



Summary

April 2026
Bank of Japan



Note: This document presents a summary of the April 2026 issue of the *Financial System Report*.
See the *Report* for more details of the analyses as well as notes and sources of the charts.

Stability assessment of Japan's financial system

- Japan's financial system has been maintaining stability on the whole.
- Financial intermediation has continued to function smoothly.
 - In the loan market, firms' demand for loans has continued to rise and banks' lending stance has remained active. Under such circumstances, no major financial imbalances have been seen in current financial activities.
- Japanese banks have sufficient capital bases and stable funding bases to withstand various stress situations, specifically including (1) stress equivalent to the global financial crisis that would cause major corrections in financial markets and the real economy at home and abroad; and (2) a compound stress of the materialization of geopolitical risks such as a rise in crude oil prices, together with shrinking expectations about future prospects of AI, and a substantial rise in interest rates, all happening simultaneously.
 - It is necessary to carefully monitor the impact on the financial system of developments in the economic policy formulation in each jurisdiction, geopolitical risks particularly regarding the situation in the Middle East, and activities of the foreign NBFIs sector.
- Ensuring the stability of Japan's financial system into the future by analyzing risks and potential vulnerabilities of the financial system, and by addressing them appropriately is essential.

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1. Market developments

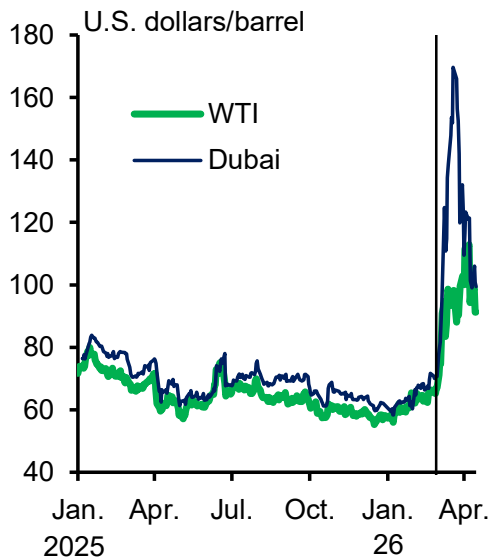
- Market developments at home and abroad
- Potential impact of the situation in the Middle East

Market developments

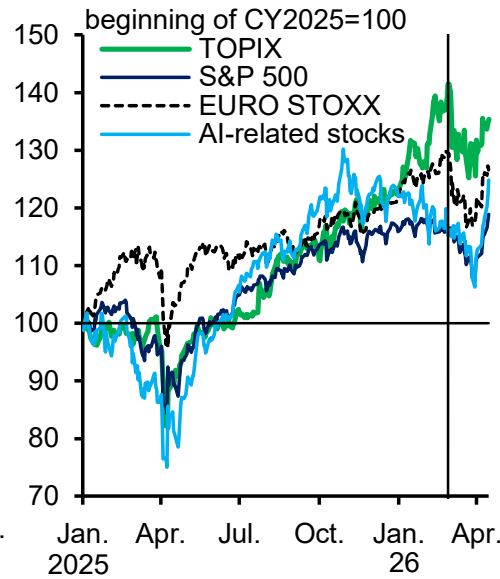
- In the wake of increased tension over the situation in the Middle East that happened at end-February, crude oil prices surged and asset prices and long-term interest rates fluctuated significantly.
 - Attention has been paid to developments in foreign AI-related stocks and the private credit market.

Developments in international commodity markets / domestic and foreign financial markets

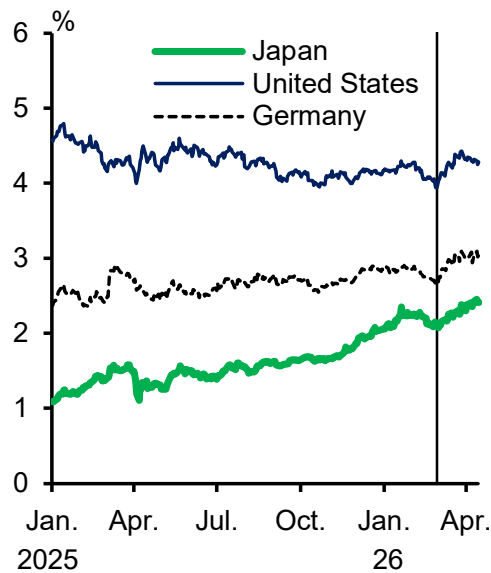
Oil prices



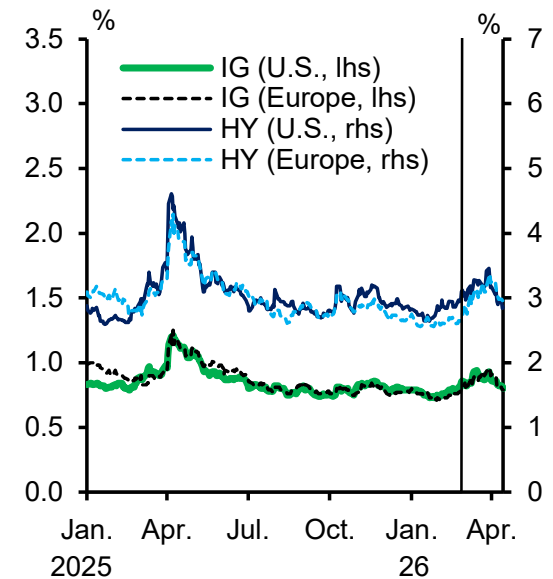
Stock prices



Long-term interest rates



Credit spreads on corporate bonds



Note: 1. Latest data as of April 15, 2026. The vertical lines indicate February 28, 2026.

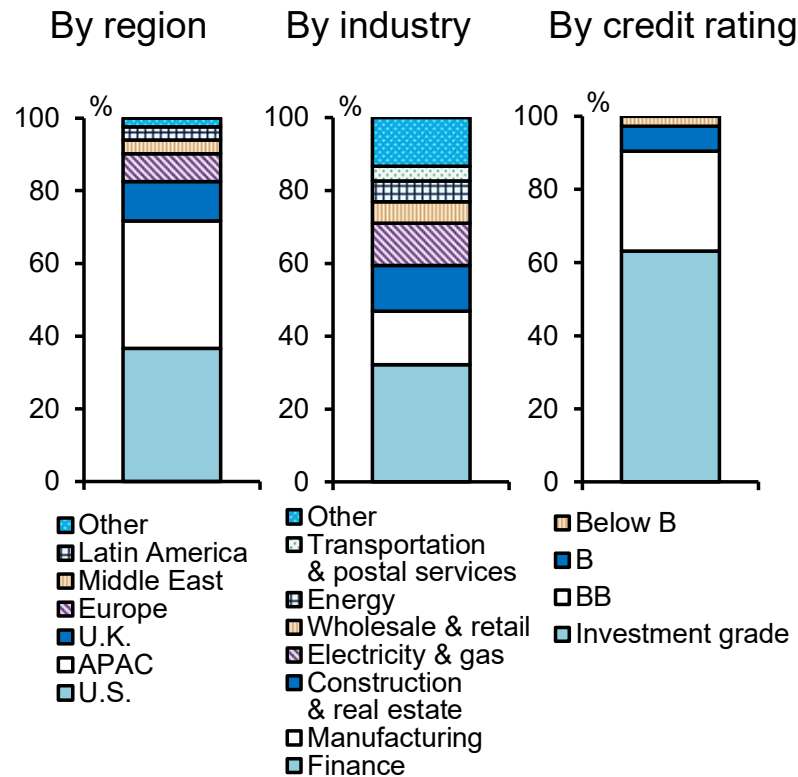
2. "WTI" refers to the futures price and "Dubai" refers to the spot price. "AI-related stocks" refers to "S&P 500 Information Technology Index."

Source: Bloomberg; ICE Data Indices, LLC; Nikkei Inc.

Potential impact of the situation in the Middle East (1)

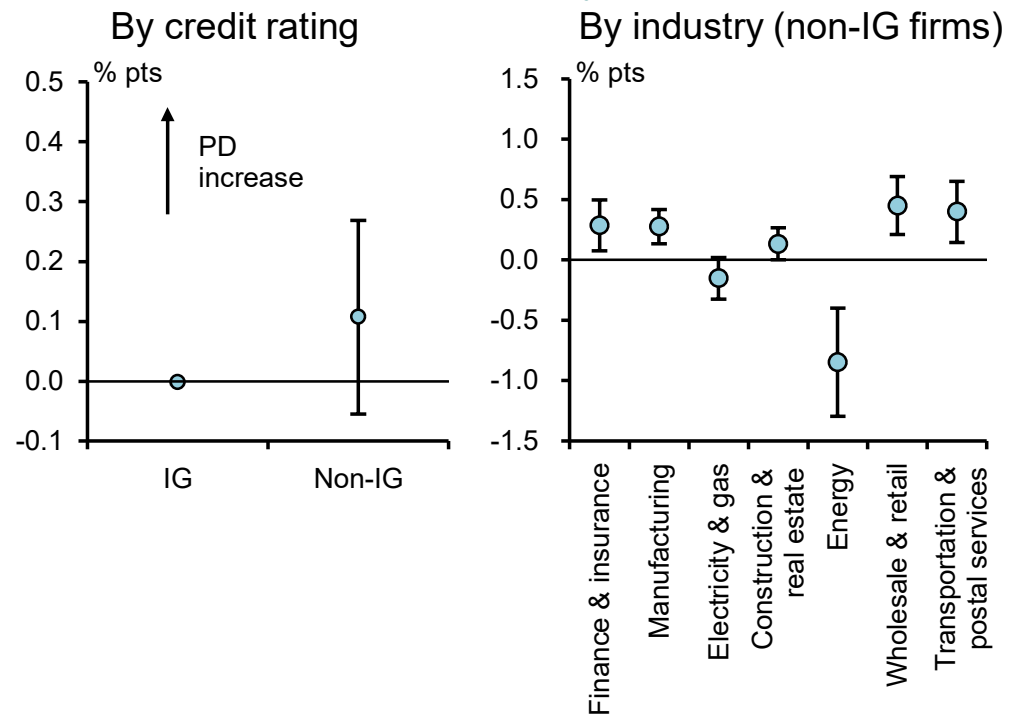
- Lending by the three major banks to the Middle East remains limited. However, the impact of increases in crude oil prices could be different across regions and industries.
- An estimation of the impact of an increase in crude oil prices on the default probabilities of foreign firms suggests that non-investment-grade (non-IG) firms, in particular, could be affected and default probabilities tend to rise in industries other than the energy sector.

Composition of foreign loans



Note: Shows the shares in total foreign loans. Covers the three major banks. Figures by region are as of end-December 2025. Figures by industry and by credit rating are as of end-September 2025.
Source: BOJ.

The impact of the rise in crude oil prices on firms' probability of default



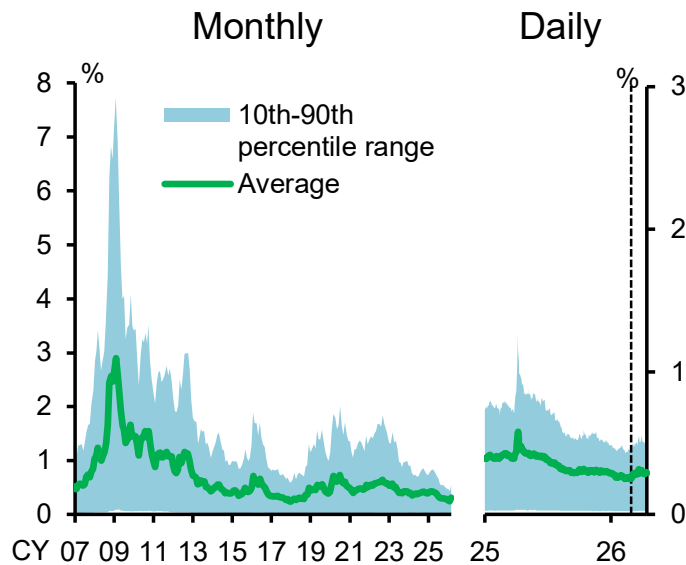
Note: Shows the maximum changes in the probability of default (PD) over the next two years when the WTI oil prices increase by one standard deviation (about 14%). The estimation period is from 1986/Q2 to 2019/Q4. Covers foreign firms. The bands represent 90 percent confidence intervals. See Charts IV-2-8 and IV-2-9 in the April 2022 issue of the *Report*.

Source: Haver Analytics; Moody's.

Potential impact of the situation in the Middle East (2)

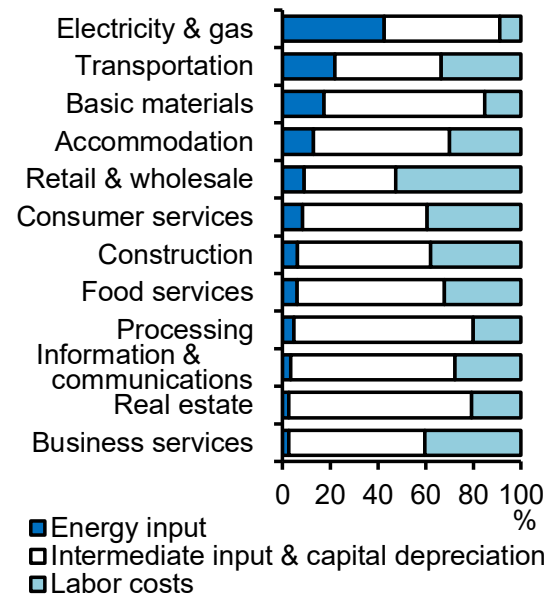
- The expected default frequencies (EDF) of firms, an indicator of market participants' views on firms' default risks, have not exhibited significant fluctuations since end-February.
- Depending on the future course of the situation in the Middle East, there is a risk that firms' commodity procurement costs could be elevated, and effects through supply chains could emerge. Under these circumstances, it remains necessary to pay close attention to the possibility that this could have an impact on firms' financial positions and their cash flow management.

