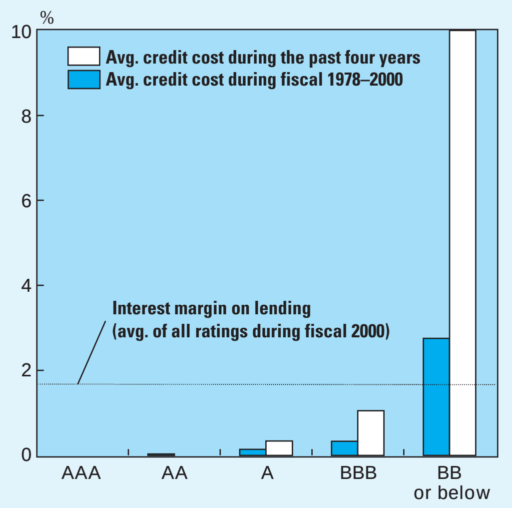
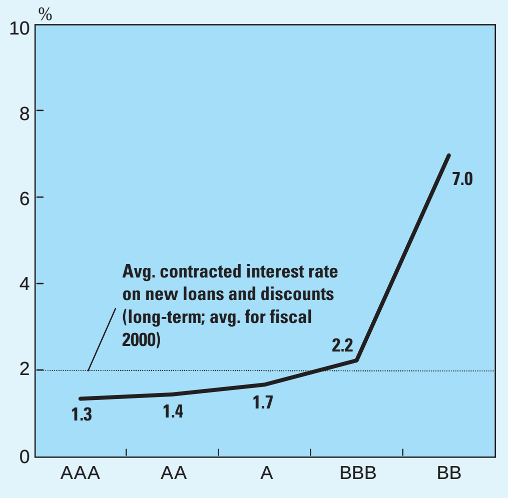


Chart 31
Yields on Corporate Bonds by Rating[1]



Note: *1.* Yields on 5-year straight bonds.
Source: Japan Securities Dealers Association. Ratings are provided by Rating and Investment Information, Inc.

Chart 32

Downward Pressure of Nonperforming Assets on Interest Margin

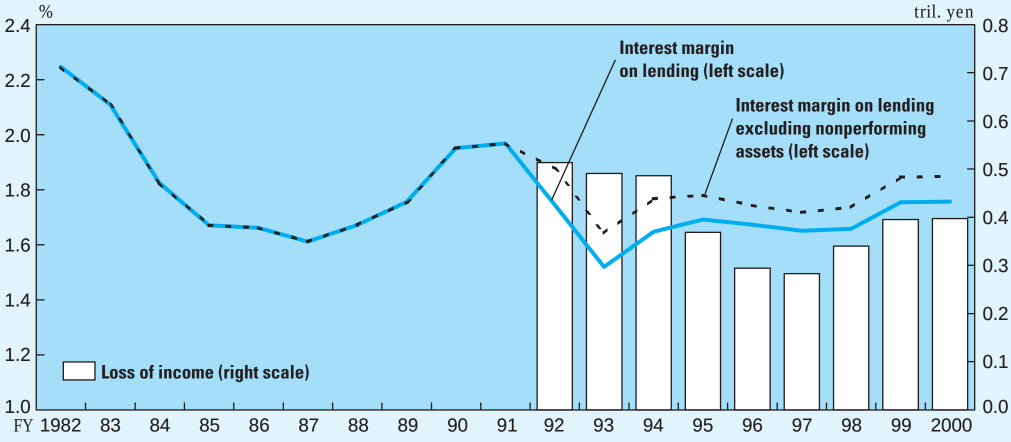
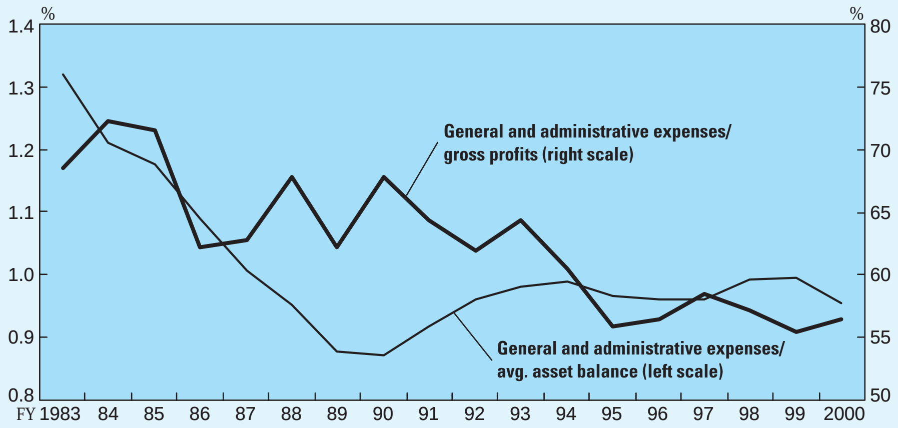


Chart 33

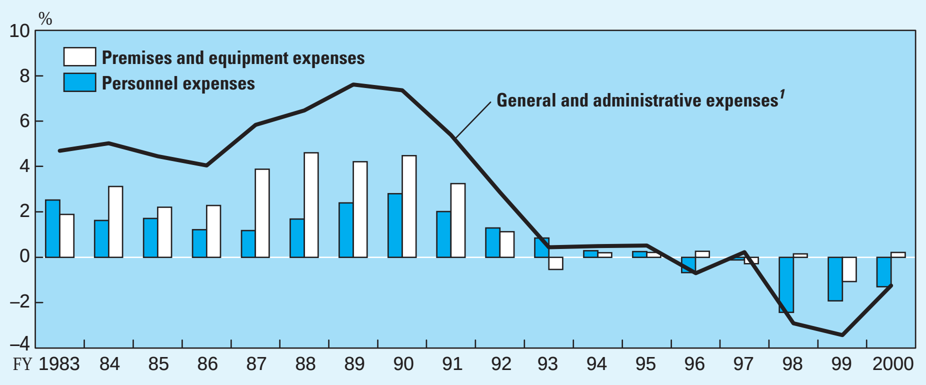
Expense Ratio[1]



Note: *1.* In all charts hereafter, general and administrative expenses exclude deposit insurance premium.

Chart 34

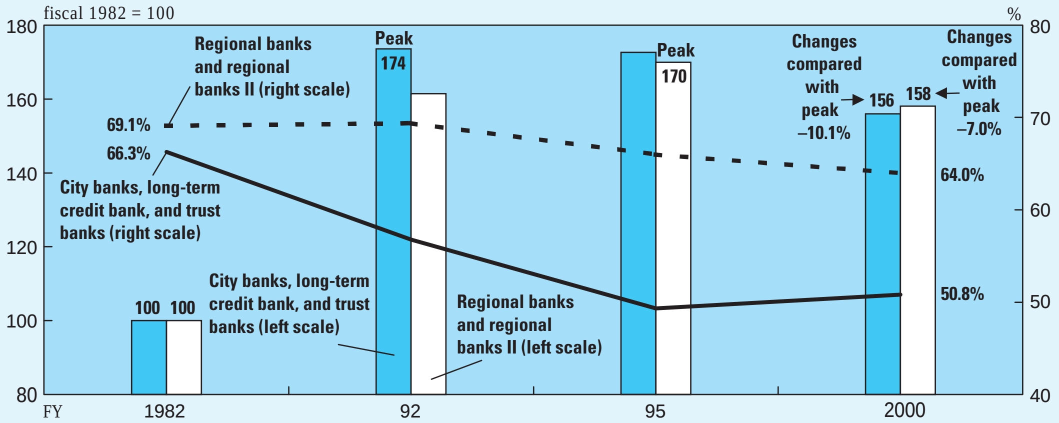
General and Administrative Expenses and Contribution of Major Components



Note: *1.* Changes from the previous year.

Chart 35

General and Administrative Expenses and Expense Ratio by Type of Bank[1]

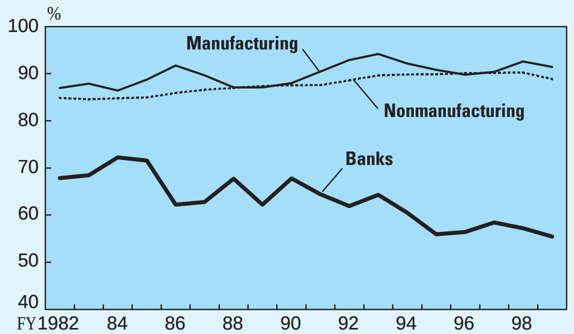


Note: *1.* The influence of transfer of businesses due to bankruptcy of banks is adjusted in general and administrative expenses.

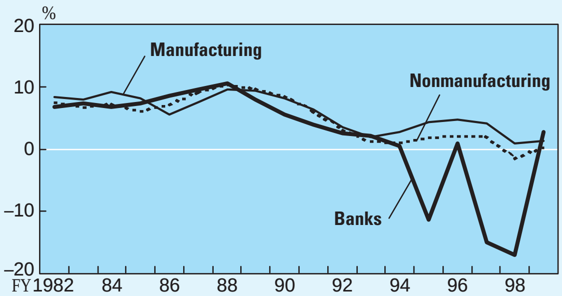
Chart 36

Expense Ratio, Return on Equity, and Adjusted Expense Ratio

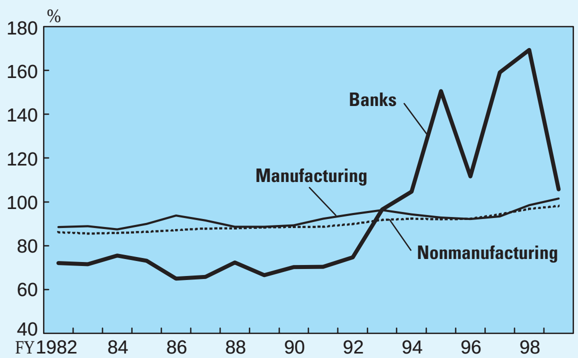
(1) Expense Ratio (General and Administrative Expenses/ Gross Profits)[1,2]



(2) Return on Equity (Net Income or Losses/Capital Bases)[1,3]



(3) Adjusted Expense Ratio (General and Administrative Expenses and Credit Cost/Gross Profits)[1,2]

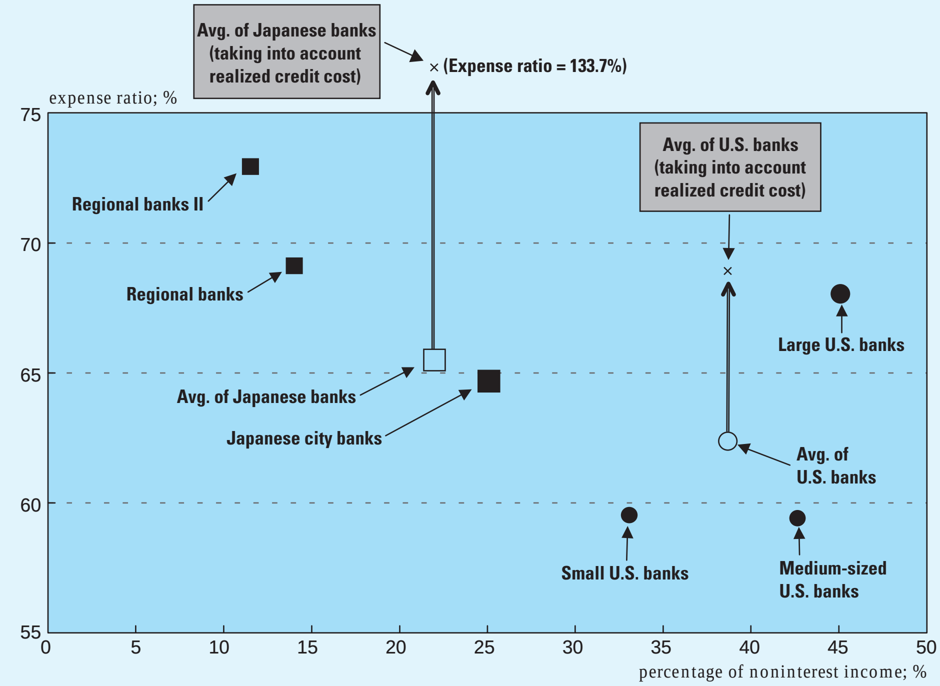


Notes: *1.* For manufacturing and nonmanufacturing:
- (a) Figures are of companies listed on the First Section of the Tokyo Stock Exchange;
- (b) General and administrative expenses are sales management cost, which includes labor cost and general and administrative expenses recorded in cost of goods sold;
- (c) Gross profits = operating profit + general and administrative expenses (for banks, operating profits from core business); and
- (d) General and administrative expenses and credit cost = general and administrative expenses + special losses (for banks, disposal of NPLs).

2. Figures are based on securities reports.
3. Figures are based on the *Annual Financial Statistics of Corporations by Industry.*

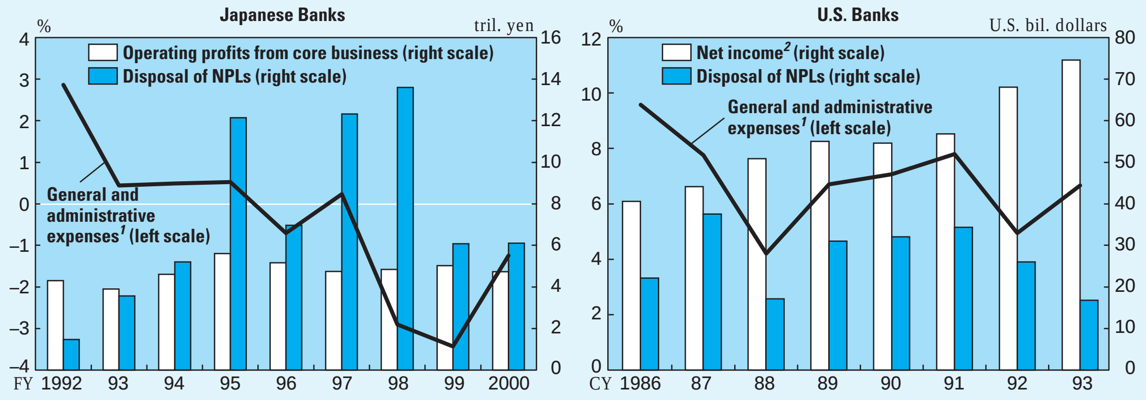
Chart 37

Expense Ratio and Noninterest Income[1]



Note: *1.* Expense ratio = general and administrative expenses/gross profits; the five most recent years.
U.S. banks are classified by asset size; large, medium-sized, and small banks are each ranked from 1–10, 11–100, and 101–1,000.
For Japanese banks, figures for general and administrative expenses and noninterest income are adjusted to match the definition of the same items of U.S. banks.