Expected default frequency (EDF) of large firms



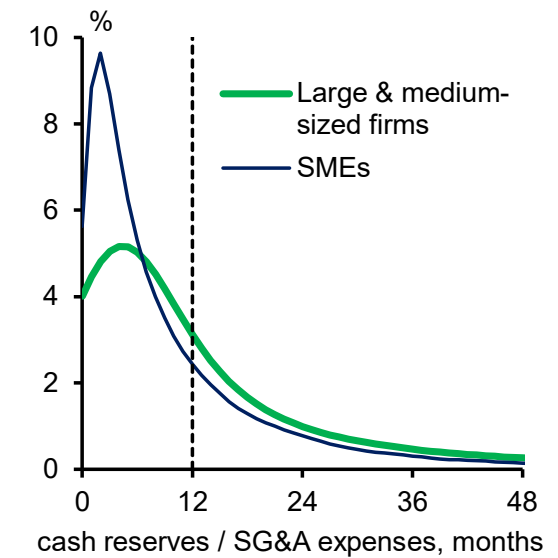
Note: Latest data for the monthly chart are as of end-March 2026, and for the daily chart are as of April 15, 2026. The vertical line indicates February 28, 2026. Shows the aggregated values of 1-year EDF of Japanese large firms defined by Moody's. See Chart IV-1-4. Source: Moody's.

Cost structures by industry



Note: See Chart IV-1-4.

Cash reserves to SG&A expenses ratios



Note: Shows cash reserves / Selling, General and Administrative (SG&A) expenses. See Chart IV-1-4.

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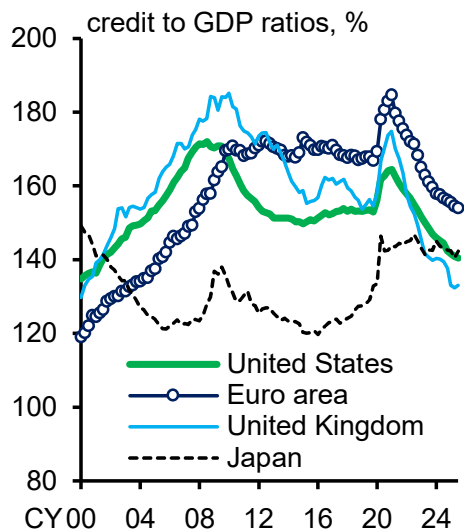
2. Developments in foreign NBFIs and banks' exposures

- Linkages between foreign NBFIs and Japan's financial system
- Developments in foreign private funds
- Lending to foreign funds by Japanese banks

The global presence of the NBFIs sector

- Borrowings in the private non-financial sector show that the ratio of total credit to GDP, which temporarily rose during the pandemic, has since been on a downward trend.
- On the other hand, in recent years, potential risks associated with the NBFIs sector have attracted growing attention. Financial assets held by the NBFIs sector have been increasing globally, particularly among investment funds. NBFIs are growing their presence in the financial sector.

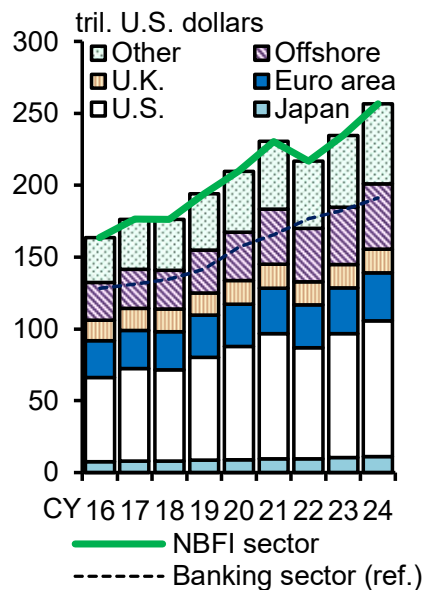
Borrowings outstanding by the private non-financial sector



Note: See Chart V-2-1.

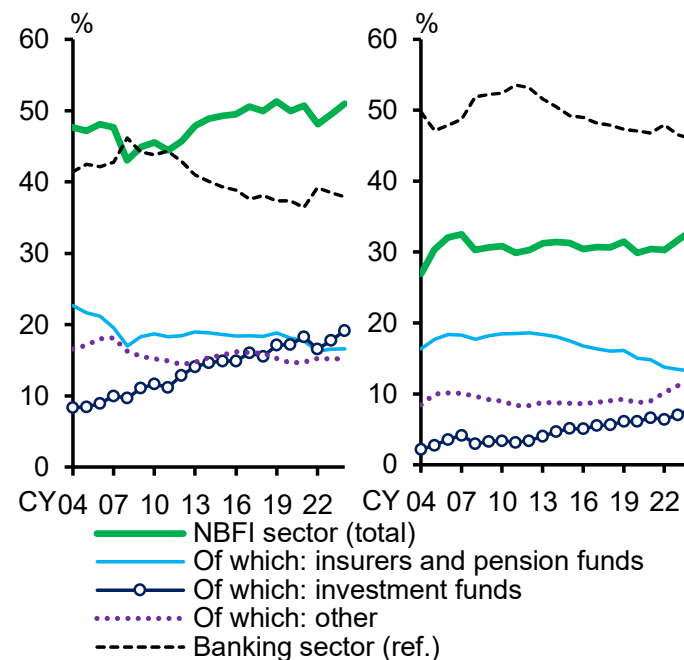
Global financial assets of the NBFIs sector

Size of financial assets (Global)



Note: See Chart V-2-2.

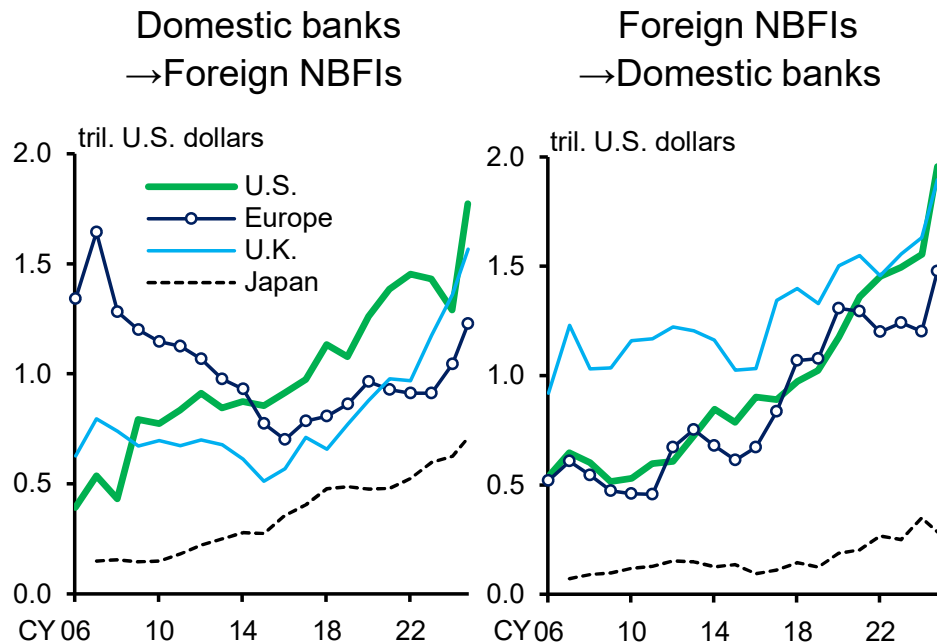
Shares in the financial sector (Global) (Japan)



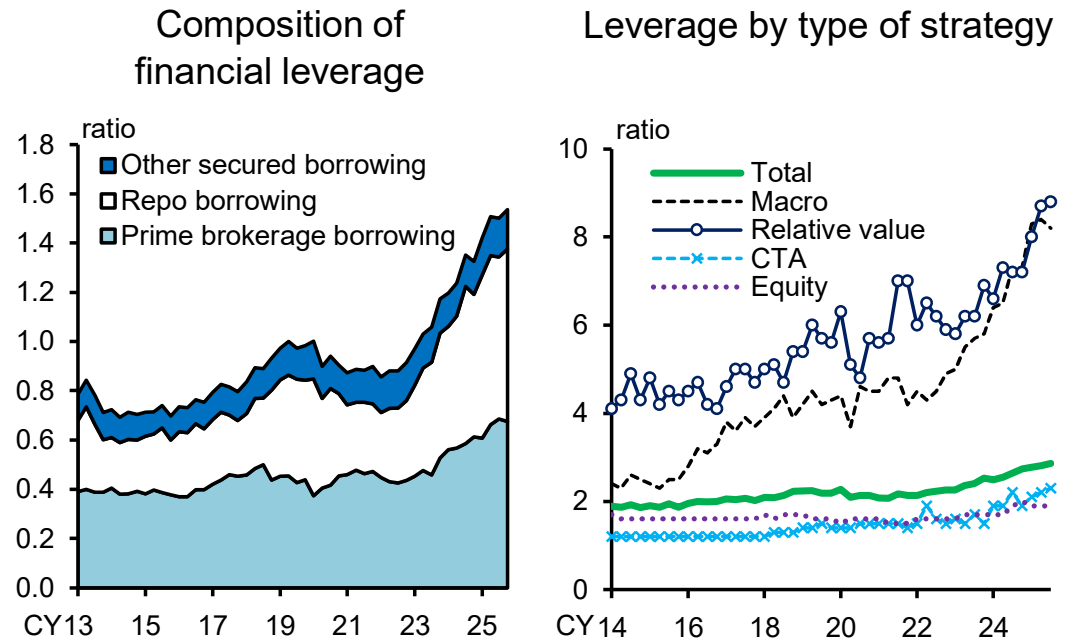
Linkages between foreign NBFIs and Japan's financial system (1)

- Cross-border lending and borrowing such as repo transactions between the banking sectors and offshore hedge funds has increased. Leverage among hedge funds has been on the rise.
- Increasing interconnectedness between sectors and jurisdictions suggests that stress affecting the NBFFI sector in terms of credit or liquidity could more easily spill over to banking sectors across multiple jurisdictions.

Cross-border lending and borrowing by domestic banking sector in each jurisdiction



Leverage of U.S. hedge funds



Note: See Chart V-2-4.

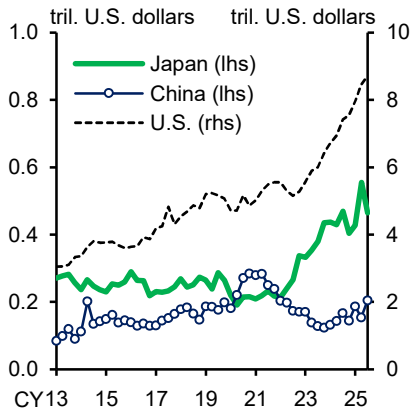
Note: The left-hand chart shows borrowings / net asset values. The right-hand chart shows gross asset values / net asset values. See Chart V-2-3.

Linkages between foreign NBFIs and Japan's financial system (2)

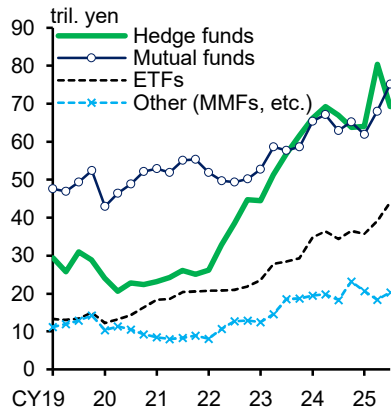
- Securities investments in Japan by U.S. investment funds have remained on an increasing trend.
- Japanese banks have been expanding their exposure to foreign funds as part of alternative investments.
- Amid the growing interconnectedness of domestic banking sector and financial markets with the foreign NBFIs sector, Japan's financial system may also have become more susceptible to fluctuations in global financial markets and developments in foreign funds.

Investments to Japan by U.S. investment funds

Exposure of U.S. hedge funds by country

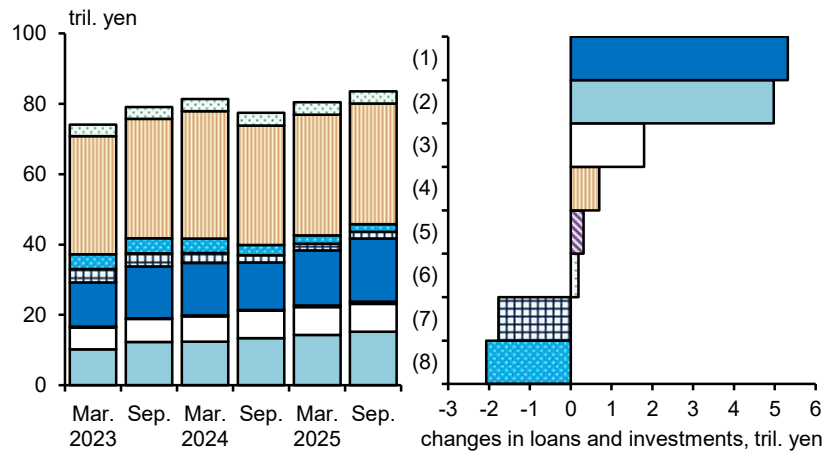


Investments to Japan by investment funds operating in the U.S.



Note: Data for "Hedge funds" are gross market exposure including derivative positions. Latest data as of 2025/Q3. See Chart V-2-11.