Chart 38
General and Administrative Expenses and Disposal of NPLs



Notes: *1.* Changes from the previous year.
2. Net income = net interest income + noninterest income + noninterest expense.

Chart 39
Restructuring Operations and Financial Affairs to Improve Capital Efficiency

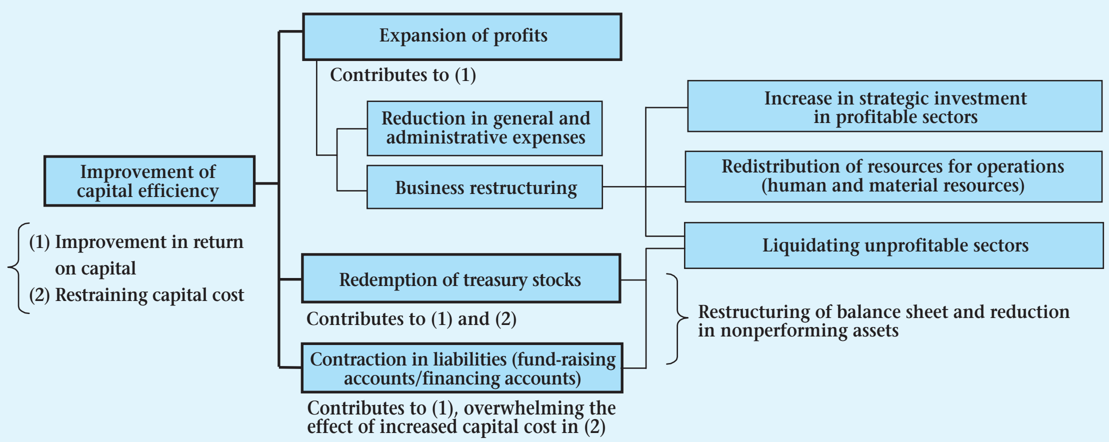
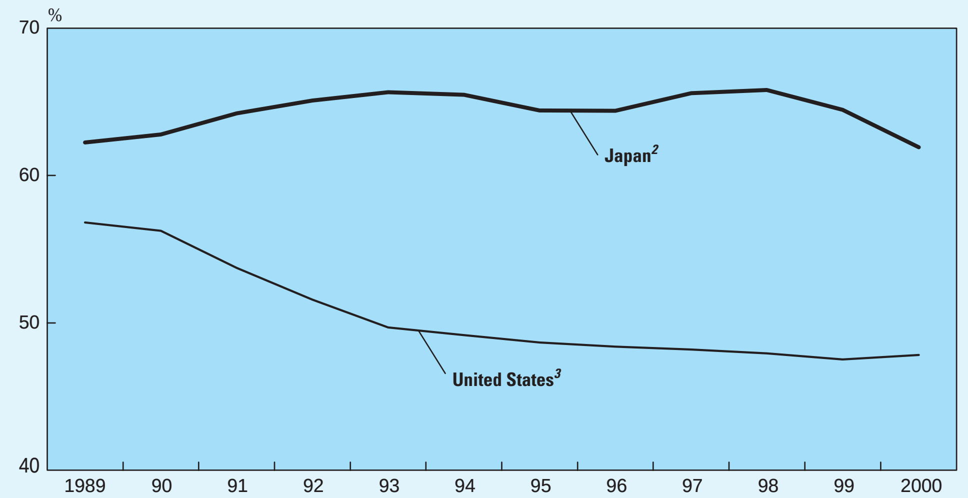


Chart 40
Indirect Financing at Nonfinancial Institutions[1]



Notes: *1.* Proportion of indirect financing = borrowing/(borrowing + debentures + trade credits and foreign trade credits). In 2000, indirect financing was 41.4 percent of the total amount of financing in Japan and 15.1 percent in the United States, including stock prices and capital at mark-to-market value.
2. In fiscal years. Figures are based on the *Flow of Funds Accounts,* published by the Bank of Japan.
3. In calendar years. Figures are based on the *Flow of Funds Accounts of the United States,* published by the FRB.

Chart 41
Presence of Public Finance[1]

	End-March 1991		End-March 2001	
	Public financial institutions	Private financial institutions	Public financial institutions	Private financial institutions
Amount borrowed by firms and households (tril. yen)	86	610	136	576
Ratio to the total amount borrowed by firms and households (%)	11	79	18	74

Note: *1.* Based on the *Flow of Funds Accounts,* published by the Bank of Japan.

Box 1 **Definition of Nonperforming Loans (NPLs), and the Framework of Disposal**

1. Definition of NPLs (Chart 1 for Box 1)

In Japan, financial institutions disclose their NPLs as required by law in two ways: (1) as risk management loans[1] disclosed under the Banking Law and (2) as assets disclosed under the Law concerning Emergency Measures for the Reconstruction of the Functions of the Financial System (hereafter referred to as the Financial Reconstruction Law or FRL). Although the loan categorization differs slightly and only the latter covers overall credit exposure,[2] there is a close similarity, for example, in respect of the size of NPLs disclosed under the two laws.[3]

Risk management loans are conceptually the same as NPLs disclosed by U.S. banks.[4] "Unrecoverable or valueless" assets disclosed under the FRL correspond to loans to "bankrupt" and "effectively bankrupt" borrowers under the self-assessment framework, and "risk" assets to loans to borrowers "in danger of bankruptcy" (for details of the self-assessment framework, see page 108).

2. Loan Write-Offs and Loan-Loss Provisioning

(1) Loan write-offs and loan-loss provisioning by debtor category under the self-assessment framework (Chart 2 for Box 1)

Debtor category under the self-assessment framework overlaps to some extent with the categorization of NPLs under the Banking Law and the FRL. The main purpose of debtor categorization under the self-assessment framework and asset categorization (nonclassified to category IV assets) for each debtor category is to calculate the amount of write-offs and loan-loss provisioning required by each financial institution, and also to categorize assets (nonclassified to category IV assets) for each debtor category.

According to "The Final Report of the Working Group on Financial Inspection Manuals (Financial Inspection Manuals)," the principles of loan write-offs and loan-loss provisioning by debtor category are as follows.

(a) Loans to "bankrupt" and "effectively bankrupt" borrowers

One hundred percent direct write-offs or special loan-loss provisions (SLP) must be made to each debtor for an amount roughly equivalent to the sum of category III and IV assets that are not secured by collateral or guarantees. The amount of loans written off is deducted from loan assets outstanding and the amount of loans with loan-loss provisions is shifted to nonclassified assets.

(b) Loans to borrowers "in danger of bankruptcy"

SLP must be made to each debtor for category III assets that are not secured by collateral or guarantees. The amount of loan-loss provisions is calculated by multiplying unsecured category III assets by the expected loan-loss ratio (calculated based on the historical loan-loss ratio; the average of this ratio is approximately 70 percent). The amount of loans for which SLP is made is shifted to nonclassified assets.

(c) Loans to borrowers that "need attention" and "normal" borrowers

The amount corresponding to expected losses calculated using the historical loan-loss ratio of each debtor category is set aside as allowance for possible loan losses (APLL) (loan-loss provisioning is made to all debtors within the same debtor category). The amount of APLL is calculated by multiplying the sum of nonclassified assets and those that "need attention" by the historical loan-loss ratio for each debtor category. When

1. Risk management loans are categorized according to objective criteria. Loans disclosed under the FRL, on the other hand, are categorized with a focus on the financial condition of debtors.
2. "Unrecoverable or valueless" and "risk" assets disclosed under the FRL include not only loans covered by risk management loans but also overall credit exposure including other assets (securities loaned, foreign exchange, accrued interest, suspense payments, and customers' liabilities for acceptances and guarantees). Loans requiring "special attention," however, consist purely of lending.
3. Nonaccrued interest of assets categorized under loans to borrowers "in danger of bankruptcy" and loans to "effectively bankrupt" or "bankrupt" borrowers under the self-assessment framework (corresponding to the sum of "unrecoverable or valueless" and "risk" assets disclosed under the FRL) is in principle recorded off the balance sheet. The amount of these assets, therefore, is more or less equal to the sum of "loans to borrowers in legal bankruptcy" and "overdue loans" of risk management loans, whose nonaccrued interest is also recorded off the balance sheet. Loans requiring "special attention" disclosed under the FRL are equal to the sum of risk management loans categorized as "loans past due three months or more" and "restructured loans."
4. U.S. banks disclose loans that are "nonaccrual," "past due 90 days or more," and "restructured," in accordance with the criteria set by the Securities Exchange Commission (SEC).

Box 1 (continued)

calculating APLL, no distinction is made between category II assets and nonclassified assets, which correspond to sound operating funds and prime collateral, of loans to borrowers that "need attention." Unlike loans to borrowers "in danger of bankruptcy" or "effectively bankrupt" or "bankrupt" borrowers, the amount of loans for which APLL is made is not deducted from category II assets.

For loans requiring "special attention" (a portion of loans to borrowers that "need attention," including "loans past due three months or more" and "restructured loans"), many banks make loan-loss provisions that take into account the historical loan-loss ratio or that are calculated as a certain percentage of loans not covered by collateral or guarantees (about 15 percent under the old Financial Reconstruction Commission guideline).

(2) Final disposal of NPLs

On April 6, 2001, the government announced the emergency economic package, which encourages major banks to remove NPLs completely from their balance sheets, i.e., final disposal of NPLs. This is also referred to in the "Structural Reform of the Japanese Economy: Basic Policies for Macroeconomic Management," decided by the government on June 26, 2001. The concept of "final disposal" of NPLs and the progress made in the second half of fiscal 2001 are summarized as follows.

(a) Concept of final disposal of NPLs

Banks usually undertake NPL disposal in two stages, the first being disposal through accounting treatment, which is provisioning for possible loan losses, while maintaining the amount outstanding of loan assets on the balance sheet. When the amount of losses is finally determined, for example, through sales of nonperforming assets or collateral, the amount of nonperforming assets is removed from the balance sheet, which is the final disposal (Chart 3 for Box 1).

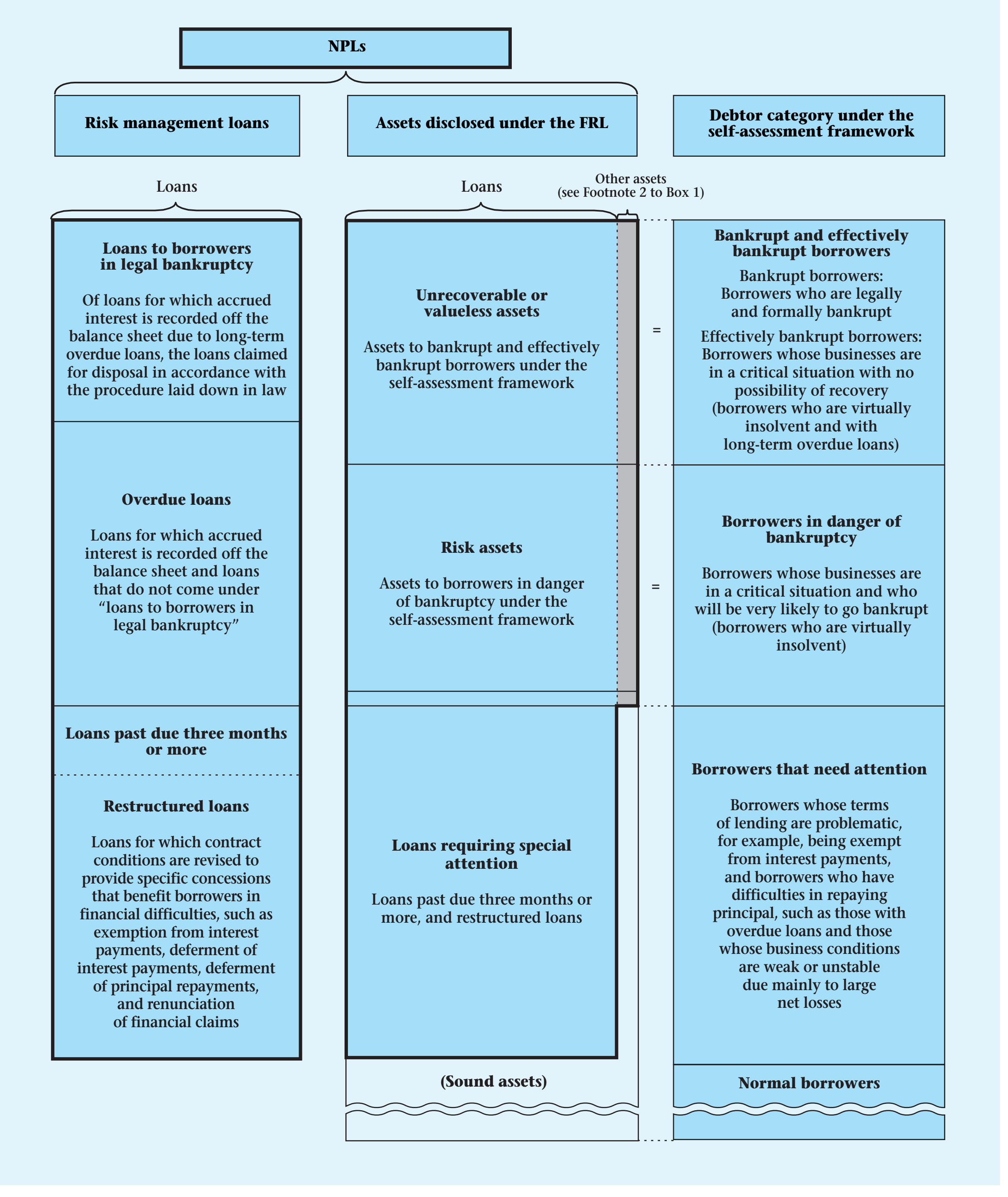
The fundamental difference between the final disposal of NPLs and accounting treatment is the removal of nonperforming assets from the balance sheet (a decrease in the amount outstanding of NPLs) and realization of losses. The final disposal of NPLs can bring banks the following benefits: (1) improvement of banks' credibility in the market through reduction of NPLs; (2) improvement of cash flow through sales of collateral and avoidance of the risk of a decline in collateral value; and (3) reduction in the cost of managing and collecting loans.