Loans and investments of Japanese banks to the foreign NBFIs sector



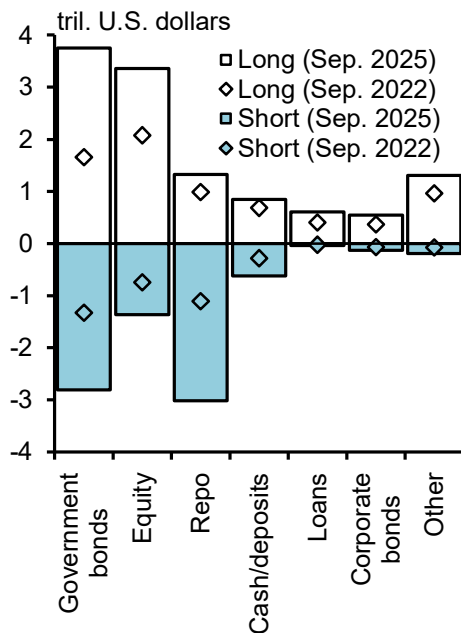
- (1) CLOs
- (2) Loans to funds
- (3) Investments in PE & PC funds
- (4) IG bonds investment trusts
- (5) Equity investment trusts excl. PE funds
- (6) Investment trusts by regional and *shinkin* banks
- (7) ABSs, etc.
- (8) HY bonds investment trusts

Note: Covers loans and investments to the foreign NBFIs sector by major banks and others, excluding trust banks, and foreign investment trusts by regional and *shinkin* banks. "Loans to funds" is loan exposures (including credit lines) to private funds in the Americas. See Chart IV-2-5.

Developments in foreign hedge funds

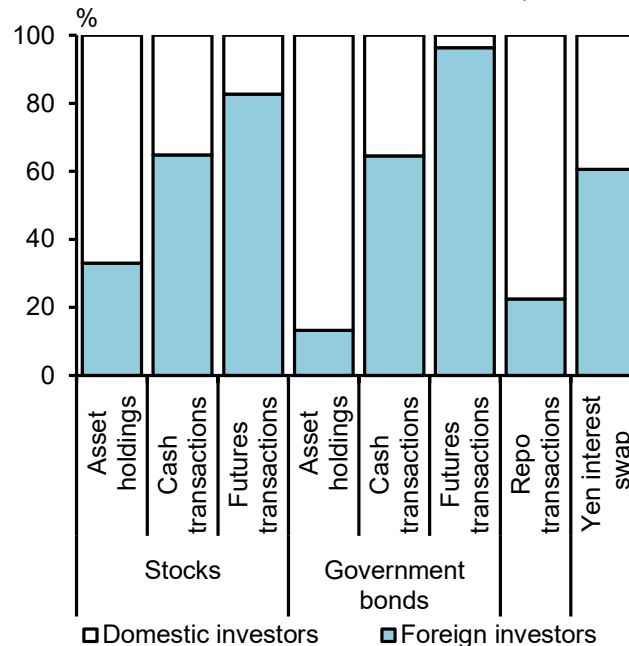
- Hedge funds operating in the United States have been increasing both long and short positions in bond markets, particularly in sovereign bonds of major countries.
- Foreign hedge funds have been trading Japanese government bonds (JGBs) combined with repos and derivatives such as interest rate swaps, resulting in increased leverage. Regarding purchases of JGBs, foreign investors generally maintain a buying position under normal conditions but tend to shift to selling during periods of heightened volatility.

U.S. hedge funds' position by asset type



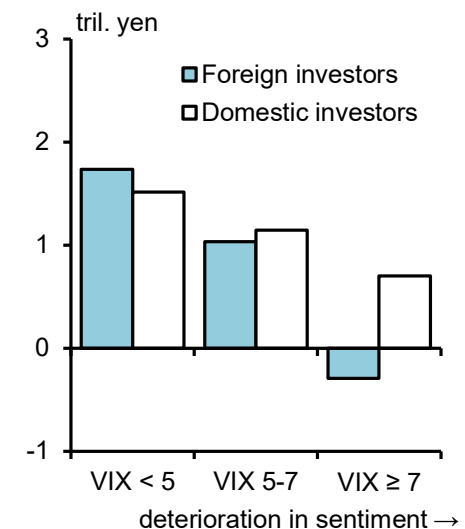
Note: See Chart V-2-6.

Asset holdings and transaction volume shares in the Japanese stock and bond markets, etc.



Note: Data for asset holdings of government bonds exclude those held by BOJ and exclude treasury discount bills. "Cash transactions" refers to dealer-to-client cash JGB transactions, including both purchases and sales. Excludes treasury discount bills. "Futures transactions" covers those of brokerage. See Chart V-2-12.

Net trading volume of cash JGBs by market phase

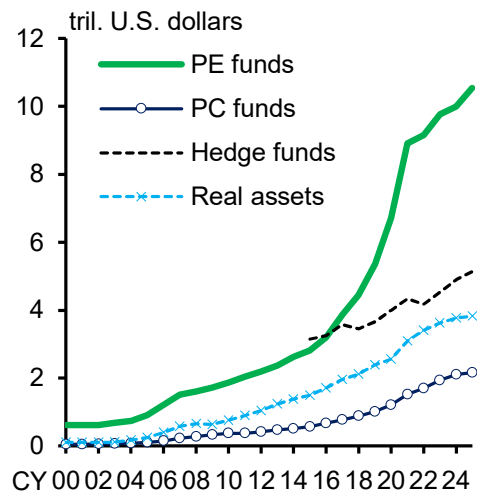


Note: Data are from January 2016 to February 2026, converted to a monthly basis. "VIX" refers to the S&P JPX JGB VIX. See Chart V-2-16.

Developments in foreign private funds (1)

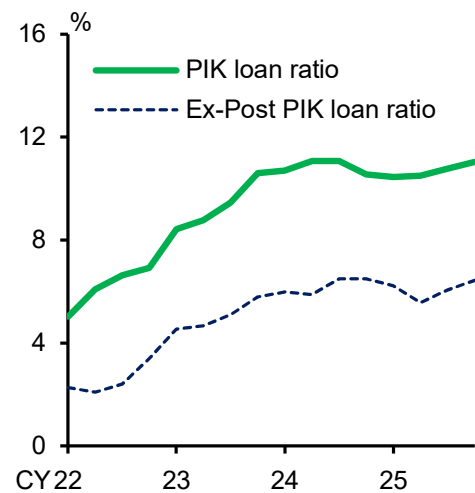
- Assets under management of private equity (PE) and private credit (PC) have continued to increase, particularly in U.S. and European markets, although their growth has slowed compared with a while ago.
- The creditworthiness of recipient firms could be altered depending on future developments in the Middle East situation and AI-related sector, and close monitoring of investment practices of PC funds remains important.

Global assets under management in private funds



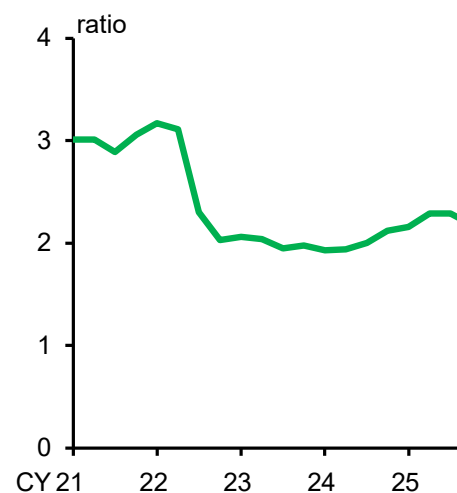
Note: "PC funds" represents the sum of BDCs and PD funds. See Chart IV-2-6.

Share of interest payment deferral of firms invested in by PE and PC funds



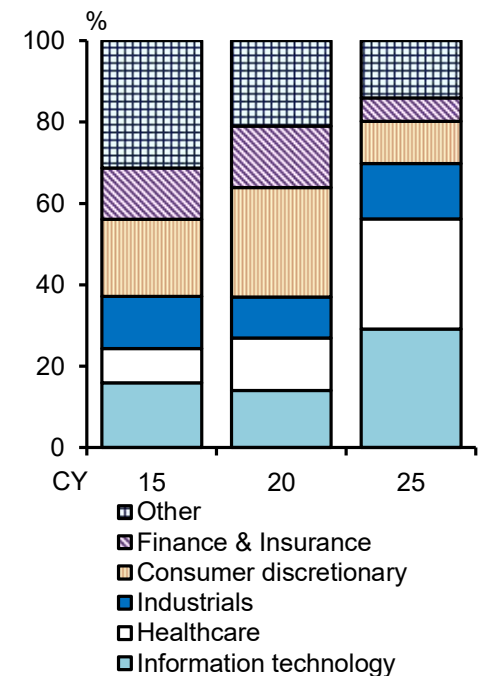
Note: "Ex-Post PIK loan ratio" indicates the share of loans where PIK clauses have been newly incorporated or implemented following loan execution (so-called "Bad PIK"). See Chart B1-1.

Interest coverage ratio of firms borrowing from PC funds



Note: Shows the ICR for newly issued loans. See Chart B1-5.

Industry composition of firms borrowing from PC funds



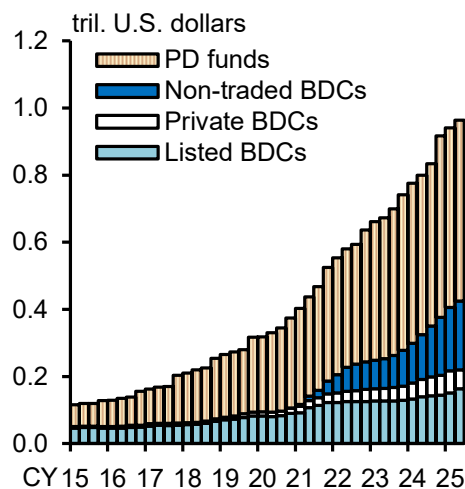
Note: On a deal basis. See Chart B1-8.

Developments in foreign private funds (2)

- Private credit funds have been utilizing long-term funds raised from institutional investors for credit provision. However, in recent years, there has been an increase in fund management by funds that accept redemption requests up to a certain amount in each period (non-traded BDCs).
- Recent cases of investor redemptions from these funds have attracted attention in the market. Their structure allows fund managers to control the scale of redemptions, and so far there have been no signs of forced sales of illiquid assets.

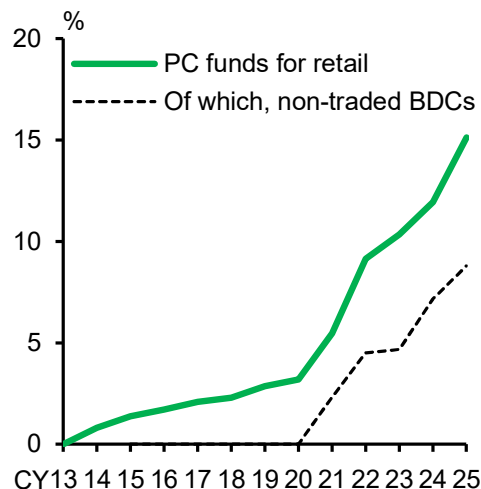
Changes in the composition of PC funds

Breakdown of U.S. PC funds by category

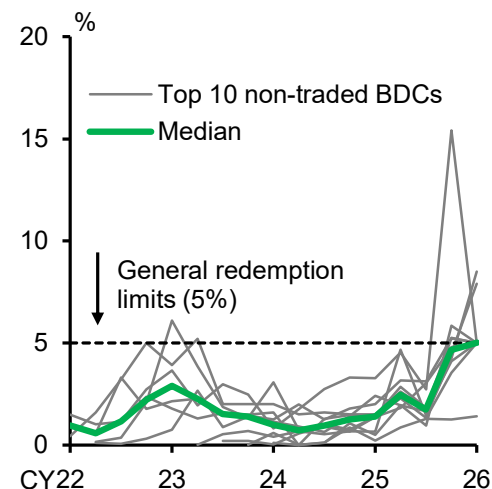


Note: The left-hand chart covers direct lending funds in the North American region. The right-hand chart covers global PC funds. "PC funds for retail" in the right-hand chart represents the sum of non-traded BDCs, interval funds, and tender offer funds (which are semi-liquid and publicly offered). See Chart B1-4.

Share of PC funds for retail investors

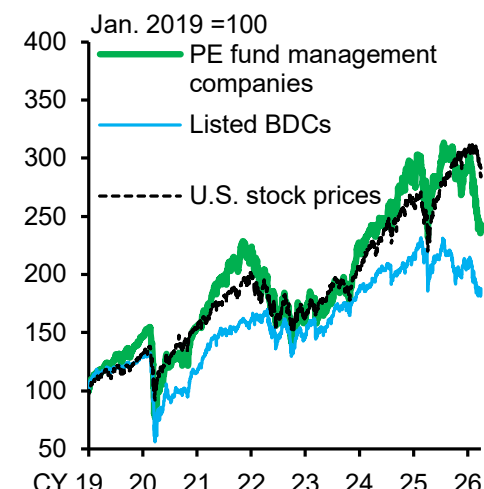


Redemption rates of non-traded BDCs



Note: Shows ratios of actual redemptions to the previous net asset values. Covers the top 10 non-traded BDCs by AUM as of 2025/Q4. Data for 2026/Q1 are based on the published accounts of individual companies, etc. See Chart B1-3.