"Final disposal" can be effected in various ways, for example, by transfer of financial claims, by multi-creditor out-of-court workouts in the private sector, in accordance with the procedure laid down in law, or by partial write-offs. A partial write-off differs from other measures in the sense that the amount of NPLs secured by collateral remains on the balance sheet and that losses are not realized for this amount (for details of the progress in the final disposal in each debtor category under the self-assessment framework, see Chart 4 for Box 1).

(b) Final disposal of NPLs in the second half of fiscal 2000 (Chart 5 for Box 1)

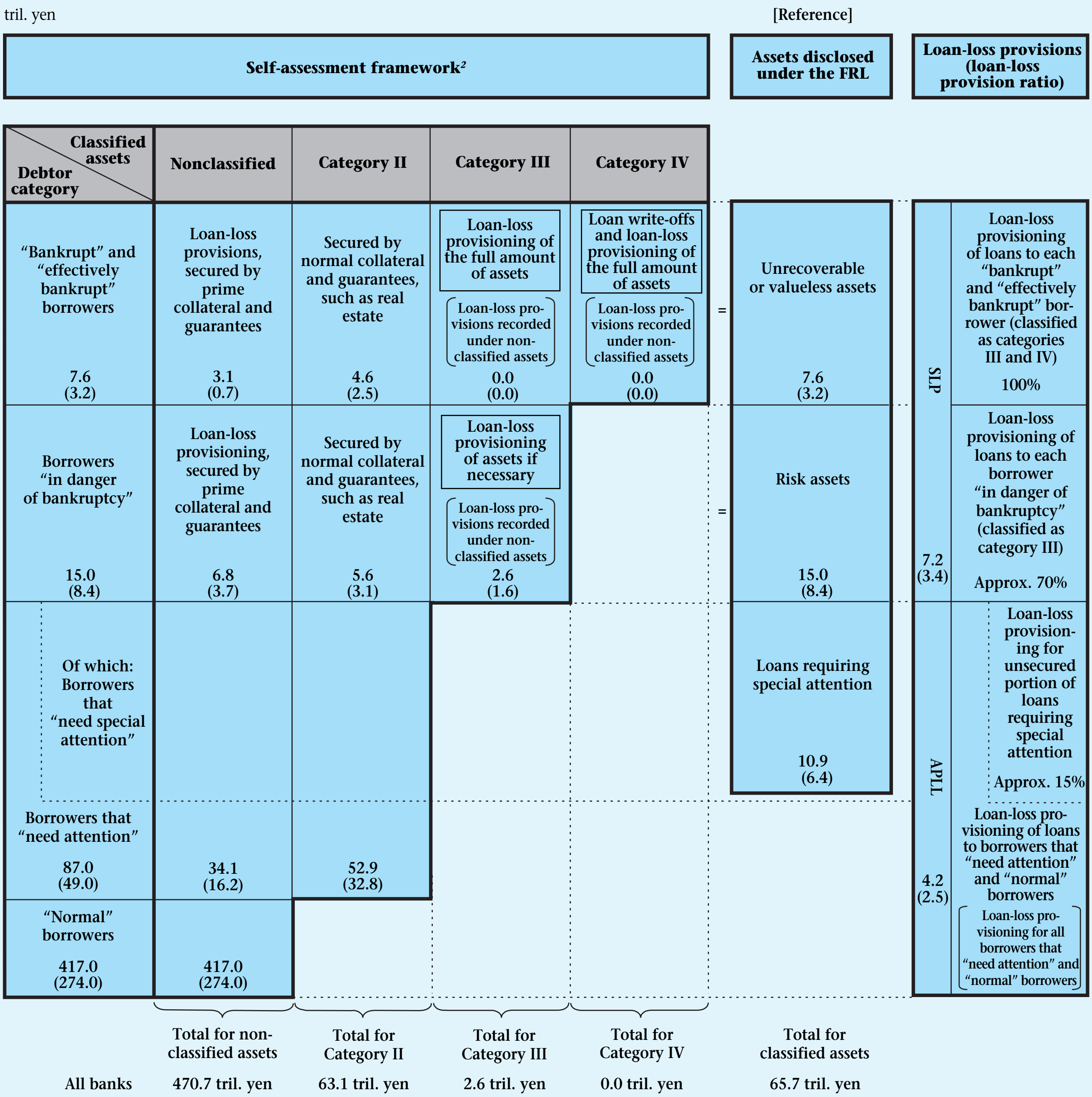
Loans to borrowers "in danger of bankruptcy" or "effectively bankrupt" or "bankrupt" borrowers held by 16 banks (city banks, long-term credit bank, and trust banks) are subject to final disposal in the emergency economic package. In the second half of fiscal 2000, 4.4 trillion yen of NPLs was disposed of while 3.4 trillion yen newly emerged. As a result, the amount of NPLs decreased by 1.0 trillion yen to 11.7 trillion yen at end-March 2001, from 12.7 trillion yen at end-September 2000. Of the 11.7 trillion yen of NPLs, new NPLs amounting to 3.4 trillion yen are to be disposed of (final disposal) within three years and the rest, amounting to 8.3 trillion yen, within two years. It should be noted that additional losses may arise mainly from the final disposal of unsecured assets (1.5 trillion yen at end-March 2001).

Chart 1 for Box 1 **Range of NPLs**



Box 1 (continued)

Chart 2 for Box 1 **Loan Write-Offs and Loan-Loss Provisioning by Debtor Category under the Self-Assessment Framework[1]**



Notes: *1.* For all banks. Figures in parentheses are those for 16 banks (city banks, long-term credit bank, and trust banks). Based on data released by the Financial Services Agency and all banks.

2. The total for classified assets in the shaded areas does not match the total for classified assets outside the shaded areas (all banks), as the latter includes the amount of other assets that do not come under debtor category, such as project finance and a part of loans to individuals.

The SLP (portion) is exempt from assets under categories III and IV for "bankrupt and effectively bankrupt" borrowers and borrowers "in danger of bankruptcy." On the other hand, the APLL (portion) is not exempt from assets under category II for borrowers that "need attention."

Chart 3 for Box 1 **Definition of Final Disposal and Accounting Treatment**

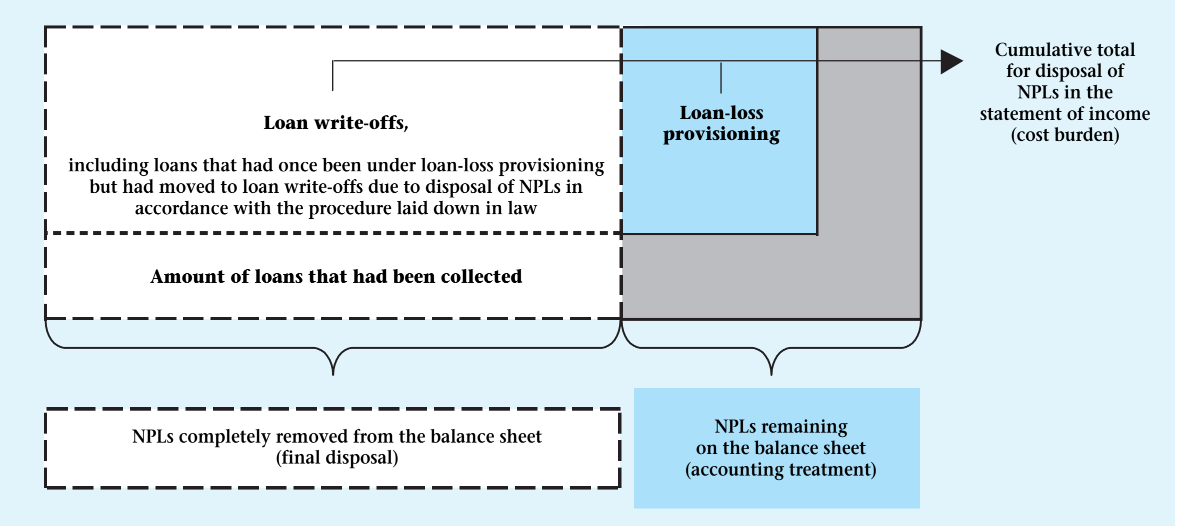
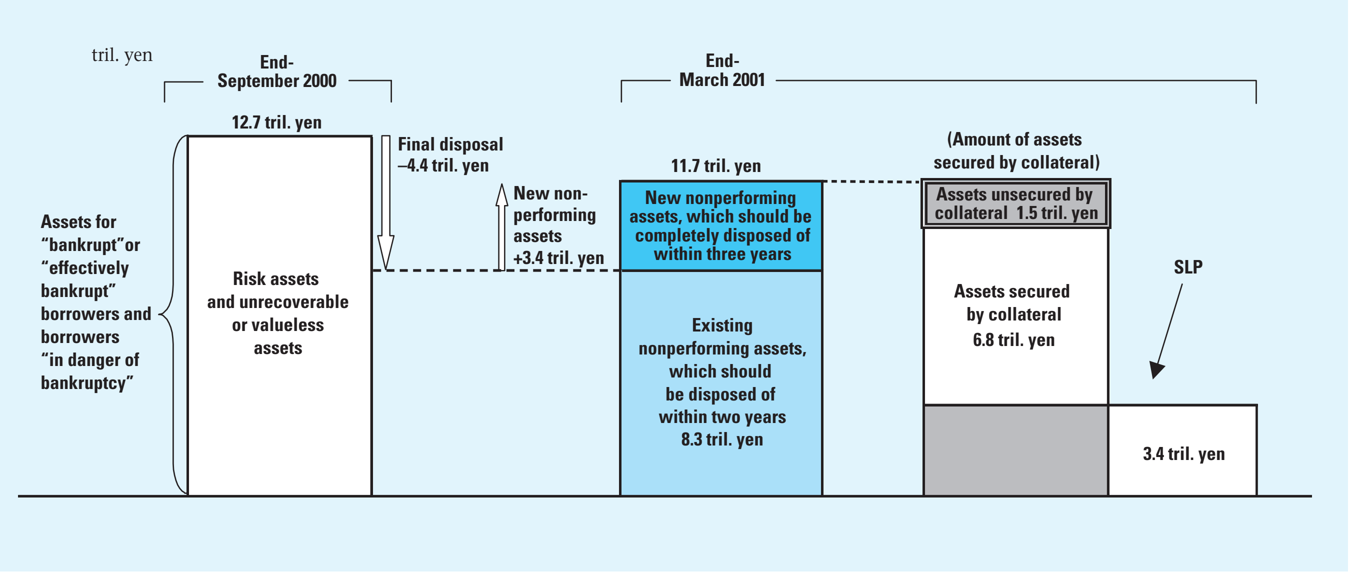


Chart 4 for Box 1 **Final Disposal of NPLs by Debtor Category under the Self-Assessment Framework**

Type of disposal of NPLs	Procedure of disposal of NPLs	Debtor category under the self-assessment framework			
		"Bankrupt" borrowers	"Effectively bankrupt" borrowers	Borrowers "in danger of bankruptcy"	Borrowers that "need attention"
Transfer of financial claims	• Sales of financial claims at market prices to the third party (in many cases, bulk sales of NPLs brought in by a number of banks are conducted). • Debt burden on borrowers is not necessarily reduced. • The government released a guideline in June 2001 to enhance the functions of the Resolution and Collection Corporation, which purchases nonperforming assets of failed institutions, in order to actively pursue collection and reconstruct fairly viable firms through multi-creditor out-of-court workouts in the private sector and disposal of NPLs in accordance with the procedure laid down in law.	Applied	Applied	Partially applied	Partially applied
Multi-creditor out-of-court workouts in the private sector	• Applied mainly to loans to borrowers who have been insolvent for a long time and will undergo corporate winding up. Sometimes applied to reconstruct fairly viable firms by disposing of NPLs to "bankrupt" and "effectively bankrupt" borrowers, as it lifts the debt burden on borrowers, unlike with the transfer of financial claims. • Given the release of the emergency economic package, establishment of guidelines regarding the process of reconstruction of firms in financial difficulties by multi-creditor out-of-court workouts in the private sector is being examined by private-sector study groups.	Applied	Applied	Applied	Partially applied
Disposal of NPLs in accordance with the procedure laid down in law	• Writing off of losses arising from disposal of NPLs in accordance with the procedure laid down in law.	Applied	—	—	—
Partial write-offs	• Writing off of loans to "bankrupt" and "effectively bankrupt" borrowers that are secured by collateral or guaranteed but cannot be recovered through sale of collateral (classified as category IV). • Debt burden on borrowers does not change.	Applied	Applied	—	—

Box 1 (continued)

Chart 5 for Box 1 **Progress in the Final Disposal of NPLs for 16 Banks (City Banks, Long-Term Credit Bank, and Trust Banks)**



Box 2 Results of a Simulation of Measures to Improve Capital Efficiency

The following indicates the degree of adjustment under each measure to raise return on capital to a level equivalent to capital cost (or to raise capital efficiency to zero percent or more by reducing capital cost) using data of city banks for fiscal 1999. The definition of capital efficiency is given below.

Chart 1 for Box 2 Definition of Capital Efficiency[1]

Capital efficiency = return on capital – capital cost.
(–0.37%) (0.84%) (1.21%)

The definitions of each indicator are as follows.

- Return on capital = (operating profits from core business + fund-raising cost – NPL disposal) × (1 – tax rate)/invested capital (fund-raising account + total mark-to-market value of shares).
- Capital cost = weighted average[2] (liability cost[3] + shareholders' capital cost[4]).
(1.09%) (2.40%)

Notes: *1.* Figures in parentheses represent the result of a simulation using data for fiscal 1999.
2. The proportion of the mark-to-market value of liabilities (book value is used instead in this simulation) and the total mark-to-market value of shares (approximately 91:9).
3. After taking into account the expected tax effect.
4. Shareholders' capital cost (investors' expected rate of return) is calculated based on the earnings discounting model of stock prices, using the average expected earnings on stocks for fiscal 1999 (expected earnings on stocks = profit per share/stock price; the data cover stocks listed on the First Section of the Tokyo Stock Exchange, excluding those of financial institutions) released by the Daiwa Research Institute.

Chart 2 for Box 2 Degree of Adjustment under Each Measure

(1) Adjustment by Profit Expansion: Comparison with Fiscal 1999[1]

Adjustment measures		Case 1: Assuming that NPL disposal reaches an amount equivalent to that in fiscal 1999	Case 2: Assuming that NPL disposal is reduced by about 50% from fiscal 1999
Expansion in interest margin on lending only		1.61 times	1.13 times
Expansion in net fees and commissions only		4.85 times	1.83 times
Reduction in general and administrative expenses only		–73%	–16%
Redemption of treasury stocks[2] (–6.5 trillion yen, up to 8% of the capital adequacy ratio)	Plus: Expansion in interest margin on lending	1.53 times	1.05 times
	Plus: Expansion in net fees and commissions	4.34 times	1.32 times
	Plus: Reduction in general and administrative expenses	–63%	–6%

(2) Adjustment by Contraction of Liabilities (Fund-Raising Account): Comparison with Fiscal 1999[1]

Adjustment measures	Case 1: Assuming that NPL disposal reaches an amount equivalent to that in fiscal 1999	Case 2: Assuming that NPL disposal is reduced by about 50% from fiscal 1999
Contraction of fund-raising account only	–37%	–8%
Redemption of treasury stocks[2] (–6.5 trillion yen) + contraction of fund-raising account	–32%	–3%

Notes: *1.* The data for fiscal 1999 (those of eight city banks, excluding one that holds trust accounts) are as follows:

NPL disposal	137 basis points (compared with the average balance of loans outstanding)
Interest margin on lending	1.639 percent
Net fees and commissions	0.5 trillion yen
General and administrative expenses	2.7 trillion yen
Fund-raising account	296.1 trillion yen

2. Based on the assumption that city banks maintain capital adequacy ratios of over 8 percent, and that funds for redemption of treasury stocks and contraction of liabilities are provided by liquidating assets that generate low profits (stockholdings and NPLs).

ANNEX: FINANCIAL STATEMENTS OF FINANCIAL INSTITUTIONS

Income Statement of All Banks[1]

bil. yen

FY	1989	90	91	92	93	94
Recurring income	52,184.8	61,662.6	58,029.0	45,732.7	41,359.8	40,447.0
Operating income	48,768.8	59,055.7	55,520.0	44,837.1	39,097.7	36,534.8
Interest income	44,655.6	54,832.0	52,071.5	41,112.4	34,784.4	32,699.4
Fees and commissions	2,322.6	2,200.4	2,027.1	2,078.9	2,187.3	2,270.7
Income from specified transactions[2]						
Other operating income	1,790.3	2,023.0	1,421.1	1,645.6	2,125.8	1,564.5
Temporary income	3,415.9	2,606.8	2,508.9	895.4	2,261.9	3,912.0
Recurring expenses	48,266.1	58,521.0	55,385.0	43,590.7	39,905.0	39,470.6
Operating expenses	45,814.3	56,681.8	52,357.0	40,712.0	35,170.9	32,474.3
Interest expenses[3]	37,656.5	48,161.0	43,823.0	32,012.0	26,076.6	23,471.8
Expenses for money trust management	276.3	394.7	325.4	224.0	191.3	176.9
Fees and commissions	522.3	559.6	566.2	565.9	576.8	574.6
Expenses on specified transactions[2]						
Other operating expenses	1,339.0	1,306.7	982.2	971.0	1,355.1	1,187.9
Debenture expenses[4]						
Transfers to allowance for possible loan losses	139.6	56.7	39.0	23.1	–6.2	39.4
Debenture expenses[4]	37.7	26.3	21.2	18.1	15.5	12.0
General and administrative expenses	6,118.7	6,571.0	6,924.9	7,121.5	7,152.7	7,188.2
Temporary expenses	2,451.7	1,839.0	3,027.8	2,878.7	4,734.0	6,996.1
Recurring profits/losses	3,918.6	3,141.4	2,643.9	2,141.9	1,454.7	976.3
Operating profits	3,231.1	2,768.5	3,488.4	4,349.2	4,118.1	4,237.4
Gross profits on operations	9,527.3	9,422.8	10,473.7	11,512.0	11,280.3	11,477.3
Net interest income	7,275.4	7,065.6	8,573.9	9,324.3	8,899.1	9,404.6
Net fees and commissions	1,800.1	1,640.8	1,460.8	1,513.0	1,610.4	1,696.0
Profits on specified transactions[2]						
Other operating profits	451.3	716.2	438.8	674.6	770.6	376.6
Extraordinary profits	377.1	227.5	341.4	227.5	193.1	162.8
Extraordinary losses	396.2	235.1	319.1	266.5	224.4	337.4
Net income/loss before taxes	3,899.6	3,133.8	2,666.2	2,103.0	1,423.3	801.7
Corporate income tax, inhabitants taxes, and enterprise taxes[5]	1,877.9	1,456.7	1,392.2	1,232.3	671.0	625.4
Income tax benefits[6]						
Net income/loss	2,021.6	1,677.0	1,273.9	870.5	752.2	176.1

Notes: *1.* Figures are for all banks, excluding those that had failed before the end of fiscal 1999. For definitions of all banks, city banks, long-term credit bank, trust banks, regional banks, and regional banks II, see Footnote 1 on page 75. Figures for banks that were taken over by other banks before the end of fiscal 1999 are, in principle, included in all those for the respective absorbing bank starting from fiscal 1989.
Figures are on a nonconsolidated basis, and include only banking accounts.
2. Newly established in fiscal 1997.
3. Includes expenses on management of money trusts.

Income Statement of All Banks[1]

(continued from the previous page)

FY	95	96	97	98	99	2000
Recurring income	42,212.2	38,517.4	34,848.8	30,355.7	30,242.8	23,056.5
Operating income	38,269.8	34,787.7	30,168.9	27,721.3	23,750.9	19,763.7
Interest income	33,128.9	29,449.0	25,138.3	21,821.0	18,776.9	16,001.9
Fees and commissions	2,374.8	3,144.9	2,564.5	2,309.5	2,162.5	2,293.2
Income from specified transactions[2]			224.9	234.0	193.0	350.7
Other operating income	2,765.9	2,193.5	2,241.0	3,356.5	2,618.1	1,117.6
Temporary income	3,942.3	3,729.7	4,679.7	2,634.3	6,491.8	3,292.7
Recurring expenses	44,660.3	38,015.9	39,507.3	37,537.6	27,862.9	22,601.2
Operating expenses	32,190.0	28,993.0	25,162.4	23,990.9	19,212.4	15,152.3
Interest expenses[3]	22,789.3	19,301.2	15,592.9	12,224.6	9,029.6	6,617.3
Expenses for money trust management	145.5	117.3	83.3	62.7	35.1	17.4
Fees and commissions	580.0	585.8	600.7	614.0	595.3	612.0
Expenses on specified transactions[2]			28.4	8.2	20.1	49.4
Other operating expenses	1,527.2	1,554.2	1,336.4	2,243.7	2,418.7	558.9
Debenture expenses[4]						13.2
Transfers to allowance for possible loan losses	57.9	69.0	106.4	1,606.0	71.5	328.4
Debenture expenses[4]	8.6	12.0	8.7	6.9	12.5	
General and administrative expenses	7,226.6	7,470.3	7,488.3	7,287.0	7,064.3	6,985.9
Temporary expenses	12,470.2	9,022.7	14,344.8	13,546.6	8,650.4	7,448.7
Recurring profits/losses	–2,448.1	501.5	–4,658.5	–7,181.9	2,379.8	455.3
Operating profits	6,225.2	5,912.0	5,089.8	3,793.0	4,578.3	4,628.8
Gross profits on operations	13,518.6	13,463.5	12,693.5	12,693.2	11,722.1	11,943.3
Net interest income	10,485.0	10,265.2	9,628.6	9,659.1	9,782.5	9,402.1
Net fees and commissions	1,794.7	2,559.0	1,963.7	1,695.4	1,567.1	1,681.1
Profits on specified transactions[2]			196.4	225.7	172.8	301.2
Other operating profits	1,238.6	639.1	904.6	1,112.7	199.4	558.6
Extraordinary profits	488.6	345.2	1,279.0	775.8	535.8	718.1
Extraordinary losses	610.8	344.7	368.6	749.0	549.3	1,076.1
Net income/loss before taxes	–2,570.3	502.0	–3,748.1	–7,155.1	2,366.3	97.2
Corporate income tax, inhabitants taxes, and enterprise taxes[5]	1,111.8	229.7	545.6	615.3	748.3	463.5
Income tax benefits[6]				–3,334.2	694.9	–197.3
Net income/loss	–3,682.2	272.2	–4,293.8	–4,436.2	922.9	–169.0

4. Moved from "operating expenses" to "other operating expenses" in fiscal 2000.
5. Figures through fiscal 1997 do not include enterprise taxes as they were recorded as temporary expenses.
6. Newly established in fiscal 1998 due to the introduction of accounting for the effect of income taxes.

Income Statement of City Banks, Long-Term Credit Banks, and Trust Banks[1]

bil. yen

FY	1989	90	91	92	93	94
Recurring income	39,800.1	45,443.0	41,502.7	32,160.7	29,558.2	29,520.7
Operating income	37,012.3	43,497.3	39,441.2	31,461.9	27,603.7	25,936.2
Interest income	33,588.9	39,967.6	36,690.1	28,524.7	24,164.8	22,855.5
Fees and commissions	1,973.5	1,830.7	1,619.0	1,642.4	1,710.9	1,765.3
Income from specified transactions[2]						
Other operating income	1,449.7	1,698.9	1,132.0	1,294.6	1,727.9	1,315.3
Temporary income	2,787.7	1,945.6	2,061.5	698.7	1,954.4	3,584.4
Recurring expenses	36,916.2	43,317.5	39,729.5	30,955.6	28,829.6	29,332.4
Operating expenses	35,086.8	41,992.2	37,409.3	28,667.5	24,866.0	23,485.2
Interest expenses[3]	30,198.8	36,892.3	32,412.4	23,672.7	19,552.8	18,320.6
Expenses for money trust management	181.3	270.4	233.4	168.9	151.2	147.1
Fees and commissions	358.8	375.5	370.9	356.7	356.7	355.6
Expenses on specified transactions[2]						
Other operating expenses	994.1	998.9	725.0	694.9	1,064.3	895.4
Debenture expenses[4]						
Transfers to allowance for possible loan losses	114.5	44.8	26.1	13.1	–8.8	32.1
Debenture expenses[4]	37.7	26.3	21.2	18.1	15.5	12.0
General and administrative expenses	3,382.7	3,654.0	3,853.3	3,911.8	3,885.1	3,869.2
Temporary expenses	1,829.3	1,325.2	2,320.2	2,288.1	3,963.6	5,847.1
Recurring profits/losses	2,883.9	2,125.4	1,773.1	1,205.0	728.5	188.2
Operating profits	2,106.9	1,775.5	2,265.3	2,963.3	2,889.0	2,598.0
Gross profits on operations	5,642.0	5,500.8	6,166.1	6,906.4	6,780.9	6,511.5
Net interest income	3,571.4	3,345.7	4,511.0	5,021.0	4,763.2	4,682.0
Net fees and commissions	1,614.7	1,455.2	1,248.0	1,285.6	1,354.1	1,409.6
Profits on specified transactions[2]						
Other operating profits	455.6	699.9	406.9	599.7	663.5	419.8
Extraordinary profits	329.7	186.5	254.9	153.5	97.3	120.0
Extraordinary losses	354.0	193.9	249.6	183.7	110.2	277.4
Net income/loss before taxes	2,859.6	2,118.1	1,778.4	1,174.8	715.6	30.8
Corporate income tax, inhabitants taxes, and enterprise taxes[5]	1,402.5	965.8	946.4	716.1	311.0	189.7
Income tax benefits[6]						
Net income/loss	1,457.0	1,152.2	832.0	458.6	404.5	–158.8

Notes: *1.* Figures are for all banks, excluding those that had failed before the end of fiscal 1999. For definitions of all banks, city banks, long-term credit bank, trust banks, regional banks, and regional banks II, see Footnote 1 on page 75. Figures for banks that were taken over by other banks before the end of fiscal 1999 are, in principle, included in all those for the respective absorbing bank starting from fiscal 1989.
Figures are on a nonconsolidated basis, and include only banking accounts.
2. Newly established in fiscal 1997.
3. Includes expenses on management of money trusts.
4. Moved from "operating expenses" to "other operating expenses" in fiscal 2000.
5. Figures through fiscal 1997 do not include enterprise taxes as they were recorded as temporary expenses.
6. Newly established in fiscal 1998 due to the introduction of accounting for the effect of income taxes.