Stock prices related to PE and PC funds

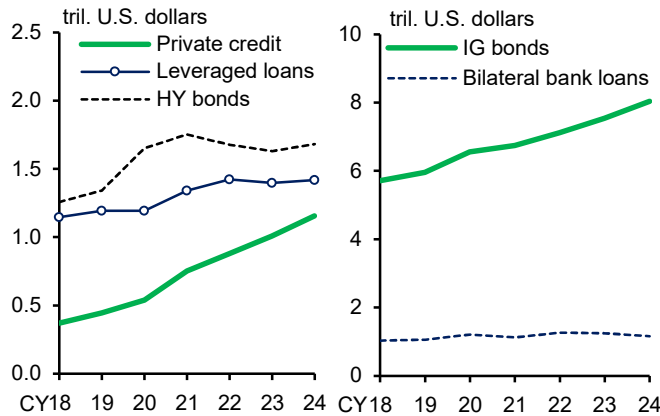


Note: Figures are total returns including dividends. Latest data as of March 31, 2026. See Chart B1-2.

Reference: outline of private credit funds

- Private credit refers to a form of financial intermediation by the NBFII sector, where funds primarily provide loans to non-listed firms. The market size is on an upward trend at present in the United States.
- BDCs are designed to ensure a certain degree of transparency and risk mitigation for investors through mandatory quarterly disclosures and limits on leverage ratios, among other measures.

Size of private credit in U.S. credit markets



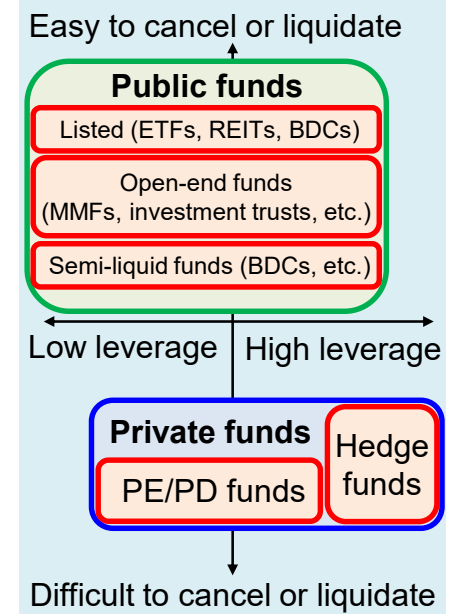
Note: See Chart 6 in the Bank of Japan review "Evolving Trends in Business Development Companies (BDCs) in the U.S. Direct Lending Market."

Main types of direct lending funds

	BDCs			PD funds
	Public		Private BDCs	
	Listed BDCs	Non-traded BDCs		
Overview	Lending to and bond investments in medium-sized/small firms Eligible for tax advantages		Lending to medium-sized/small firms	
Investors	A broad range of investors, including small retail investors		Institutional investors, high-net-worth individuals	
Duration	Indefinite		5-7 years	
Early redemption/liquidation	Immediate liquidation through market sale is possible	Quarterly/monthly redemption (usually capped at 5%) is possible	Early redemption is basically not allowed	
Information disclosure	Filing of documents with the SEC is required (e.g., Form N-2, 10-Q)		Filing of documents with the SEC is required (e.g., Form 10-Q)	
Leverage	Required to maintain a leverage ratio (total debt divided by net asset value) within 2x		Remains relatively low, although there is no restriction	

Note: See Chart 7 in the Bank of Japan review "Evolving Trends in Business Development Companies (BDCs) in the U.S. Direct Lending Market."

Types of investment funds and liquidation/leverage



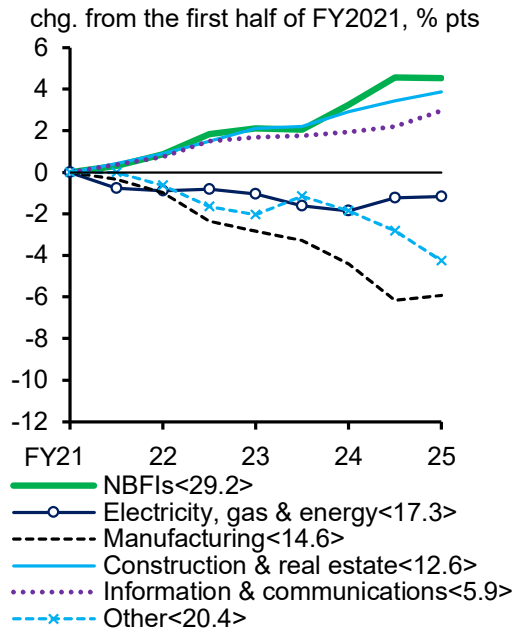
Note: See Chart V-2-6 in the April 2025 issue of the Report for details.

Lending to foreign funds by Japanese banks (1)

- Regarding foreign lending by major banks, there is an increase in the share of loans to the NBFIs sector, the construction and real estate sector, and the information and communications sector.
- Based on the common data platform, approximately 9 percent of total foreign lending is extended to foreign funds, and data centers account for about 2 percent, indicating that their share is not substantial at this point.

Foreign loans by industry

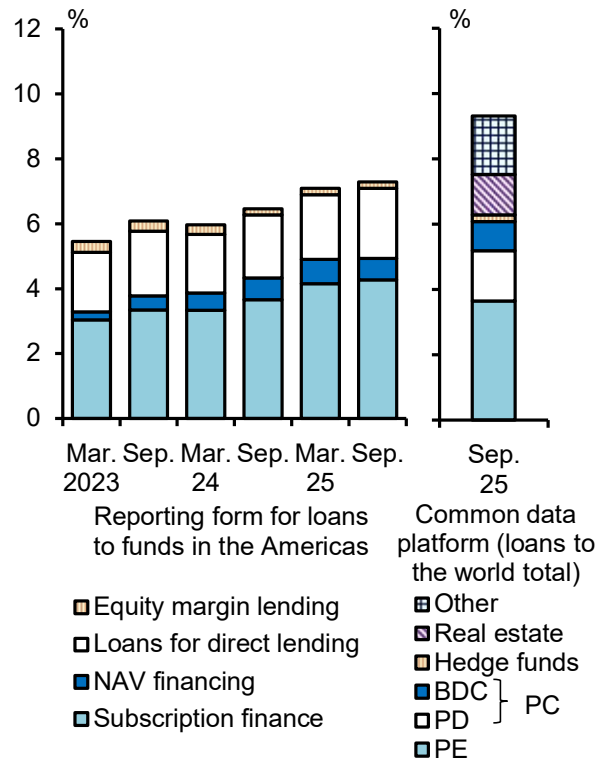
Changes in shares in total foreign loans



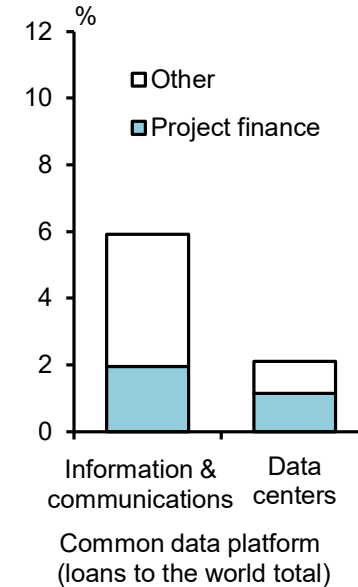
Note: Covers the three major banks. Figures in brackets indicate the share of respective sectors. See Chart IV-1-13.

Loans to foreign funds and data centers

Share of loans to foreign funds in total foreign loans



Share of loans to foreign data centers in total foreign loans

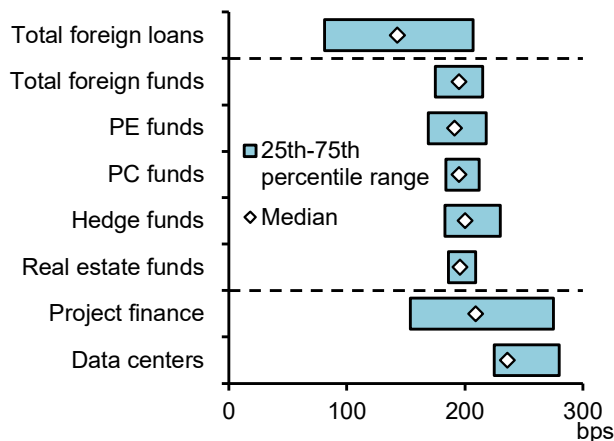


Note: Covers the three major banks' loans outstanding excluding committed credit. Data for the right-hand chart as of end-September 2025. See Chart IV-1-14.

Lending to foreign funds by Japanese banks (2)

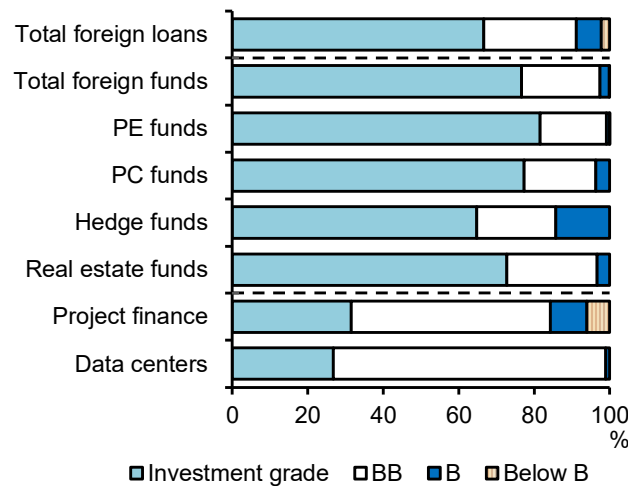
- Loans to foreign funds and data centers have relatively wide spreads, and banks at present rarely classify these loans as "below B."
- A simulation exercise shows that under the scenario assuming (1) a drawn down of all unused committed credit and (2) a uniform downgrade of borrowers' credit ratings by one notch, credit costs remain within the range that major banks' profitability can sufficiently cover.

Spreads of foreign loans



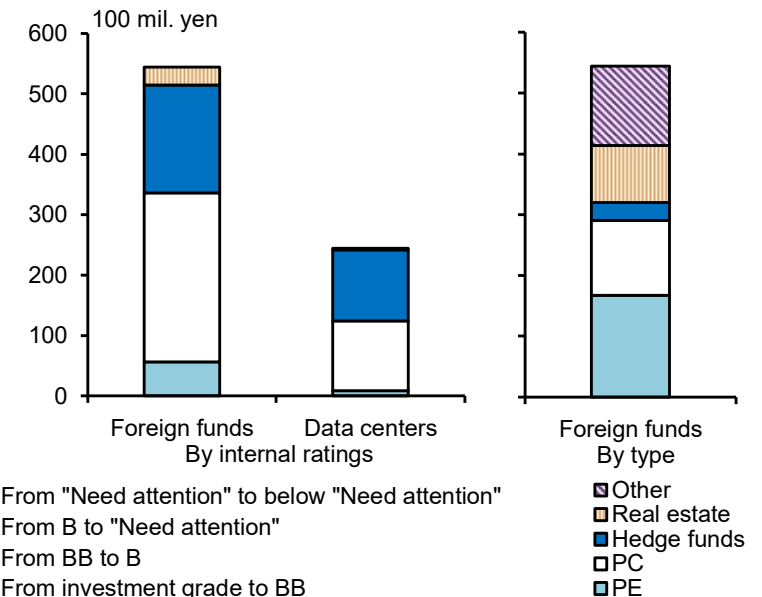
Note: Covers the three major banks.
See Chart IV-1-15.

Rating composition of foreign loans



Note: Covers the three major banks.
See Chart IV-1-17.

Estimates of credit costs of loans to foreign funds and data centers

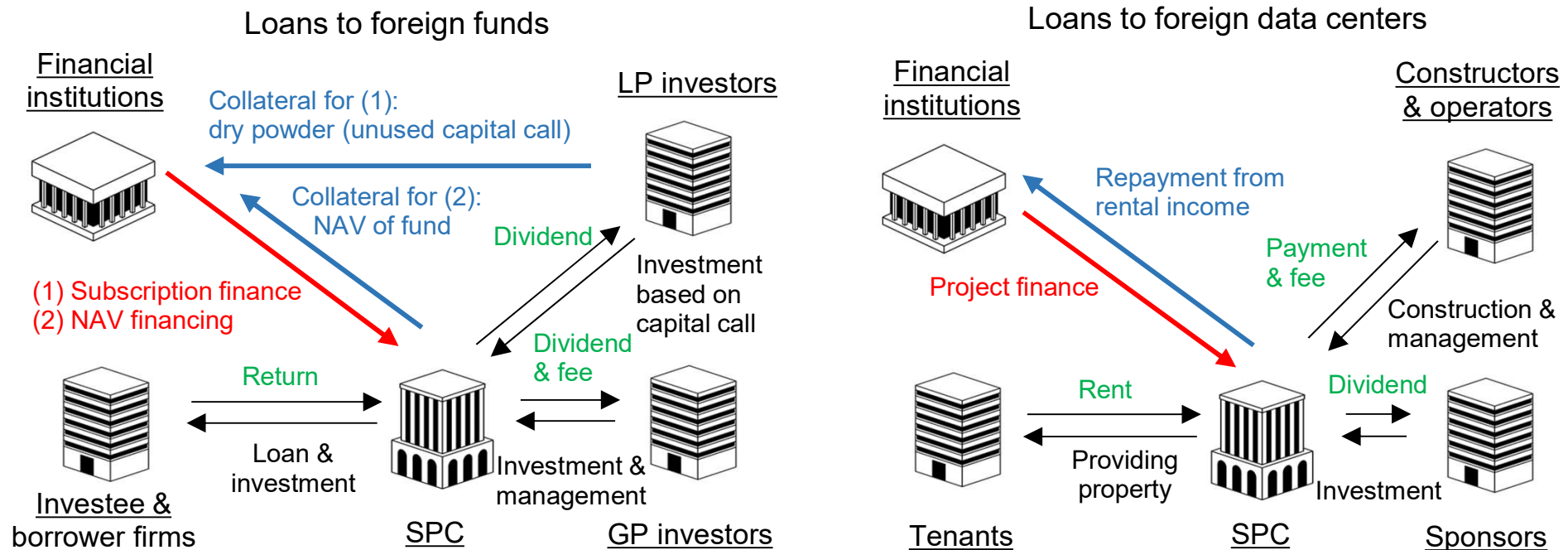


Note: Covers the three major banks. Shows the changes in credit costs estimated based on the following assumptions: (i) the full drawdown of unused committed credit, and (ii) a one-notch downgrade in their internal credit ratings, categorized into five levels: investment grade, BB, B, "need attention," and below "need attention." The estimation takes into account the unsecured ratios and loan-loss provision ratios for each rating category. See Chart IV-1-19.