Income Statement of City Banks, Long-Term Credit Banks, and Trust Banks[1]

(continued from the previous page)

FY	95	96	97	98	99	2000
Recurring income	31,521.0	29,436.8	25,893.6	22,165.6	22,573.9	16,002.6
Operating income	28,480.5	26,243.8	21,910.2	20,024.2	16,800.0	13,192.6
Interest income	24,399.3	21,937.2	18,048.9	15,355.4	12,781.0	10,284.1
Fees and commissions	1,840.8	2,597.3	2,006.1	1,738.8	1,560.0	1,671.4
Income from specified transactions[2]			220.7	229.3	190.9	346.7
Other operating income	2,240.3	1,709.1	1,634.4	2,700.5	2,267.9	890.3
Temporary income	3,040.4	3,193.0	3,983.3	2,141.3	5,773.8	2,810.0
Recurring expenses	34,362.0	29,267.5	30,143.8	28,155.9	20,660.1	15,596.4
Operating expenses	24,264.0	22,204.5	18,708.2	17,528.7	13,846.0	10,180.4
Interest expenses[3]	18,759.4	16,548.8	13,230.4	10,441.0	7,775.7	5,482.5
Expenses for money trust management	124.1	103.2	72.6	55.1	30.8	14.6
Fees and commissions	357.2	361.1	375.6	387.5	360.4	370.7
Expenses on specified transactions[2]			27.9	7.1	19.5	49.2
Other operating expenses	1,226.9	1,225.7	930.4	1,772.9	2,003.2	423.9
Debenture expenses[4]						12.1
Transfers to allowance for possible loan losses	50.0	68.8	129.4	1,034.8	2.0	217.9
Debenture expenses[4]	8.6	12.0	8.7	6.9	12.5	
General and administrative expenses	3,861.8	3,987.8	4,005.5	3,878.1	3,672.4	3,635.9
Temporary expenses	10,098.0	7,063.0	11,435.5	10,627.1	6,814.0	5,416.0
Recurring profits/losses	–2,841.0	169.2	–4,250.2	–5,990.3	1,913.8	406.1
Operating profits	4,340.7	4,142.5	3,274.6	2,550.7	2,984.9	3,026.8
Gross profits on operations	8,261.1	8,211.2	7,418.4	7,470.6	6,671.8	6,880.7
Net interest income	5,764.1	5,491.6	4,891.1	4,969.5	5,036.1	4,816.2
Net fees and commissions	1,483.5	2,236.2	1,630.4	1,351.3	1,199.6	1,300.6
Profits on specified transactions[2]			192.7	222.1	171.4	297.4
Other operating profits	1,013.4	483.4	704.0	927.6	264.6	466.3
Extraordinary profits	381.9	234.1	1,028.1	693.7	487.4	333.5
Extraordinary losses	325.9	215.0	235.3	560.0	413.2	476.2
Net income/loss before taxes	–2,785.0	188.3	–3,457.4	–5,856.6	1,988.0	263.4
Corporate income tax, inhabitants taxes, and enterprise taxes[5]	431.7	75.3	157.6	190.6	345.0	127.4
Income tax benefits[6]				–2,454.6	880.3	124.2
Net income/loss	–3,216.7	113.0	–3,615.1	–3,592.6	762.6	11.7

Income Statement of Regional Banks and Regional Banks II[1]

bil. yen

FY	1989	90	91	92	93	94
Recurring income	12,384.7	16,219.6	16,526.3	13,572.0	11,801.6	10,926.3
Operating income	11,756.4	15,558.3	16,078.8	13,375.2	11,494.0	10,598.6
Interest income	11,066.6	14,864.3	15,381.4	12,587.6	10,619.6	9,843.8
Fees and commissions	349.0	369.7	408.1	436.5	476.4	505.3
Income from specified transactions[2]						
Other operating income	340.6	324.1	289.0	350.9	397.8	249.2
Temporary income	628.1	661.1	447.4	196.7	307.5	327.6
Recurring expenses	11,349.8	15,203.5	15,655.4	12,635.1	11,075.4	10,138.1
Operating expenses	10,727.4	14,689.6	14,947.7	12,044.5	10,304.9	8,989.1
Interest expenses[3]	7,457.7	11,268.7	11,410.6	8,339.3	6,523.7	5,151.1
Expenses for money trust management	95.0	124.2	92.0	55.0	40.0	29.8
Fees and commissions	163.5	184.0	195.3	209.1	220.1	218.9
Expenses on specified transactions[2]						
Other operating expenses	344.8	307.7	257.1	276.1	290.7	292.4
Debenture expenses[4]						
Transfers to allowance for possible loan losses	25.0	11.9	12.8	10.0	2.5	7.2
Debenture expenses[4]	0.0	0.0	0.0	0.0	0.0	0.0
General and administrative expenses	2,735.9	2,916.9	3,071.5	3,209.6	3,267.5	3,319.0
Temporary expenses	622.3	513.8	707.6	590.5	770.3	1,149.0
Recurring profits/losses	1,034.7	1,016.0	870.7	936.8	726.1	788.0
Operating profits	1,124.2	992.9	1,223.1	1,385.8	1,229.1	1,639.3
Gross profits on operations	3,885.3	3,921.9	4,307.6	4,605.6	4,499.3	4,965.7
Net interest income	3,703.9	3,719.9	4,062.9	4,303.3	4,135.9	4,722.5
Net fees and commissions	185.4	185.6	212.8	227.3	256.2	286.3
Profits on specified transactions[2]						
Other operating profits	–4.2	16.3	31.8	74.8	107.0	–43.2
Extraordinary profits	47.4	40.9	86.4	74.0	95.8	42.7
Extraordinary losses	42.1	41.2	69.4	82.7	114.1	60.0
Net income/loss before taxes	1,040.0	1,015.7	887.8	928.2	707.7	770.8
Corporate income tax, inhabitants taxes, and enterprise taxes[5]	475.3	490.8	445.8	516.2	359.9	435.7
Income tax benefits[6]						
Net income/loss	564.5	524.8	441.8	411.9	347.7	335.0

Notes: *1.* Figures are for all banks, excluding those that had failed before the end of fiscal 1999. For definitions of all banks, city banks, long-term credit bank, trust banks, regional banks, and regional banks II, see Footnote 1 on page 75. Figures for banks that were taken over by other banks before the end of fiscal 1999 are, in principle, included in all those for the respective absorbing bank starting from fiscal 1989.
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2. Newly established in fiscal 1997.
3. Includes expenses on management of money trusts.
4. Moved from "operating expenses" to "other operating expenses" in fiscal 2000.
5. Figures through fiscal 1997 do not include enterprise taxes as they were recorded as temporary expenses.
6. Newly established in fiscal 1998 due to the introduction of accounting for the effect of income taxes.

Income Statement of Regional Banks and Regional Banks II[1]

(continued from the previous page)

FY	95	96	97	98	99	2000
Recurring income	10,691.1	9,080.6	8,955.1	8,190.1	7,668.9	7,053.9
Operating income	9,789.2	8,543.9	8,258.6	7,697.0	6,950.8	6,571.1
Interest income	8,729.5	7,511.8	7,089.3	6,465.5	5,995.9	5,717.8
Fees and commissions	534.0	547.6	558.4	570.6	602.5	621.7
Income from specified transactions[2]			4.1	4.7	2.0	4.0
Other operating income	525.5	484.3	606.6	655.9	350.2	227.3
Temporary income	901.8	536.6	696.3	493.0	717.9	482.6
Recurring expenses	10,298.2	8,748.3	9,363.4	9,381.7	7,202.8	7,004.7
Operating expenses	7,925.9	6,788.5	6,454.1	6,462.2	5,366.4	4,971.9
Interest expenses[3]	4,029.8	2,752.3	2,362.5	1,783.5	1,253.8	1,134.7
Expenses for money trust management	21.3	14.1	10.6	7.5	4.3	2.8
Fees and commissions	222.7	224.6	225.0	226.5	234.9	241.2
Expenses on specified transactions[2]			0.5	1.0	0.5	0.2
Other operating expenses	300.3	328.5	406.0	470.7	415.4	134.9
Debenture expenses[4]						1.0
Transfers to allowance for possible loan losses	7.9	0.2	–22.9	571.2	69.5	110.4
Debenture expenses[4]	0.0	0.0	0.0	0.0	0.0	
General and administrative expenses	3,364.8	3,482.5	3,482.7	3,408.8	3,391.8	3,350.0
Temporary expenses	2,372.2	1,959.7	2,909.2	2,919.4	1,836.3	2,032.7
Recurring profits/losses	392.8	332.2	–408.3	–1,191.6	466.0	49.1
Operating profits	1,884.5	1,769.5	1,815.1	1,242.3	1,593.4	1,602.0
Gross profits on operations	5,257.4	5,252.3	5,275.1	5,222.5	5,050.2	5,062.6
Net interest income	4,720.9	4,773.6	4,737.5	4,689.6	4,746.3	4,585.8
Net fees and commissions	311.1	322.8	333.2	344.0	367.5	380.4
Profits on specified transactions[2]			3.6	3.6	1.4	3.8
Other operating profits	225.2	155.7	200.5	185.1	–65.2	92.3
Extraordinary profits	106.7	111.1	250.8	82.0	48.3	384.6
Extraordinary losses	284.8	129.6	133.2	188.9	136.1	599.9
Net income/loss before taxes	214.6	313.7	–290.7	–1,298.5	378.3	–166.2
Corporate income tax, inhabitants taxes, and enterprise taxes[5]	680.1	154.4	387.9	424.7	403.3	336.1
Income tax benefits[6]				–879.6	–185.3	–321.6
Net income/loss	–465.5	159.2	–678.6	–843.5	160.3	–180.7

Assets of All Banks at Fiscal Year-End[1]

bil. yen

FY	1989	90	91	92	93	94
Loans and discounts	450,946.7	474,243.1	487,663.2	493,573.3	490,672.6	490,693.5
Loans	423,678.6	447,140.0	463,364.3	471,809.2	471,536.1	472,262.4
Of which: Loans to other financial institutions	737.6	792.8	679.3	661.2	530.4	479.0
Bills discounted	27,268.0	27,103.0	24,298.8	21,763.9	19,136.3	18,431.0
Trading account securities	2,708.8	2,950.4	2,600.5	3,365.5	3,364.0	2,929.4
Money held in trust	6,356.5	5,157.9	4,414.2	4,514.8	4,637.3	5,053.9
Investment securities	119,787.2	120,344.9	115,742.8	112,751.5	112,802.5	116,559.0
Government bonds	28,896.9	28,058.6	24,532.8	24,256.9	24,300.5	25,457.8
Local government bonds	6,546.6	6,613.6	6,687.3	7,071.8	7,523.0	8,514.3
Corporate bonds	21,687.7	22,771.1	24,286.9	24,448.9	24,009.9	22,230.9
Stocks	27,951.3	31,522.7	33,030.7	33,130.5	34,779.9	38,080.0
Securities loaned	1,657.6	935.9	556.8	471.8	451.5	331.7
Call loans	25,738.3	17,989.7	17,062.2	16,035.2	13,013.3	13,210.3
Receivables under repurchase agreements[2]						
Bills purchased	1,542.2	1,115.6	493.4	309.8	118.5	361.5
Monetary claims purchased	3,138.8	1,041.0	813.0	759.2	1,056.8	1,337.7
Cash and due from banks	148,577.8	120,279.0	101,410.5	84,216.7	88,919.0	80,774.8
Of which: Cash	30,697.8	31,783.3	24,801.2	18,927.0	18,325.7	15,315.8
Of which: Checks and bills due	28,164.4	29,158.8	21,771.9	16,038.1	15,284.1	12,382.1
Negotiable certificates of deposit	3,645.4	3,165.9	2,435.7	2,202.8	2,614.9	2,260.2
Foreign exchanges	11,816.5	9,212.5	7,913.9	6,659.9	5,874.5	5,426.0
Total interest-earning assets	728,928.3	710,102.2	705,301.4	695,629.2	694,527.8	692,340.4
Premises and movable property	4,783.3	5,427.1	6,013.6	6,353.6	6,352.6	6,276.6
Deferred tax assets[3]						
Customers' liabilities for acceptances and guarantees	57,531.5	57,650.2	53,224.3	44,228.5	38,503.0	36,169.4
Allowance for possible loan losses[4]						
Total assets	868,654.7	852,283.7	837,855.1	785,572.8	777,451.2	771,165.7

Notes: *1.* Figures are for all banks, excluding those that had failed before the end of fiscal 1999. For definitions of all banks, city banks, long-term credit bank, trust banks, regional banks, and regional banks II, see Footnote 1 on page 75. Figures for banks that were taken over by other banks before the end of fiscal 1999 are included in all those for the respective absorbing bank starting from fiscal 1989.
Figures are on a nonconsolidated basis, and include only banking accounts.
2. Newly established in fiscal 2000 in line with introduction of mark-to-market accounting.
3. A new item established in fiscal 1998 due to the application of accounting for the effect of income taxes in nonconsolidated financial statements.
4. Moved from "liabilities and stockholders' equity" to "assets" in fiscal 1999.

Assets of All Banks at Fiscal Year-End[1]

(continued from the previous page)

FY	95	96	97	98	99	2000
Loans and discounts	509,576.1	519,477.3	506,785.4	487,830.9	476,283.2	474,446.2
Loans	490,831.6	503,433.7	491,964.9	476,677.7	465,592.7	463,106.4
Of which: Loans to other financial institutions	630.9	1,311.8	1,905.5	2,125.7	3,298.4	3,329.8
Bills discounted	18,744.4	16,043.4	14,820.4	11,153.0	10,690.4	11,339.7
Trading account securities	1,604.8	1,520.2	1,365.9	1,362.2	4,668.6	5,607.9
Money held in trust	5,122.5	5,308.6	4,506.2	3,254.8	2,561.8	2,054.3
Investment securities	119,293.6	121,285.6	123,525.9	121,674.0	136,382.2	176,116.2
Government bonds	24,790.6	25,483.5	30,878.5	31,459.4	43,266.0	70,795.9
Local government bonds	9,405.4	9,599.7	9,283.7	9,546.4	10,180.9	10,127.9
Corporate bonds	20,765.4	18,236.1	16,920.7	17,703.2	17,830.2	19,006.6
Stocks	41,287.9	42,059.4	42,940.4	42,674.4	44,489.5	44,315.7
Securities loaned	305.0	69.1	69.2	155.8	173.0	2.1
Call loans	10,595.9	9,531.4	13,223.9	10,729.6	8,833.6	10,712.9
Receivables under repurchase agreements[2]						4,304.5
Bills purchased	1,127.0	1,745.5	6,225.4	4,980.5	2,912.5	2,904.9
Monetary claims purchased	942.8	1,106.3	1,005.0	1,789.7	1,510.6	1,618.1
Cash and due from banks	69,854.1	60,026.1	47,468.2	31,254.0	38,595.8	39,039.2
Of which: Cash	13,442.3	12,440.9	10,719.7	9,913.2	9,581.4	9,019.1
Of which: Checks and bills due	10,706.3	8,888.9	7,105.8	6,161.8	5,562.0	5,086.9
Negotiable certificates of deposit	2,672.8	3,457.1	1,812.2	1,645.0	1,341.0	1,530.6
Foreign exchanges	5,585.7	5,721.8	5,303.3	4,015.9	3,336.4	3,354.8
Total interest-earning assets	701,871.3	706,102.5	689,844.1	649,019.8	649,605.4	701,834.5
Premises and movable property	6,315.0	6,249.4	10,186.6	9,727.0	9,473.9	9,208.5
Deferred tax assets[3]				8,900.8	8,237.5	7,251.6
Customers' liabilities for acceptances and guarantees	38,339.2	41,959.0	40,813.9	36,067.4	31,530.6	33,893.4
Allowance for possible loan losses[4]					–12,022.7	–10,548.8
Total assets	781,382.1	793,484.1	798,254.1	756,659.8	738,453.6	803,184.3

Assets of City Banks, Long-Term Credit Banks, and Trust Banks at Fiscal Year-End[1]

bil. yen

FY	1989	90	91	92	93	94
Loans and discounts	302,549.6	317,327.6	324,156.3	325,177.1	319,960.1	317,030.5
Loans	287,935.2	303,301.0	311,685.1	314,216.8	310,598.9	308,176.0
Of which: Loans to other financial institutions	557.8	747.8	665.3	631.3	501.2	449.4
Bills discounted	14,614.4	14,026.6	12,471.1	10,960.3	9,361.2	8,854.5
Trading account securities	1,585.3	1,895.3	1,504.1	2,631.9	2,664.7	2,251.7
Money held in trust	3,933.6	3,390.8	2,934.7	3,230.5	3,337.1	3,743.3
Investment securities	78,089.0	75,522.6	72,640.7	70,717.6	70,705.4	73,931.8
Government bonds	16,027.5	14,062.7	12,079.0	12,044.1	12,430.4	13,425.6
Local government bonds	2,850.6	2,854.8	3,044.5	3,575.2	3,305.7	3,731.6
Corporate bonds	10,680.2	10,740.7	12,180.9	12,057.3	11,466.5	9,946.3
Stocks	23,324.6	26,356.7	27,723.2	27,773.7	29,208.6	32,321.8
Securities loaned	1,140.0	691.4	351.9	377.4	371.9	298.9
Call loans	15,522.5	9,120.5	7,235.8	6,180.0	4,042.4	4,378.5
Receivables under repurchase agreements[2]						
Bills purchased	364.4	25.0	32.0	18.5	1.0	183.4
Monetary claims purchased	1,966.1	662.0	571.0	472.8	672.2	909.7
Cash and due from banks	130,852.1	105,965.1	86,991.5	69,648.9	72,556.4	65,117.5
Of which: Cash	23,992.3	24,990.8	18,657.0	13,512.6	13,245.1	10,644.1
Of which: Checks and bills due	23,107.2	24,115.0	17,704.8	12,600.4	12,241.4	9,644.5
Negotiable certificates of deposit	2,408.1	2,344.7	1,530.4	1,430.6	1,688.2	1,378.8
Foreign exchanges	11,369.4	8,761.6	7,502.6	6,291.2	5,554.1	5,140.0
Total interest-earning assets	514,965.4	490,174.0	479,741.3	465,722.9	461,052.1	455,577.0
Premises and movable property	2,666.3	3,076.2	3,369.6	3,547.8	3,506.2	3,415.5
Deferred tax assets[3]						
Customers' liabilities for acceptances and guarantees	52,082.5	51,906.4	47,217.2	38,053.3	32,093.4	29,687.3
Allowance for possible loan losses[4]						
Total assets	628,064.6	605,725.1	583,910.6	537,242.4	525,798.4	516,622.0

Notes: *1.* Figures are for all banks, excluding those that had failed before the end of fiscal 1999. For definitions of all banks, city banks, long-term credit bank, trust banks, regional banks, and regional banks II, see Footnote 1 on page 75. Figures for banks that were taken over by other banks before the end of fiscal 1999 are included in all those for the respective absorbing bank starting from fiscal 1989.
Figures are on a nonconsolidated basis, and include only banking accounts.
2. Newly established in fiscal 2000 in line with introduction of mark-to-market accounting.
3. A new item established in fiscal 1998 due to the application of accounting for the effect of income taxes in nonconsolidated financial statements.
4. Moved from "liabilities and stockholders' equity" to "assets" in fiscal 1999.

Assets of City Banks, Long-Term Credit Banks, and Trust Banks at Fiscal Year-End[1]

(continued from the previous page)

FY	95	96	97	98	99	2000
Loans and discounts	329,714.6	338,579.0	324,350.7	303,670.3	296,656.1	294,375.5
Loans	320,751.1	331,059.0	317,530.4	298,868.2	291,957.8	289,408.8
Of which: Loans to other financial institutions	626.3	1,309.3	1,887.1	2,095.0	3,259.2	3,290.3
Bills discounted	8,963.4	7,520.0	6,820.3	4,802.1	4,698.2	4,966.6
Trading account securities	1,209.9	1,049.5	1,154.3	1,029.9	4,391.3	5,152.5
Money held in trust	3,650.7	3,795.4	3,137.1	2,171.5	1,715.5	1,236.3
Investment securities	74,955.4	75,805.5	81,035.4	78,063.8	87,104.4	120,209.1
Government bonds	12,825.0	13,033.0	18,615.6	17,938.4	26,545.1	51,356.6
Local government bonds	3,952.8	3,706.7	3,429.0	2,724.6	2,650.3	2,638.6
Corporate bonds	8,830.7	6,877.3	5,807.5	5,915.6	5,558.4	5,661.9
Stocks	34,875.4	35,652.7	36,633.0	36,543.8	38,327.0	36,936.5
Securities loaned	283.0	50.6	37.9	105.2	89.0	0.0
Call loans	3,920.1	3,526.1	6,263.5	3,764.6	2,636.3	3,180.4
Receivables under repurchase agreements[2]						4,284.5
Bills purchased	679.7	1,186.3	4,168.6	3,618.4	1,817.0	1,617.0
Monetary claims purchased	499.0	459.7	472.1	798.8	507.7	719.0
Cash and due from banks	55,596.7	47,808.6	37,426.7	21,947.7	27,116.4	29,213.4
Of which: Cash	9,545.4	8,261.8	6,748.0	6,255.2	6,016.6	5,645.0
Of which: Checks and bills due	8,631.3	7,135.6	5,581.2	4,987.3	4,532.5	4,128.0
Negotiable certificates of deposit	1,796.8	2,519.1	1,029.3	996.4	731.3	1,084.4
Foreign exchanges	5,281.7	5,385.7	5,033.9	3,804.6	3,133.9	3,155.9
Total interest-earning assets	459,979.5	464,931.1	450,089.4	407,511.6	408,298.5	451,222.0
Premises and movable property	3,411.8	3,341.5	6,179.1	5,614.8	5,376.4	5,158.0
Deferred tax assets[3]				6,648.2	5,731.2	5,269.7
Customers' liabilities for acceptances and guarantees	32,112.8	35,522.7	34,466.2	30,025.0	26,077.1	28,730.2
Allowance for possible loan losses[4]					–7,470.6	–6,017.4
Total assets	522,641.8	534,607.8	539,836.9	494,289.6	479,236.5	536,844.3

Assets of Regional Banks and Regional Banks II at Fiscal Year-End[1]

bil. yen

FY	1989	90	91	92	93	94
Loans and discounts	148,397.0	156,915.5	163,506.9	168,396.1	170,712.4	173,663.0
Loans	135,743.3	143,838.9	151,679.2	157,592.4	160,937.2	164,086.4
Of which: Loans to other financial institutions	179.7	44.9	14.0	29.8	29.1	29.6
Bills discounted	12,653.6	13,076.4	11,827.6	10,803.6	9,775.1	9,576.4
Trading account securities	1,123.5	1,055.1	1,096.4	733.5	699.2	677.7
Money held in trust	2,422.8	1,767.0	1,479.5	1,284.2	1,300.1	1,310.5
Investment securities	41,698.1	44,822.3	43,102.1	42,033.9	42,097.1	42,627.2
Government bonds	12,869.3	13,995.8	12,453.8	12,212.7	11,870.0	12,032.1
Local government bonds	3,696.0	3,758.8	3,642.7	3,496.6	4,217.3	4,782.7
Corporate bonds	11,007.5	12,030.3	12,106.0	12,391.5	12,543.4	12,284.6
Stocks	4,626.6	5,166.0	5,307.5	5,356.8	5,571.2	5,758.2
Securities loaned	517.5	244.5	204.9	94.4	79.5	32.7
Call loans	10,215.8	8,869.2	9,826.3	9,855.2	8,970.8	8,831.8
Receivables under repurchase agreements[2]						
Bills purchased	1,177.8	1,090.6	461.4	291.3	117.5	178.1
Monetary claims purchased	1,172.6	378.9	242.0	286.3	384.5	428.0
Cash and due from banks	17,725.6	14,313.9	14,418.9	14,567.8	16,362.5	15,657.3
Of which: Cash	6,705.4	6,792.5	6,144.1	5,414.3	5,080.5	4,671.6
Of which: Checks and bills due	5,057.1	5,043.7	4,067.1	3,437.7	3,042.7	2,737.5
Negotiable certificates of deposit	1,237.2	821.1	905.2	772.1	926.7	881.3
Foreign exchanges	447.1	450.8	411.2	368.6	320.3	286.0
Total interest-earning assets	213,962.9	219,928.1	225,560.0	229,906.2	233,475.7	236,763.4
Premises and movable property	2,116.9	2,350.9	2,643.9	2,805.8	2,846.4	2,861.1
Deferred tax assets[3]						
Customers' liabilities for acceptances and guarantees	5,448.9	5,743.8	6,007.0	6,175.1	6,409.5	6,482.0
Allowance for possible loan losses[4]						
Total assets	240,590.0	246,558.6	253,944.5	248,330.3	251,652.8	254,543.7

Notes: *1.* Figures are for all banks, excluding those that had failed before the end of fiscal 1999. For definitions of all banks, city banks, long-term credit bank, trust banks, regional banks, and regional banks II, see Footnote 1 on page 75. Figures for banks that were taken over by other banks before the end of fiscal 1999 are included in all those for the respective absorbing bank starting from fiscal 1989.
Figures are on a nonconsolidated basis, and include only banking accounts.
2. Newly established in fiscal 2000 in line with introduction of mark-to-market accounting.
3. A new item established in fiscal 1998 due to the application of accounting for the effect of income taxes in nonconsolidated financial statements.
4. Moved from "liabilities and stockholders' equity" to "assets" in fiscal 1999.

Assets of Regional Banks and Regional Banks II at Fiscal Year-End[1]

(continued from the previous page)

FY	95	96	97	98	99	2000
Loans and discounts	179,861.4	180,898.2	182,434.6	184,160.5	179,627.1	180,070.7
Loans	170,080.5	172,374.7	174,434.4	177,809.4	173,634.8	173,697.5
Of which: Loans to other financial institutions	4.5	2.4	18.4	30.7	39.2	39.5
Bills discounted	9,780.9	8,523.4	8,000.1	6,350.9	5,992.1	6,373.1
Trading account securities	394.8	470.6	211.6	332.3	277.2	455.4
Money held in trust	1,471.7	1,513.1	1,369.1	1,083.2	846.3	818.0
Investment securities	44,338.2	45,480.0	42,490.4	43,610.2	49,277.8	55,907.1
Government bonds	11,965.6	12,450.5	12,262.9	13,521.0	16,720.8	19,439.3
Local government bonds	5,452.6	5,892.9	5,854.7	6,821.7	7,530.6	7,489.2
Corporate bonds	11,934.7	11,358.7	11,113.1	11,787.5	12,271.7	13,344.7
Stocks	6,412.5	6,406.7	6,307.4	6,130.6	6,162.5	7,379.2
Securities loaned	22.0	18.5	31.3	50.6	83.9	2.1
Call loans	6,675.8	6,005.2	6,960.4	6,964.9	6,197.3	7,532.5
Receivables under repurchase agreements[2]						19.9
Bills purchased	447.3	559.2	2,056.8	1,362.1	1,095.5	1,287.9
Monetary claims purchased	443.8	646.5	532.9	990.8	1,002.9	899.0
Cash and due from banks	14,257.3	12,217.4	10,041.4	9,306.3	11,479.4	9,825.7
Of which: Cash	3,896.8	4,179.0	3,971.6	3,658.0	3,564.8	3,374.1
Of which: Checks and bills due	2,075.0	1,753.3	1,524.5	1,174.4	1,029.5	958.9
Negotiable certificates of deposit	875.9	937.9	782.9	648.5	609.7	446.1
Foreign exchanges	303.9	336.0	269.4	211.3	202.4	198.8
Total interest-earning assets	241,891.7	241,171.3	239,754.6	241,508.1	241,306.8	250,612.5
Premises and movable property	2,903.2	2,907.9	4,007.5	4,112.2	4,097.4	4,050.4
Deferred tax assets[3]				2,252.6	2,506.2	1,981.9
Customers' liabilities for acceptances and guarantees	6,226.4	6,436.2	6,347.7	6,042.3	5,453.5	5,163.1
Allowance for possible loan losses[4]					–4,552.0	–4,531.3
Total assets	258,740.2	258,876.2	258,417.2	262,370.1	259,217.0	266,340.0