Reference : loans to foreign funds and data centers

- Regarding loans to foreign funds and data centers, because a significant portion of the repayment sources relies on the cash flows generated by the underlying assets and their collateral value, close attention to changes in the environment, such as shifts in market valuations of those assets or technological innovations, continues to be warranted.

Scheme of loans to foreign funds and data centers



Note: See Chart IV-1-16.

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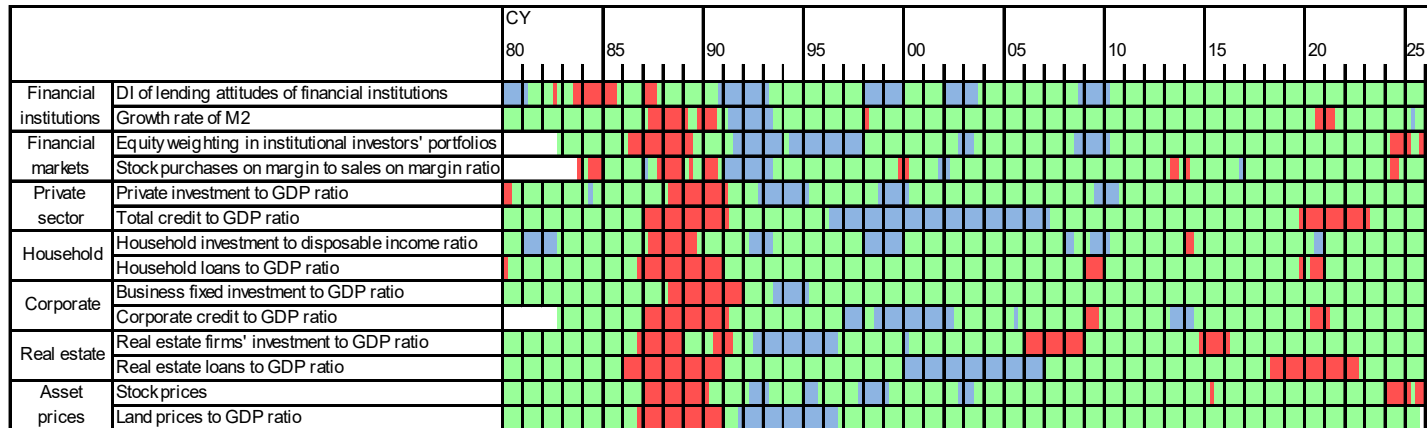
3. Domestic financial cycle

- Financial cycle
- Real estate markets

Domestic financial cycle (1)

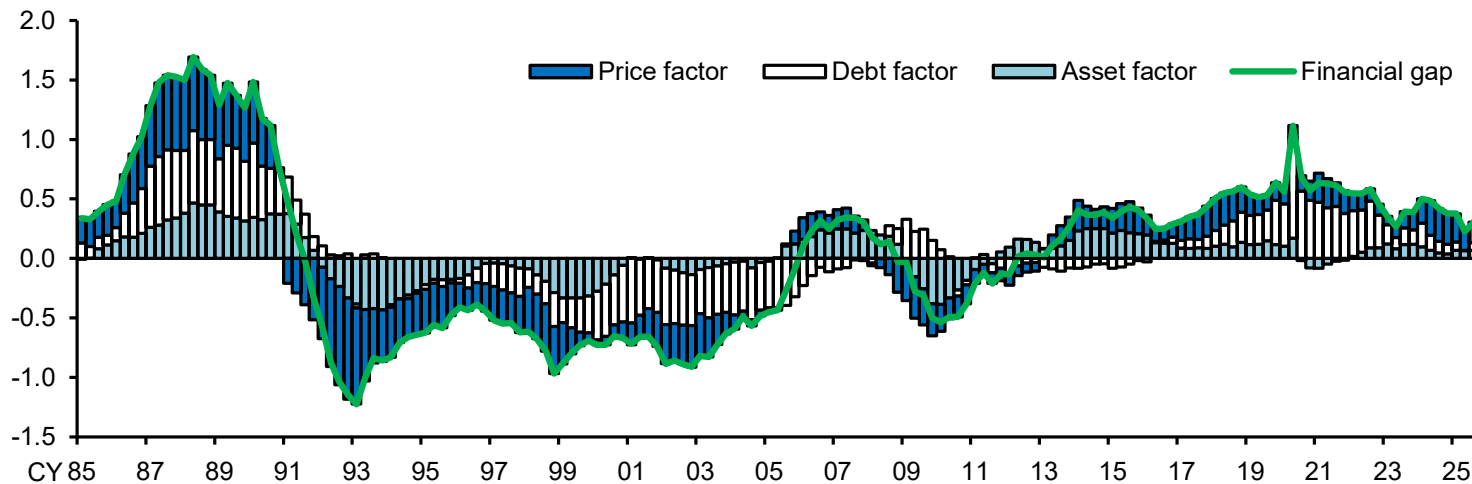
- Financial intermediation in Japan has continued to function smoothly, and no major financial imbalances have been seen in current financial activities.
 - The latest heat map shows that 12 out of 14 FAIXs are "green," indicating a "state where there are no significant deviations from the trend."
 - The financial gap has narrowed compared to a while ago.

Heat map



Note: See Chart V-1-1.

Financial gap

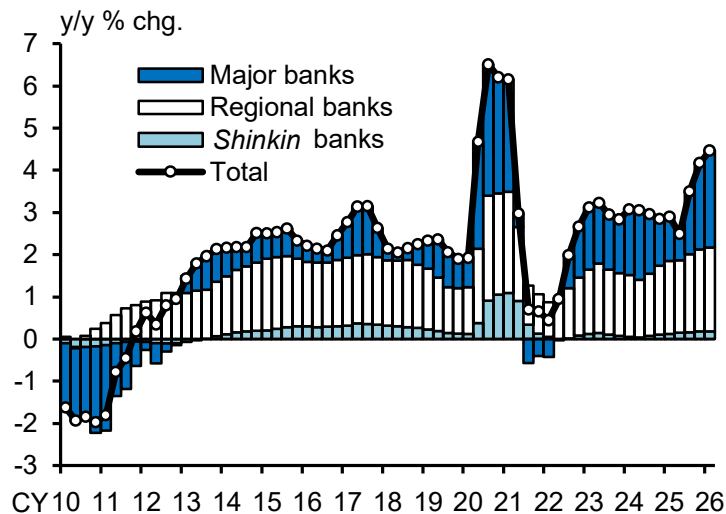


Note: See Chart V-1-2.

Domestic financial cycle (2)

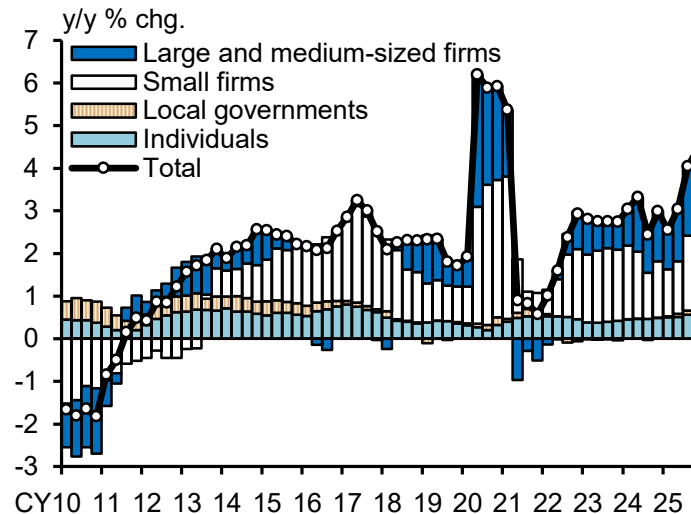
- The annual growth rate of domestic loans has been at around 4.5 percent, accelerating somewhat recently.
 - The total credit to GDP ratio has remained more or less flat, reflecting higher nominal GDP growth.
- Loans to both large and medium-sized firms and small firms have continued to increase. In addition to strong loan demand reflecting M&A deals, demand for real estate-related loans and demand for working capital amid the recovery in economic activity have been rising.

Banks' domestic loans outstanding



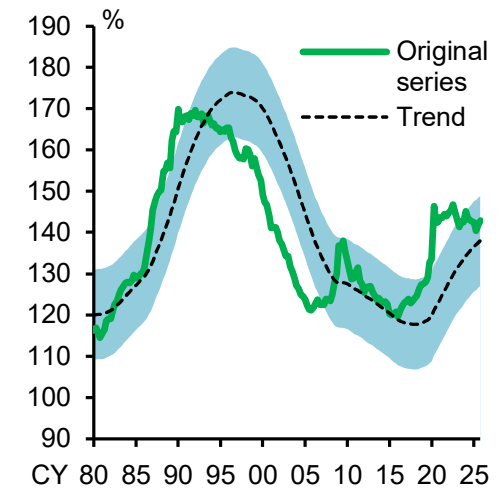
Note: Latest data as of 2026/Q1 (January-February).
See Chart III-1-1.

Banks' loans outstanding by type of borrower



Note: Loans to banks and insurance companies are excluded.
Latest data as of 2025/Q4. See Chart III-1-2.

Total credit to GDP

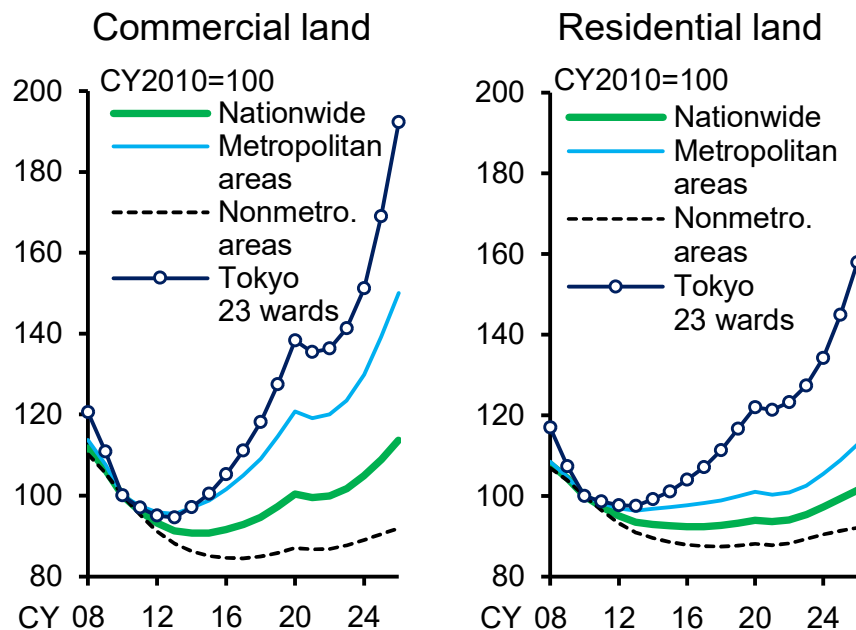


Note: "Trend" is calculated using the one-sided HP filter. The shaded area indicates the root mean square of the deviation from the trend. See Chart V-1-7.

Japan's real estate markets (1)

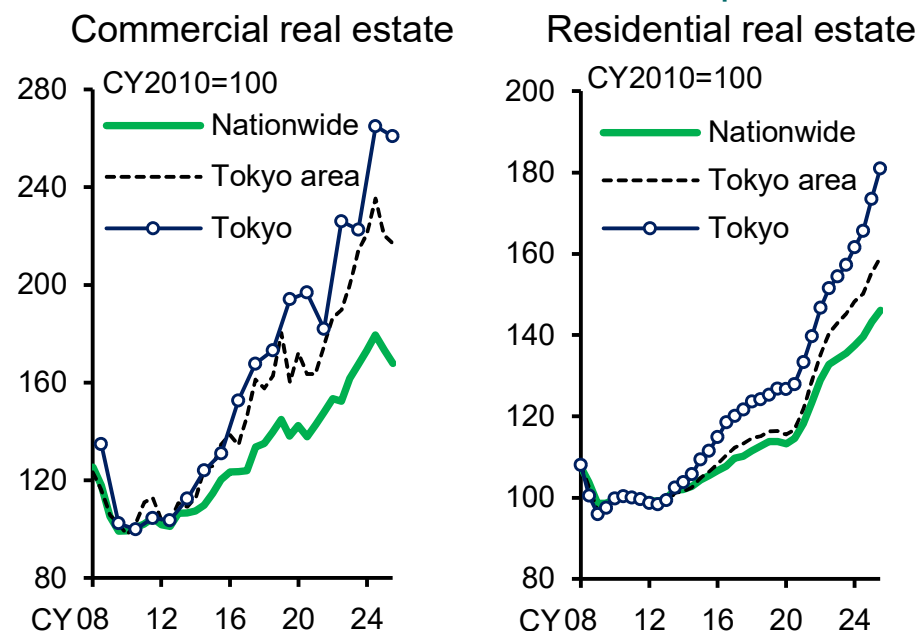
- Real estate prices have been rising, particularly in major metropolitan areas.
 - The pace of increase in land prices for both commercial and residential uses has been accelerating in the three major metropolitan areas.
 - Real estate prices have been increasing moderately in nonmetropolitan areas.