Liabilities and Stockholders' Equity of All Banks at Fiscal Year-End[1]

bil. yen

FY	1989	90	91	92	93	94
Deposits	588,551.2	574,179.8	552,355.1	523,997.7	523,725.4	526,119.6
Current deposits	27,156.5	27,729.8	26,578.0	24,876.2	24,071.0	21,459.0
Ordinary deposits	61,506.6	61,151.7	61,908.3	62,873.3	66,310.7	67,713.7
Savings deposits				682.1	1,047.8	3,317.4
Deposits at notice	41,798.0	36,815.3	32,953.3	28,886.5	29,394.8	28,815.5
Time deposits	364,068.8	364,376.3	360,448.2	346,875.2	343,172.8	352,898.4
Negotiable certificates of deposit	32,831.7	32,037.5	25,684.1	25,471.1	23,678.8	24,322.9
Debentures	22,460.8	24,975.3	27,025.8	27,273.3	27,242.0	26,651.6
Call money	49,281.9	39,849.9	44,597.5	44,522.3	42,800.7	40,100.3
Payables under repurchase agreements[2]						
Bills sold	16,339.2	13,373.9	13,941.6	11,638.0	7,116.4	5,095.6
Commercial paper[3]						
Borrowed money	7,773.1	12,458.2	14,507.4	19,301.6	21,520.9	21,837.7
Foreign exchanges	3,730.1	1,749.6	1,725.3	1,335.9	1,154.8	950.5
Corporate bonds[4]						
Convertible bonds	2,160.0	2,016.5	1,767.6	1,367.0	1,191.3	761.0
Due to trust accounts	16,331.2	17,923.2	23,052.4	30,196.4	34,174.4	34,778.9
Money held in trusts	6,356.5	5,157.8	4,414.2	4,514.8	4,637.3	5,053.9
Total interest-bearing liabilities	734,040.1	714,788.0	701,567.0	682,413.5	679,699.6	676,930.8
Allowance for possible loan losses[5]	3,106.5	3,129.5	3,544.8	4,398.0	5,191.1	6,303.9
Reserve for retirement allowances	989.8	984.2	982.7	979.8	982.3	988.3
Other reserves[6]	2.4	0.0	0.0	0.1	0.0	1.0
Reserves under special laws	286.0	286.8	247.7	279.7	308.4	313.5
Deferred tax liabilities related to land revaluation[7]						
Acceptances and guarantees	57,531.5	57,650.2	53,224.3	44,228.5	38,503.0	36,169.4
Land revaluation differential[7]						
Total liabilities	842,269.5	824,480.2	809,065.5	756,249.9	747,637.7	741,296.6
Common stock	6,698.0	6,980.8	7,029.5	7,053.7	7,091.9	7,277.6
New stock subscriptions	412.6	5.8	14.9	28.4	100.0	13.9
Legal reserves	5,876.7	6,291.6	6,476.0	6,633.5	6,774.5	7,058.4
Capital surplus	4,546.9	4,827.7	4,879.1	4,909.1	4,943.4	5,124.9
Retained surplus	1,329.8	1,463.8	1,596.8	1,724.3	1,831.0	1,933.4
Land revaluation differential[7]						
Earned surplus	13,397.8	14,538.3	15,268.8	15,606.9	15,846.8	15,518.9
Voluntary reserves	11,203.0	12,635.4	13,774.9	14,539.0	14,903.4	15,166.6
Unappropriated profits at the end of the term	2,194.7	1,902.8	1,493.8	1,067.8	943.3	352.1
Valuation differential[2]						
Total stockholders' equity[8]	26,385.0	27,816.3	28,789.4	29,322.8	29,813.4	29,869.0
Total liabilities and stockholders' equity	868,654.7	852,283.7	837,855.1	785,572.8	777,451.2	771,165.7

Notes: 1. Figures are for all banks, excluding those that had failed before the end of fiscal 1999. For definitions of all banks, city banks, long-term credit bank, trust banks, regional banks, and regional banks II, see Footnote 1 on page 75. Figures for banks that were taken over by other banks before the end of fiscal 1999 are included in all those for the respective absorbing bank starting from fiscal 1989. Figures are on a nonconsolidated basis, and include only banking accounts.
2. Newly established in fiscal 2000 in line with introduction of mark-to-market accounting.
3. Newly established in fiscal 1998.
4. Newly established in fiscal 1997.
5. Moved from "liabilities and stockholders' equity" to "assets" in fiscal 1999.
6. Includes reserve for possible losses on sales of loans, such as sales of loans to the CCPC.

Liabilities and Stockholders' Equity of All Banks at Fiscal Year-End[1]

(continued from the previous page)

FY	95	96	97	98	99	2000
Deposits	520,301.0	524,032.0	509,947.6	489,335.0	495,279.0	511,840.7
Current deposits	24,338.2	21,621.7	19,811.8	20,553.9	22,524.6	26,049.3
Ordinary deposits	76,071.0	81,905.1	88,826.9	98,360.7	116,494.4	126,096.8
Savings deposits	8,387.5	11,092.4	13,698.7	14,483.7	14,163.1	13,415.2
Deposits at notice	28,908.1	30,023.7	25,330.4	17,952.9	19,108.5	20,418.7
Time deposits	326,784.0	326,333.3	317,324.5	302,740.2	293,443.8	296,626.2
Negotiable certificates of deposit	36,422.3	42,175.6	43,678.1	43,153.5	41,168.4	48,055.8
Debentures	27,652.2	27,997.9	26,140.8	24,894.2	24,480.3	21,811.9
Call money	40,161.2	39,064.7	31,813.1	27,365.7	22,036.6	27,973.8
Payables under repurchase agreements[2]						9,361.5
Bills sold	7,684.0	4,315.3	4,113.7	801.4	1,653.4	7,490.7
Commercial paper[3]				1,808.5	2,152.7	4,747.7
Borrowed money	21,937.1	24,569.3	27,557.1	22,119.1	21,264.5	19,763.5
Foreign exchanges	1,188.5	1,671.1	1,185.8	1,333.2	1,335.3	1,149.9
Corporate bonds[4]			993.0	1,528.0	2,855.9	5,148.2
Convertible bonds	699.1	647.6	878.5	662.0	845.0	662.8
Due to trust accounts	32,107.1	27,194.5	22,356.3	17,334.2	17,882.3	15,444.3
Money held in trusts	5,122.5	5,308.6	4,506.2	3,254.8	2,561.8	2,052.9
Total interest-bearing liabilities	684,482.5	688,906.7	668,072.6	630,688.2	631,437.7	678,012.5
Allowance for possible loan losses[5]	11,908.1	10,608.1	16,156.7	14,675.2		
Reserve for retirement allowances	987.0	984.6	974.3	959.1	997.0	1,077.1
Other reserves[6]	30.3	585.4	1,105.3	1,497.5	1,678.4	1,115.8
Reserves under special laws	321.5	332.2	0.1	0.1	0.1	0.1
Deferred tax liabilities related to land revaluation[7]				1,510.2	1,420.1	1,333.9
Acceptances and guarantees	38,339.2	41,959.0	40,813.9	36,067.4	31,530.6	33,893.4
Land revaluation differential[7]			4,034.7	15.5		
Total liabilities	755,359.5	766,432.4	775,298.5	722,995.0	703,291.6	766,691.5
Common stock	7,404.4	7,875.3	8,135.0	12,124.8	12,486.9	12,421.9
New stock subscriptions	13.8	73.6	0.0	1.7	25.1	5.8
Legal reserves	7,147.4	7,659.8	8,141.2	11,874.4	11,957.4	12,126.8
Capital surplus	5,120.4	5,553.9	5,949.0	9,676.2	9,757.3	9,831.2
Retained surplus	2,026.9	2,105.8	2,192.1	2,198.1	2,200.0	2,295.5
Land revaluation differential[7]				2,099.5	2,116.2	2,030.3
Earned surplus	11,456.5	11,442.5	6,679.2	7,563.9	8,575.8	8,019.5
Voluntary reserves	14,962.9	11,111.4	10,801.9	6,406.9	7,258.8	7,702.2
Unappropriated profits at the end of the term	–3,506.4	331.0	–4,122.7	1,156.9	1,316.9	317.2
Valuation differential[2]						1,888.0
Total stockholders' equity[8]	26,022.4	27,051.5	22,955.6	33,664.6	35,161.9	36,492.7
Total liabilities and stockholders' equity	781,382.1	793,484.1	798,254.1	756,659.8	738,453.6	803,184.3

7. "Land revaluation differential" was newly established in fiscal 1997 with the implementation of the Law Concerning the Revaluation of Land. In fiscal 1998, the law was amended requiring the land revaluation differential to be reflected in the capital account after adjustment for the tax effect. As a result, "deferred tax assets related to land revaluation" and "deferred tax liabilities related to land revaluation" were newly created, and the land revaluation differential started to be recorded in the capital account (banks that do not account for the effect of income taxes continue to record the land revaluation differential as a liability). "Land revaluation differential (liabilities)" was discontinued in fiscal 1999 since all the banks were obliged to adopt accounting for effects of income taxes.
8. All figures for stockholders' equity are those before the appropriation of profits.

Liabilities and Stockholders' Equity of City Banks, Long-Term Credit Banks, and Trust Banks at Fiscal Year-End[1]

bil. yen

FY	1989	90	91	92	93	94
Deposits	388,805.1	370,157.9	342,049.3	311,294.7	307,280.5	304,287.7
Current deposits	17,284.6	17,660.0	18,197.6	16,586.4	16,004.7	13,810.2
Ordinary deposits	30,741.0	30,465.6	30,371.6	30,598.6	32,007.4	32,935.5
Savings deposits				373.5	512.4	1,343.5
Deposits at notice	35,775.3	31,867.7	28,621.2	24,816.4	25,661.2	25,413.7
Time deposits	240,248.0	232,171.7	219,385.7	201,208.1	195,602.9	200,001.6
Negotiable certificates of deposit	28,822.5	28,601.0	23,145.7	23,465.6	22,097.1	22,724.2
Debentures	22,460.8	24,975.3	27,025.8	27,273.3	27,242.0	26,651.6
Call money	42,966.6	33,767.7	39,458.0	39,531.0	37,236.0	35,726.2
Payables under repurchase agreements[2]						
Bills sold	14,567.6	12,131.1	12,872.5	10,471.7	6,778.8	4,853.1
Commercial paper[3]						
Borrowed money	7,005.9	10,482.1	12,431.7	16,595.8	18,765.3	18,914.7
Foreign exchanges	3,693.8	1,728.9	1,695.2	1,312.3	1,135.2	930.9
Corporate bonds[4]						
Convertible bonds	1,770.0	1,682.9	1,512.7	1,142.7	1,055.7	643.1
Due to trust accounts	16,283.8	17,875.6	22,952.5	29,999.6	33,926.2	34,500.3
Money held in trusts	3,933.6	3,390.8	2,934.7	3,230.5	3,337.1	3,743.3
Total interest-bearing liabilities	523,176.9	499,229.4	481,328.3	459,495.9	453,616.5	446,574.8
Allowance for possible loan losses[5]	2,254.7	2,276.0	2,634.4	3,320.7	3,914.0	4,753.3
Reserve for retirement allowances	520.0	509.3	498.3	484.4	477.6	472.6
Other reserves[6]	2.4	0.0	0.0	0.0	0.0	1.0
Reserves under special laws	168.2	164.2	135.7	164.8	187.3	195.9
Deferred tax liabilities related to land revaluation[7]						
Acceptances and guarantees	52,082.5	51,906.4	47,217.2	38,053.3	32,093.4	29,687.3
Land revaluation differential[7]						
Total liabilities	610,238.1	586,981.1	564,610.4	517,770.9	506,071.8	497,112.6
Common stock	4,708.8	4,892.9	4,902.0	4,902.4	4,921.3	5,084.8
New stock subscriptions	314.6	0.0	0.0	0.0	100.0	0.0
Legal reserves	3,977.7	4,217.5	4,283.7	4,341.5	4,418.5	4,639.4
Capital surplus	3,377.7	3,561.7	3,571.4	3,571.9	3,590.7	3,754.2
Retained surplus	599.9	655.8	712.2	769.6	827.8	885.2
Land revaluation differential[7]						
Earned surplus	8,825.2	9,633.5	10,114.4	10,227.5	10,286.6	9,785.1
Voluntary reserves	7,241.2	8,307.3	9,117.3	9,627.9	9,747.6	9,819.2
Unappropriated profits at the end of the term	1,584.0	1,326.1	997.0	599.5	539.0	–34.1
Valuation differential[2]						
Total stockholders' equity[8]	17,826.4	18,743.9	19,300.1	19,471.5	19,726.6	19,509.4
Total liabilities and stockholders' equity	628,064.6	605,725.1	583,910.6	537,242.4	525,798.4	516,622.0

Notes: *1.* Figures are for all banks, excluding those that had failed before the end of fiscal 1999. For definitions of all banks, city banks, long-term credit bank, trust banks, regional banks, and regional banks II, see Footnote 1 on page 75. Figures for banks that were taken over by other banks before the end of fiscal 1999 are included in all those for the respective absorbing bank starting from fiscal 1989. Figures are on a nonconsolidated basis, and include only banking accounts.
2. Newly established in fiscal 2000 in line with introduction of mark-to-market accounting.
3. Newly established in fiscal 1998.
4. Newly established in fiscal 1997.
5. Moved from "liabilities and stockholders' equity" to "assets" in fiscal 1999.
6. Includes reserve for possible losses on sales of loans, such as sales of loans to the CCPC.

Liabilities and Stockholders' Equity of City Banks, Long-Term Credit Banks, and Trust Banks at Fiscal Year-End[1]

(continued from the previous page)

FY	95	96	97	98	99	2000
Deposits	298,164.5	300,188.7	287,505.4	262,475.0	264,356.5	277,621.6
Current deposits	15,888.1	14,134.8	12,797.4	13,534.7	15,328.5	17,380.2
Ordinary deposits	37,562.5	40,449.3	44,622.4	49,767.4	62,509.0	65,945.2
Savings deposits	3,594.3	5,241.9	7,159.2	7,733.1	7,490.7	6,936.7
Deposits at notice	25,937.5	27,208.5	22,442.4	14,998.7	16,098.7	17,948.7
Time deposits	177,843.1	177,395.8	169,515.3	152,652.3	143,425.8	149,660.9
Negotiable certificates of deposit	33,614.5	39,127.8	41,702.4	41,029.9	39,389.7	44,401.1
Debentures	27,652.2	27,997.9	26,140.8	24,894.2	24,480.3	21,811.9
Call money	34,110.5	34,120.8	28,462.7	25,071.9	20,482.4	26,422.3
Payables under repurchase agreements[2]						9,361.5
Bills sold	6,522.0	3,646.6	3,061.1	660.5	1,469.2	7,144.1
Commercial paper[3]				1,793.5	2,152.7	4,747.7
Borrowed money	18,861.8	21,619.3	24,392.1	19,099.8	18,584.8	17,479.1
Foreign exchanges	1,169.4	1,651.4	1,170.8	1,320.2	1,326.3	1,141.4
Corporate bonds[4]			963.0	1,498.0	2,693.4	4,676.7
Convertible bonds	612.1	534.0	725.9	529.1	437.4	373.4
Due to trust accounts	31,867.4	27,034.6	22,246.5	17,238.0	17,782.1	15,353.4
Money held in trusts	3,650.7	3,795.4	3,137.1	2,171.5	1,715.5	1,234.8
Total interest-bearing liabilities	450,013.7	454,196.5	435,629.1	395,562.6	393,718.3	435,236.5
Allowance for possible loan losses[5]	9,015.0	7,961.5	12,169.8	9,257.7		
Reserve for retirement allowances	463.5	452.4	437.2	419.8	434.8	334.7
Other reserves[6]	22.4	537.9	993.3	1,287.4	1,423.1	896.2
Reserves under special laws	202.1	210.3	0.1	0.1	0.1	0.1
Deferred tax liabilities related to land revaluation[7]				1,010.0	913.7	833.3
Acceptances and guarantees	32,112.8	35,522.7	34,466.2	30,025.0	26,077.1	28,730.2
Land revaluation differential[7]			2,929.5	0.0		
Total liabilities	506,468.0	517,834.0	526,358.6	471,452.2	455,811.0	513,723.9
Common stock	5,169.4	5,538.4	5,757.0	9,625.6	9,610.2	9,375.8
New stock subscriptions	0.0	0.0	0.0	0.0	0.0	0.0
Legal reserves	4,655.5	5,074.9	5,484.8	9,133.6	8,999.9	8,928.7
Capital surplus	3,719.1	4,088.0	4,446.2	8,065.1	7,873.9	7,728.2
Retained surplus	936.4	986.8	1,038.5	1,068.5	1,125.9	1,200.5
Land revaluation differential[7]				1,398.5	1,404.2	1,327.2
Earned surplus	6,348.7	6,160.3	2,236.3	2,679.5	3,411.1	3,059.3
Voluntary reserves	9,447.5	6,025.7	5,718.3	2,040.9	2,441.2	2,713.1
Unappropriated profits at the end of the term	–3,098.7	134.6	–3,481.9	638.5	969.8	346.1
Valuation differential[2]						429.2
Total stockholders' equity[8]	16,173.7	16,773.8	13,478.2	22,837.3	23,425.5	23,120.4
Total liabilities and stockholders' equity	522,641.8	534,607.8	539,836.9	494,289.6	479,236.5	536,844.3

7. "Land revaluation differential" was newly established in fiscal 1997 with the implementation of the Law Concerning the Revaluation of Land. In fiscal 1998, the law was amended requiring the land revaluation differential to be reflected in the capital account after adjustment for the tax effect. As a result, "deferred tax assets related to land revaluation" and "deferred tax liabilities related to land revaluation" were newly created, and the land revaluation differential started to be recorded in the capital account (banks that do not account for the effect of income taxes continue to record the land revaluation differential as a liability). "Land revaluation differential (liabilities)" was discontinued in fiscal 1999 since all the banks were obliged to adopt accounting for effects of income taxes.
8. All figures for stockholders' equity are those before the appropriation of profits.

Liabilities and Stockholders' Equity of Regional Banks and Regional Bank II at Fiscal Year-End[1]

bil. yen

FY	1989	90	91	92	93	94
Deposits	199,746.1	204,021.8	210,305.8	212,702.9	216,444.9	221,831.8
Current deposits	9,871.9	10,069.8	8,380.3	8,289.7	8,066.2	7,648.7
Ordinary deposits	30,765.6	30,686.1	31,536.7	32,274.7	34,303.2	34,778.1
Savings deposits				308.5	535.4	1,973.9
Deposits at notice	6,022.6	4,947.6	4,332.1	4,070.0	3,733.5	3,401.7
Time deposits	123,820.7	132,204.6	141,062.4	145,667.0	147,569.8	152,896.7
Negotiable certificates of deposit	4,009.2	3,436.4	2,538.3	2,005.4	1,581.7	1,598.7
Debentures	0.0	0.0	0.0	0.0	0.0	0.0
Call money	6,315.2	6,082.1	5,139.5	4,991.3	5,564.7	4,374.0
Payables under repurchase agreements[2]						
Bills sold	1,771.5	1,242.8	1,069.0	1,166.2	337.6	242.4
Commercial paper[3]						
Borrowed money	767.1	1,976.0	2,075.7	2,705.7	2,755.6	2,923.0
Foreign exchanges	36.3	20.6	30.1	23.6	19.5	19.6
Corporate bonds[4]						
Convertible bonds	390.0	333.6	254.9	224.2	135.6	117.9
Due to trust accounts	47.3	47.5	99.8	196.7	248.1	278.6
Money held in trusts	2,422.8	1,767.0	1,479.5	1,284.2	1,300.1	1,310.5
Total interest-bearing liabilities	210,863.1	215,558.5	220,238.6	222,917.6	226,083.0	230,356.0
Allowance for possible loan losses[5]	851.8	853.4	910.3	1,077.3	1,277.1	1,550.6
Reserve for retirement allowances	469.7	474.8	484.3	495.4	504.7	515.7
Other reserves[6]	0.0	0.0	0.0	0.1	0.0	0.0
Reserves under special laws	117.7	122.5	111.9	114.8	121.1	117.6
Deferred tax liabilities related to land revaluation[7]						
Acceptances and guarantees	5,448.9	5,743.8	6,007.0	6,175.1	6,409.5	6,482.0
Land revaluation differential[7]						
Total liabilities	232,031.3	237,499.0	244,455.1	238,479.0	241,565.9	244,183.9
Common stock	1,989.2	2,087.9	2,127.4	2,151.2	2,170.6	2,192.8
New stock subscriptions	97.9	5.8	14.9	28.4	0.0	13.9
Legal reserves	1,899.0	2,074.0	2,192.3	2,292.0	2,355.9	2,419.0
Capital surplus	1,169.1	1,266.0	1,307.7	1,337.2	1,352.6	1,370.7
Retained surplus	729.8	807.9	884.5	954.7	1,003.2	1,048.1
Land revaluation differential[7]						
Earned surplus	4,572.6	4,904.7	5,154.4	5,379.4	5,560.1	5,733.7
Voluntary reserves	3,961.8	4,328.0	4,657.6	4,911.0	5,155.8	5,347.4
Unappropriated profits at the end of the term	610.7	576.6	496.7	468.3	404.2	386.3
Valuation differential[2]						
Total stockholders' equity[8]	8,558.6	9,072.3	9,489.3	9,851.3	10,086.7	10,359.6
Total liabilities and stockholders' equity	240,590.0	246,558.6	253,944.5	248,330.3	251,652.8	254,543.7

Notes: *1.* Figures are for all banks, excluding those that had failed before the end of fiscal 1999. For definitions of all banks, city banks, long-term credit bank, trust banks, regional banks, and regional banks II, see Footnote 1 on page 75. Figures for banks that were taken over by other banks before the end of fiscal 1999 are included in all those for the respective absorbing bank starting from fiscal 1989. Figures are on a nonconsolidated basis, and include only banking accounts.
2. Newly established in fiscal 2000 in line with introduction of mark-to-market accounting.
3. Newly established in fiscal 1998.
4. Newly established in fiscal 1997.
5. Moved from "liabilities and stockholders' equity" to "assets" in fiscal 1999.

Liabilities and Stockholders' Equity of Regional Banks and Regional Bank II at Fiscal Year-End[1]

(continued from the previous page)

FY	95	96	97	98	99	2000
Deposits	222,136.4	223,843.3	222,442.2	226,859.9	230,922.4	234,219.1
Current deposits	8,450.1	7,486.9	7,014.3	7,019.2	7,196.0	8,669.1
Ordinary deposits	38,508.4	41,455.7	44,204.4	48,593.2	53,985.3	60,151.5
Savings deposits	4,793.2	5,850.5	6,539.4	6,750.6	6,672.4	6,478.5
Deposits at notice	2,970.6	2,815.1	2,887.9	2,954.2	3,009.8	2,470.0
Time deposits	148,940.8	148,937.5	147,809.2	150,087.9	150,018.0	146,965.2
Negotiable certificates of deposit	2,807.8	3,047.8	1,975.7	2,123.6	1,778.7	3,654.6
Debentures	0.0	0.0	0.0	0.0	0.0	0.0
Call money	6,050.7	4,943.8	3,350.3	2,293.8	1,554.1	1,551.4
Payables under repurchase agreements[2]						0.0
Bills sold	1,162.0	668.7	1,052.6	140.9	184.2	346.6
Commercial paper[3]				15.0	0.0	0.0
Borrowed money	3,075.2	2,950.0	3,165.0	3,019.2	2,679.7	2,284.4
Foreign exchanges	19.0	19.7	15.0	12.9	9.0	8.4
Corporate bonds[4]			30.0	30.0	162.5	471.4
Convertible bonds	87.0	113.6	152.6	132.9	407.6	289.3
Due to trust accounts	239.7	159.8	109.8	96.1	100.2	90.8
Money held in trusts	1,471.7	1,513.1	1,369.1	1,083.2	846.3	818.0
Total interest-bearing liabilities	234,468.7	234,710.2	232,443.5	235,125.5	237,719.4	242,775.9
Allowance for possible loan losses[5]	2,893.1	2,646.6	3,986.8	5,417.4		
Reserve for retirement allowances	523.4	532.1	537.0	539.3	562.2	742.3
Other reserves[6]	7.8	47.5	111.9	210.0	255.3	219.6
Reserves under special laws	119.3	121.8	0.0	0.0	0.0	0.0
Deferred tax liabilities related to land revaluation[7]				500.1	506.4	500.5
Acceptances and guarantees	6,226.4	6,436.2	6,347.7	6,042.3	5,453.5	5,163.1
Land revaluation differential[7]			1,105.1	15.5		
Total liabilities	248,891.5	248,598.4	248,939.8	251,542.8	247,480.5	252,967.6
Common stock	2,235.0	2,336.8	2,378.0	2,499.2	2,876.7	3,046.1
New stock subscriptions	13.8	73.6	0.0	1.7	25.1	5.8
Legal reserves	2,491.9	2,584.9	2,656.4	2,740.7	2,957.5	3,198.1
Capital surplus	1,401.3	1,465.8	1,502.7	1,611.1	1,883.3	2,103.0
Retained surplus	1,090.5	1,118.9	1,153.5	1,129.6	1,074.1	1,094.9
Land revaluation differential[7]				700.9	712.0	703.0
Earned surplus	5,107.7	5,282.1	4,442.8	4,884.4	5,164.7	4,960.2
Voluntary reserves	5,515.4	5,085.7	5,083.5	4,366.0	4,817.5	4,989.1
Unappropriated profits at the end of the term	–407.7	196.4	–640.7	518.4	347.1	–28.9
Valuation differential[2]						1,458.8
Total stockholders' equity[8]	9,848.6	10,277.7	9,477.3	10,827.3	11,736.3	13,372.3
Total liabilities and stockholders' equity	258,740.2	258,876.2	258,417.2	262,370.1	259,217.0	266,340.0

6. Includes reserve for possible losses on sales of loans, such as sales of loans to the CCPC.
7. "Land revaluation differential" was newly established in fiscal 1997 with the implementation of the Law Concerning the Revaluation of Land. In fiscal 1998, the law was amended requiring the land revaluation differential to be reflected in the capital account after adjustment for the tax effect. As a result, "deferred tax assets related to land revaluation" and "deferred tax liabilities related to land revaluation" were newly created, and the land revaluation differential started to be recorded in the capital account (banks that do not account for the effect of income taxes continue to record the land revaluation differential as a liability). "Land revaluation differential (liabilities)" was discontinued in fiscal 1999 since all the banks were obliged to adopt accounting for effects of income taxes.
8. All figures for stockholders' equity are those before the appropriation of profits.

Symbols and Abbreviations Used in This Article

CY	Calendar year	tril.	Trillions
FY	Fiscal year	% chg.	Percentage changes
%	Percent	y/y % chg.	Percentage changes from the previous year
thous.	Thousands	avg.	Average
bil.	Billions	n.a.	Not applicable