Land prices



Note: Based on "Land Market Value Publication". See Chart V-1-4.

Real estate transaction prices

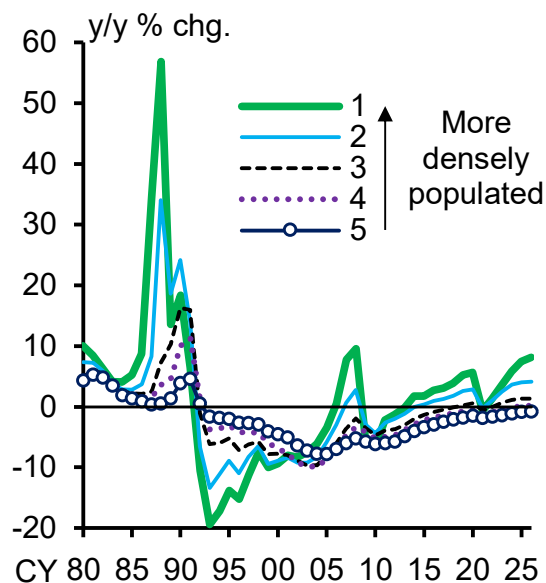


Note: Based on "Japan Property Price Index." The office index is used for commercial real estate and the residential property index is used for residential real estate. See Chart V-1-4.

Japan's real estate markets (2)

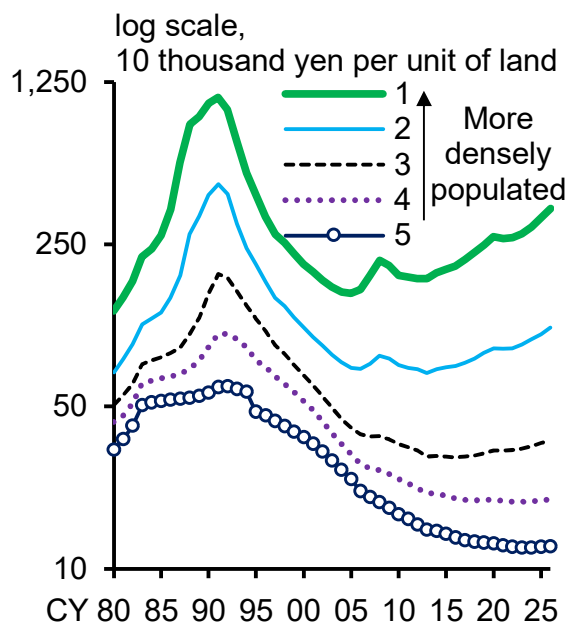
- Year-on-year growth rates of commercial land prices have increased amid the economic recovery; while they are positive in metropolitan areas with high population density, they are negative in regions with low population density.
- Transaction prices of real estate (including those of structures) have also risen in nonmetropolitan areas as the recent rise in construction material costs and labor shortages has spilled over to nonmetropolitan areas.

Land prices of commercial real estate by municipality
Year-on-year change

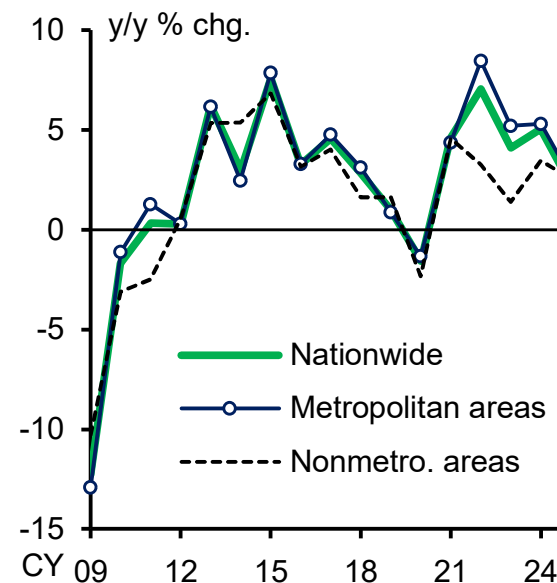


Note: Latest data are as of CY2026. Aggregates official land prices of municipalities based on quintiles of population density from the 2020 Census. See Chart V-1-5.

Level



Property prices of commercial real estate by region

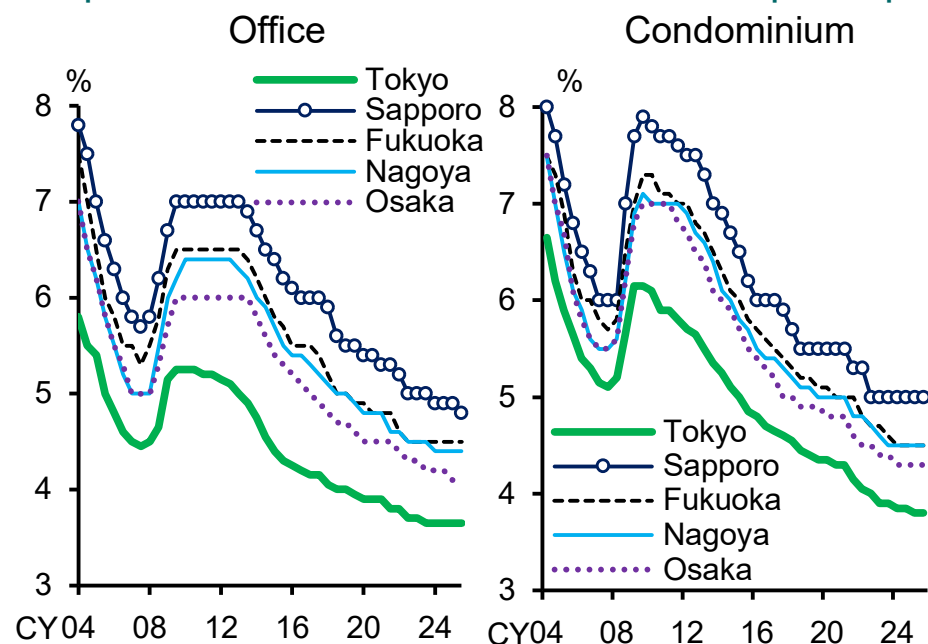


Note: Shows the commercial real estate property price index (land with structure). See Chart V-1-5.

Japan's real estate markets (3)

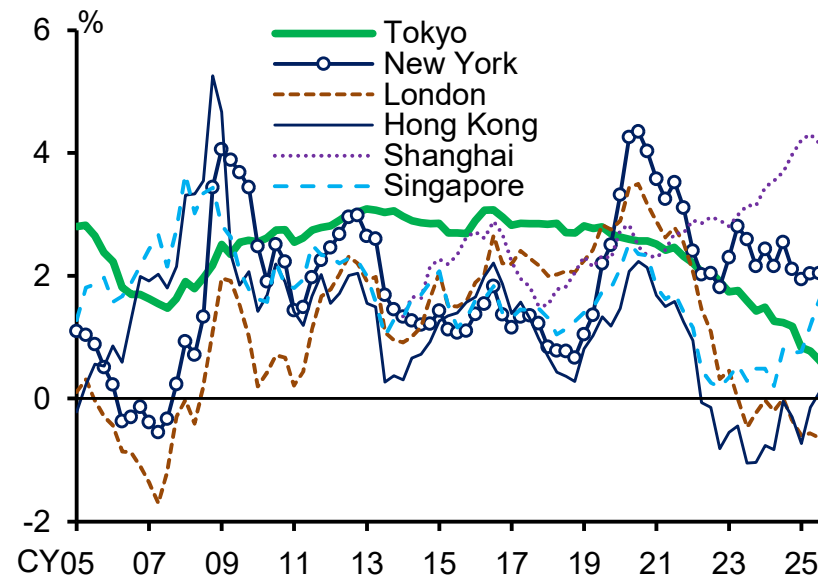
- In addition to higher construction costs and supply constraints, factors contributing to the recent rise in real estate prices, particularly in the Tokyo area, include robust property demand amid the moderate economic recovery and investment demand.
- Given that the expected return assumed by real estate investors and the yield gap continue to decline as a trend, it is important to continue to closely monitor developments in the real estate market.

Expected returns of real estate market participants



Note: Latest data are as of the October 2025 survey. See Chart V-1-6.

Commercial real estate yield gap

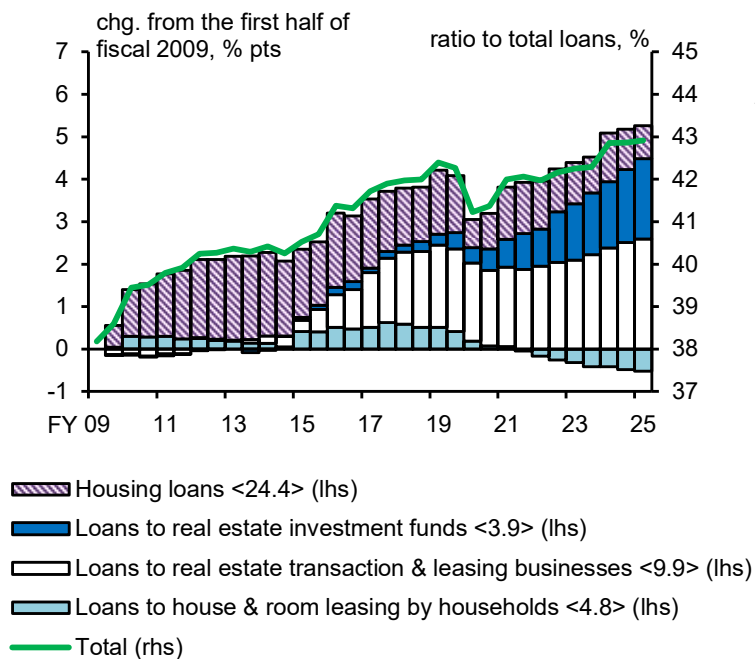


Note: Calculated as cap rates of Grade-A office buildings in each city - 10-year government bond yields for the corresponding country or region. See Chart V-1-6.

Japan's real estate markets (4)

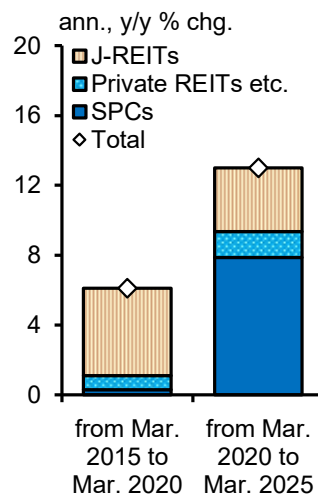
- The share of banks' real estate-related lending in total lending has been on an uptrend, accompanied by a rise in share of lending toward real estate funds in recent years.
- As loans to real estate funds generally have their source of repayment limited to the cash flows generated by the underlying real estate and its sale value, their credit risks are susceptible to real estate prices and rents.
- Banks need to manage credit risks of real estate SPCs, paying due attention to changes in the real estate-business environment up to the exit of borrowers' projects.

Share of real estate-related loans in total domestic loans



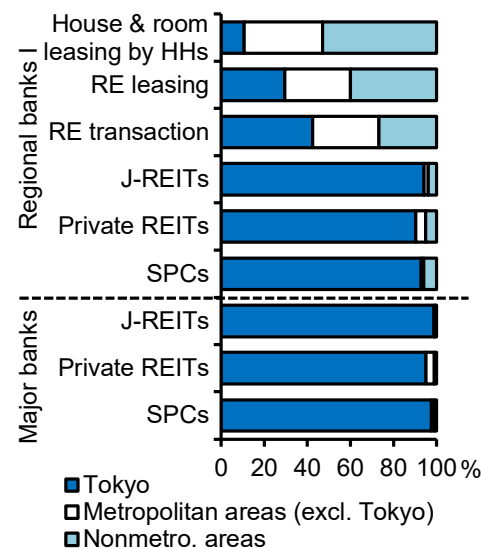
Note: Figures in brackets indicate the share of real estate-related loans to total loans. "Loans to house and room leasing by households" are loans for construction or purchase of rental housing for individuals, such as apartment loans etc. See Chart V-1-9.

The rate of change in loans to real estate investment funds



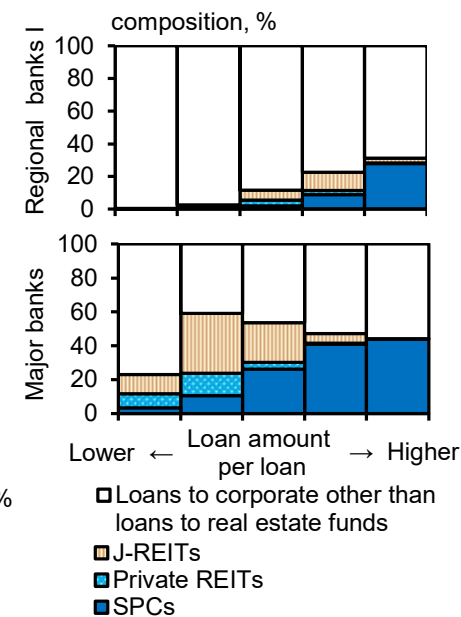
Note: See Chart V-1-10.

Business location of borrowers



Note: Composition of loans outstanding. See Chart V-1-12.

Composition of loans by size of loan amount



Note: Loans are ranked in descending order of the amount per loan and grouped into segments by the quantiles of the cumulative lending amount. See Chart V-1-13.

Japan's real estate markets (5)

- The impact of real estate market adjustments on the capital adequacy ratios of banks is estimated using the Financial Macro-econometric Model.
- The current real estate stress scenario assumes a decline in the prices and rents of residential real estate, as well as land prices in the three major metropolitan areas, in addition to a decline in commercial real estate prices and rents in these areas, triggered by sales of Japanese real estate by foreign real estate funds, as considered in the previous test shown in the April 2024 issue of the *Report*.

Assumptions in the real estate stress scenario

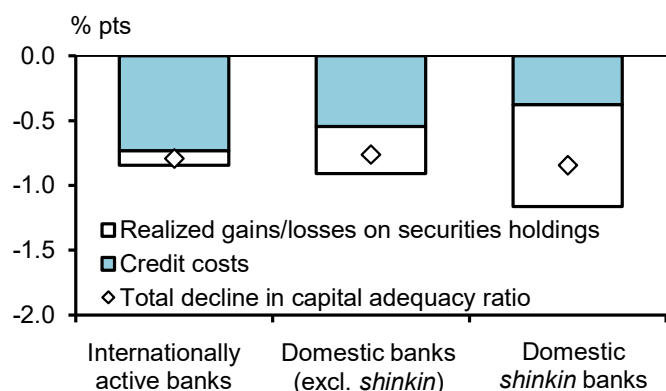
Main variables		Estimation methods	Maximum deviation rates
Real estate variables in the three major metropolitan areas	Commercial property prices	Based on the rate of change after the mid-2000's mini-bubble period	About -25%
	Office rents		About -10%
	Residential property prices	Based on the same rate of change as for commercial property	About -25%
	Housing rents		About -10%
Land prices (average for all uses)	Based on the rate of change after the mid-2000's mini-bubble period	About -10%	
Real economic variables	Japanese real GDP	Based on the simulation results of FMM	About -1%
	Value-added of real estate businesses	Based on the shocks to real estate variables and the relationship between these variables and value-added	About -25%
Real estate funds	Real estate fund prices	Based on the shocks and the ratio of market capitalization to net asset value during the global financial crisis (GFC)	About -60%
	Loans to domestic real estate funds	Based on the increase in LTV following the shocks, assuming losses on loans to funds exceeding a specified LTV threshold	About -7%pts
	Loans to foreign real estate funds	Based on the increase in LTV under the assumption that foreign real estate prices decline by 37%, comparable to the GFC	About -12%pts

Note "Maximum deviation rate" indicates the maximum difference between the values under the baseline scenario and the real estate stress scenario in each quarter. For value-added of real estate businesses, "maximum deviation rate" is the rate of decline in the real estate businesses in the three major metropolitan areas, while real estate variables outside the areas are in line with the baseline. For loans to funds, "maximum deviation rate" indicates the maximum difference in the credit cost ratio. See Chart B5-2.

Japan's real estate markets (6)

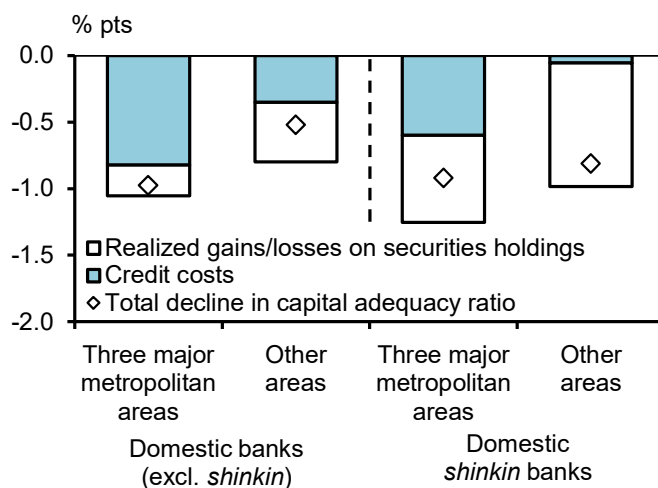
- The simulation results show that the capital adequacy ratios of all types of banks decline by around 0.8 percentage points.
- For domestic banks, losses are relatively larger for banks located in the three major metropolitan areas. However, domestic banks headquartered in other regions also incur considerable losses due to exposures in the three major metropolitan areas via their "cross-prefectural" lending and securities investments.

Results of the real estate stress scenario by type of bank



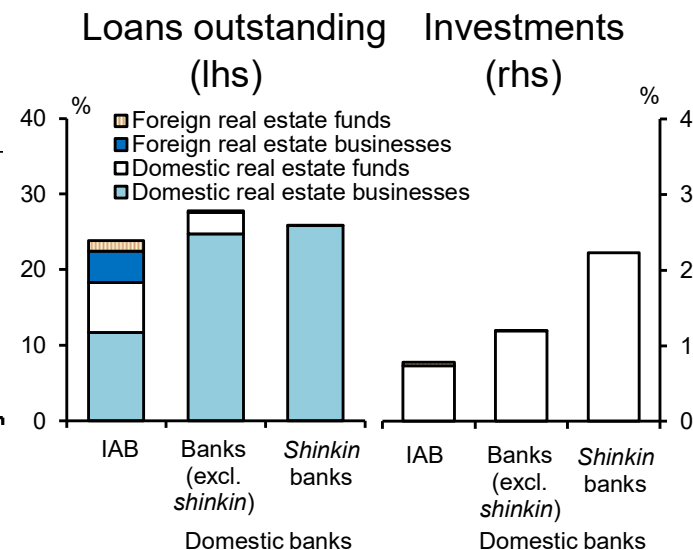
Note: Indicates the differences between the capital adequacy ratios at the end of the simulation period (as of end-fiscal 2028) under the baseline scenario and the real estate stress scenario. See Chart B5-3.

Results of the real estate stress scenario by bank region



Note: Indicates the differences between the capital adequacy ratios at the end of the simulation period (as of end-fiscal 2028) under the baseline scenario and the real estate stress scenario. See Chart B5-4.

Real estate-related exposure of financial institutions



Note: Shows ratios to risk-weighted assets as of 2025/Q3. IAB stands for internationally active banks. See Chart B5-1.

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B. Macro stress testing

Box 1: Developments in private funds

Box 2: Developments in interest payments for housing loans

Box 3: Characteristics of bank branches engaging in cross-prefecture lending and interest rate setting that takes monitoring costs into account

Box 4: Developments in real estate markets

Box 5: Stress test based on a real estate stress scenario

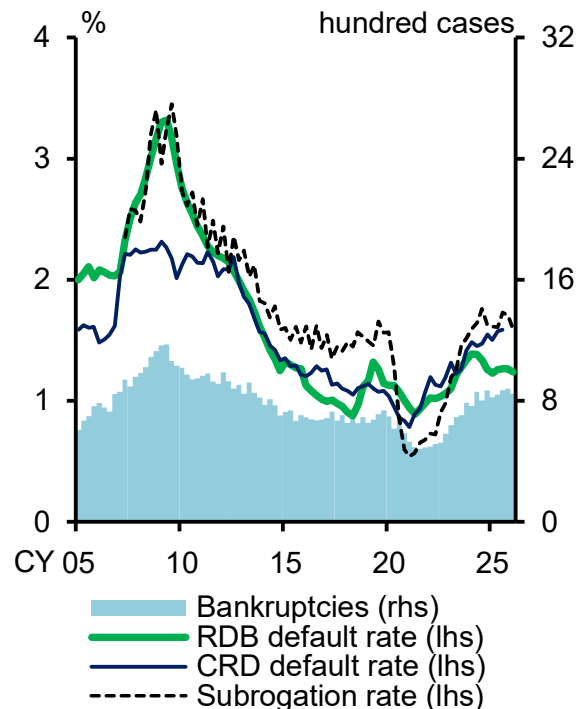
4. Corporate bankruptcies and defaults

- Corporate bankruptcies and defaults
- Foreign credit risk

Corporate bankruptcies and defaults

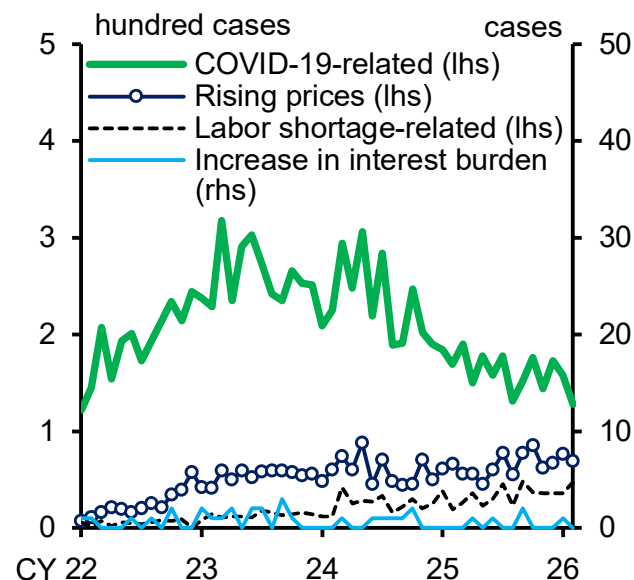
- Corporate bankruptcies and default rates have been more or less unchanged.
- While the share of financially vulnerable SMEs has been falling, continued attention is warranted as rising labor costs and the past increase in raw material prices seem to be putting downward pressure particularly on profits of such SMEs.
 - Developments in the situation in the Middle East could also affect firms through changes in their commodity procurement costs and supply chains.

Bankruptcies and default rates



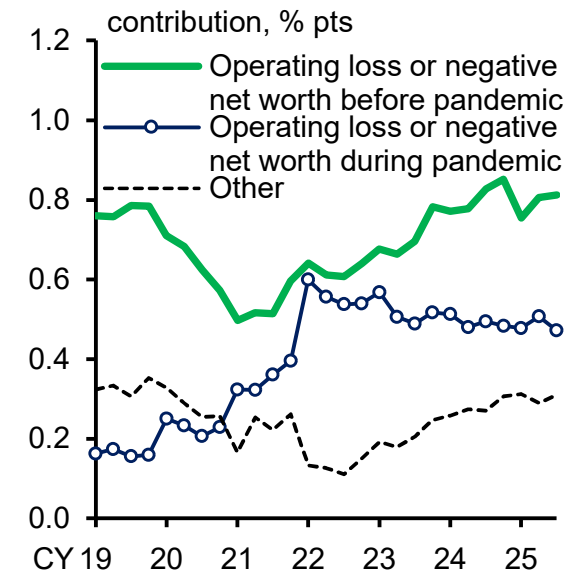
Note: See Chart IV-1-3.

Bankruptcies by cause



Note: See Chart IV-1-3.

Default rate by firm characteristic

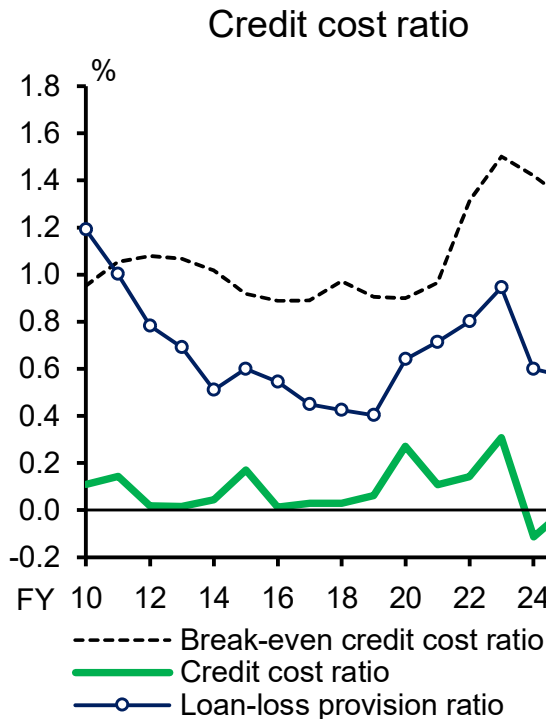


Note: See Chart IV-1-3.

Foreign credit risk

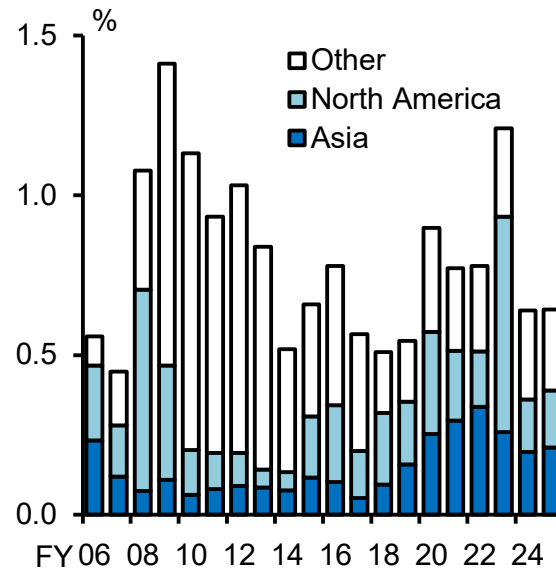
- The break-even credit cost ratio of banks' international business remains relatively high and banks' foreign credit risk has remained low.
- Foreign loans account for over 30 percent of major banks' loan portfolios. The future course of the situation in the Middle East and the recent increase in loans to the NBFIs sector and data centers warrant attention.

Credit costs of foreign loans

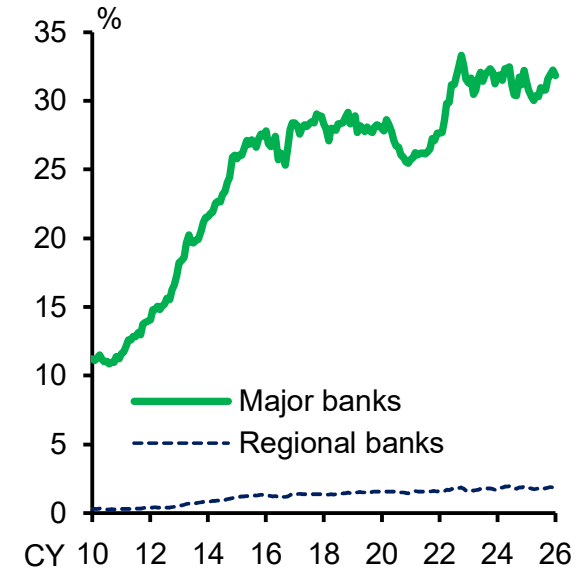


Note: Covers the three major banks. See Chart IV-1-11.

NPL ratios



Share of foreign loans in total loans



Note: See Chart III-1-14.

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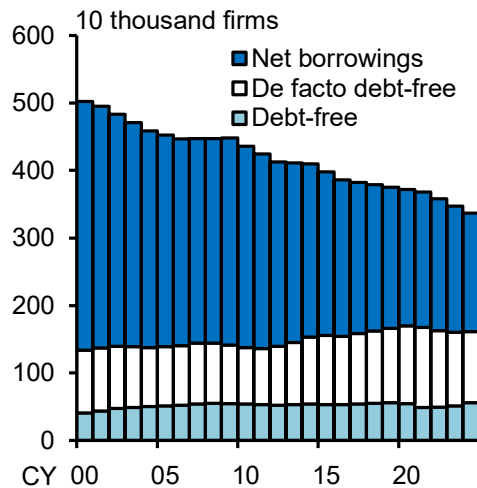
5. Banks', firms', and households' resilience to rising interest rates

- Corporate loans
- Housing loans
- Banks' yen interest rate risk and deposit developments

Resilience to rising interest rates: firms

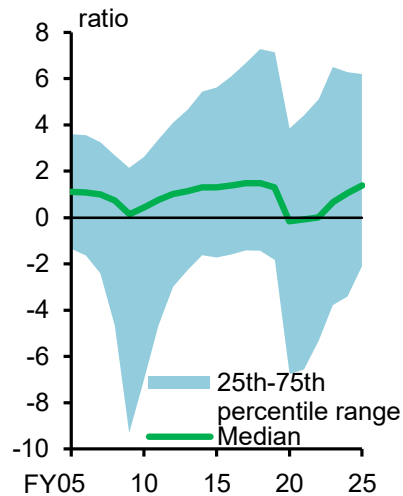
- The share of firms whose borrowings exceed their cash and deposit holdings ("firms with net borrowings") is decreasing and ICRs have risen among these firms, indicating that, overall, firms' resilience to interest rate rises has improved.
- Even if interest rates rose, the increase in the probability of default for these firms would be limited, although firms with high leverage or insufficient on-hand liquidity tend to be more affected.

Number of firms by borrowing status



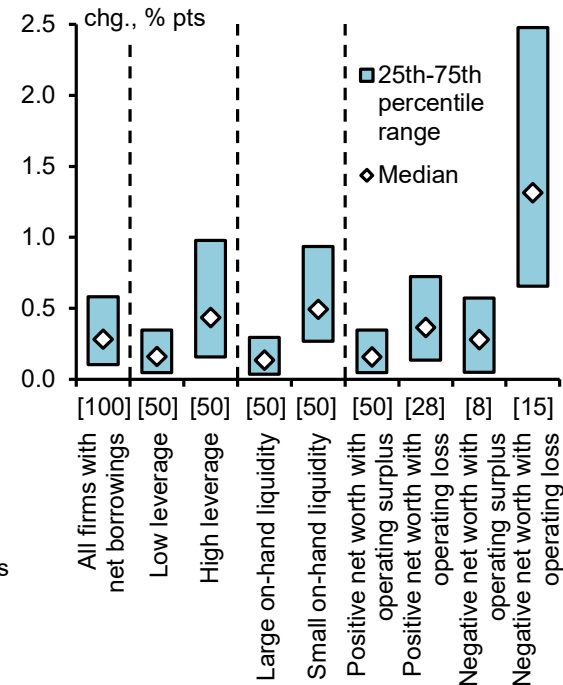
Note: "De facto debt-free" indicates firms with cash and deposits equal to or more than their interest-bearing debt. See Chart IV-1-5.

ICR of firms with net borrowings



Note: Covers firms with capital of 100 million yen or less with net borrowings (i.e., interest-bearing debt exceeding cash and deposit holdings). "ICR" is calculated as (operating profits + interest income) / interest payments. See Chart IV-1-6.

(Ref.) Sensitivity of probability of default to interest rates



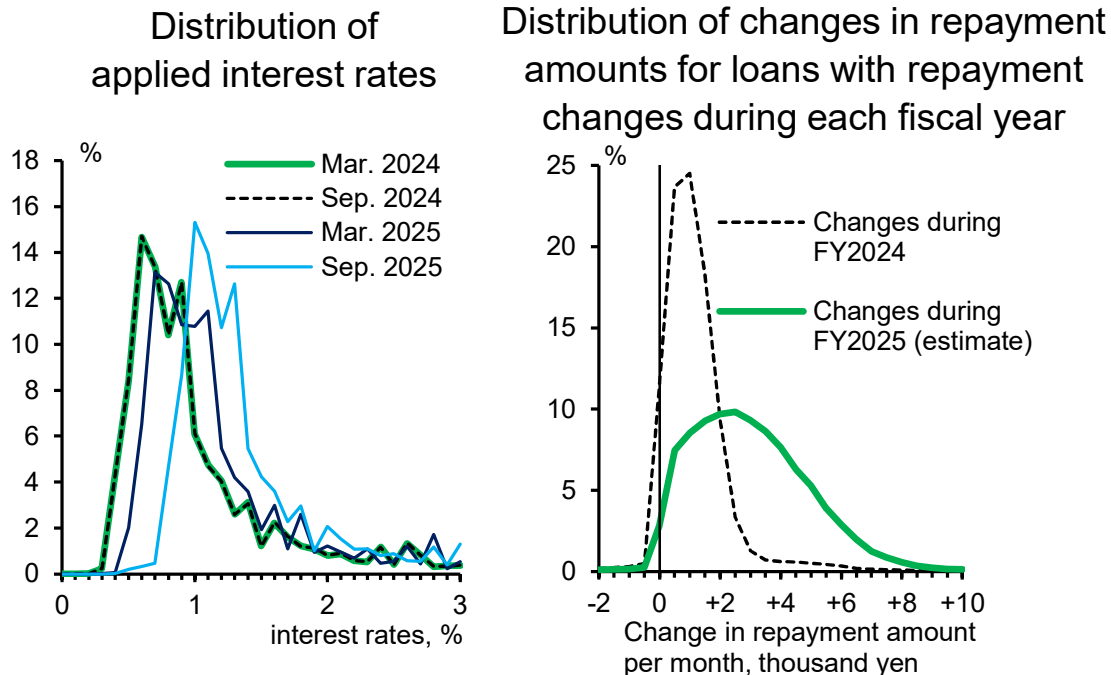
Note: A PD model is estimated for each firm category, and sensitivity (change in the PD) to a 1 percentage point increase in long- and short-term interest rates is estimated for each firm. "High" and "Low" leverage is based on the median debt ratio. "Large" and "Small" on-hand liquidity is based on the median ratio of on-hand liquidity to total assets. Figures in brackets indicate the shares of respective firm categories. See Chart IV-1-12 in the October 2025 issue of the *Report* for details.

Source: CRD Association; BOJ.

Resilience to rising interest rates: households (1)

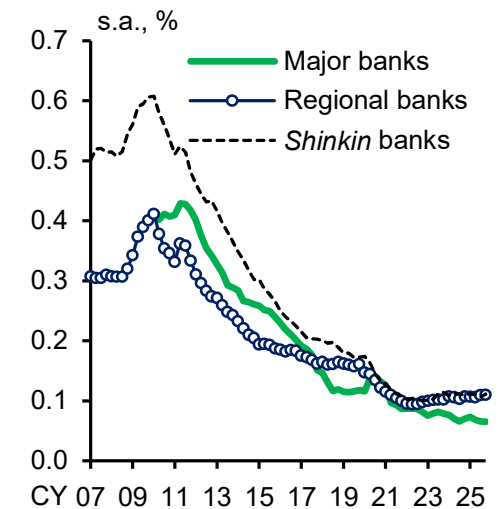
- The applied interest rate for floating-rate housing loans now exceeds 1 percent, reflecting the cumulative effects of policy rate hikes up to January 2025. In fiscal 2025, the number of loans experiencing an increase of monthly payment of around 4,000 to 6,000 yen appears to have been rising to a noticeable extent.
- Although delinquency rates on housing loans have been flat at a low level, careful attention is warranted.

Applied interest rates and changes in repayment amounts for floating-rate housing loans



Note: The data cover floating-rate housing loans issued by regional banks I. See Chart B2-1.

Delinquency rates of housing loans

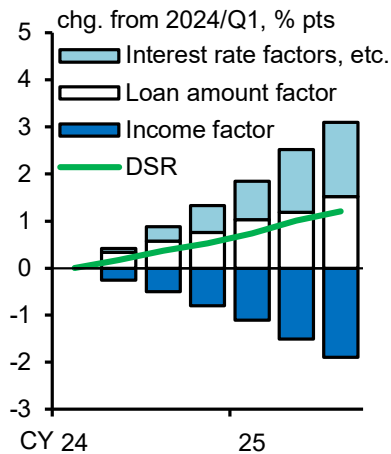


Note: See Chart B2-2.

Resilience to rising interest rates: households (2)

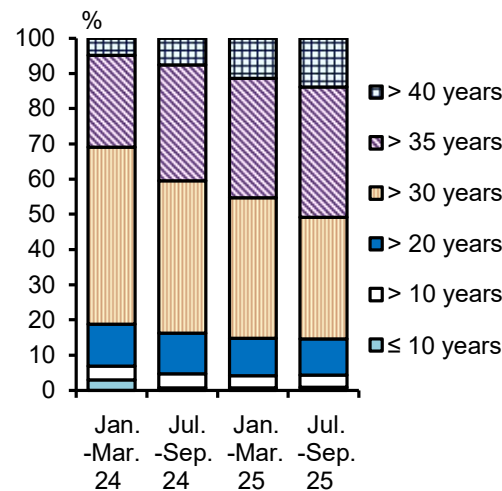
- Housing loan debt service ratio (DSR) at origination has risen in recent years.
 - While the increase in the repayment due to higher interest rates has been mostly offset by growing household income, the increase in borrowing amounts has added upward pressure on DSR.
- The rise in housing loans with maturity over 35 or 40 years suggests that super-long-term loans are being used to keep monthly repayments within a certain range.

Factors affecting changes in DSR at the time of origination



Note: See Chart B2-3.

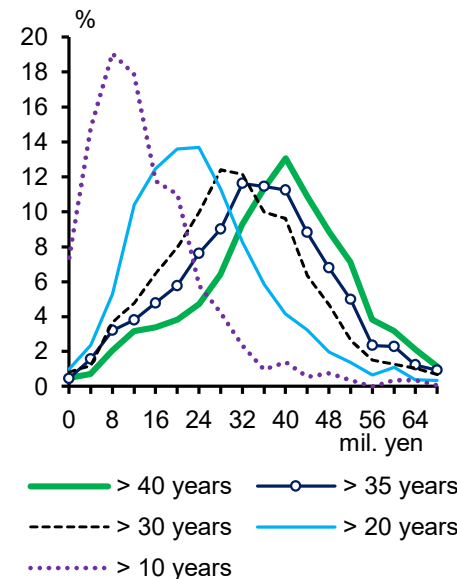
Repayment periods of new housing loans



Note: Share of loan amount. Covers floating-rate housing loans issued by regional banks I that were newly originated during each quarter. See Chart B2-4.

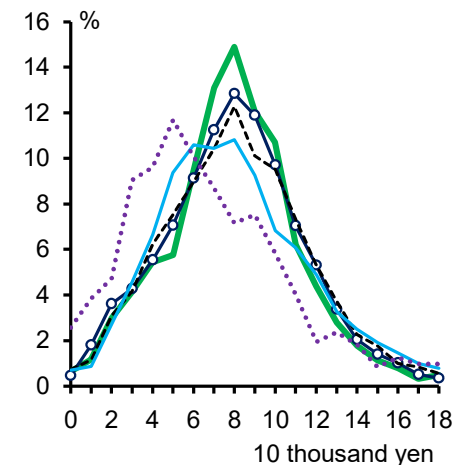
Loan amounts and monthly repayments by repayment period

Distribution of loan amount



Note: Covers floating-rate housing loans issued by regional banks I that were newly originated between July and September of 2025. See Chart B2-5.

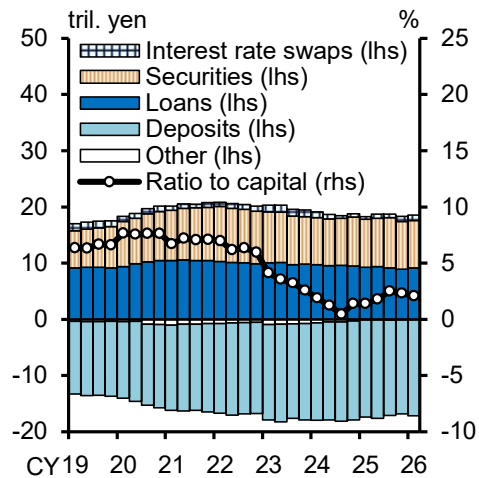
Distribution of monthly repayment



Resilience to rising interest rates: banks

- Yen interest rate risk (IRRBB) relative to banks' capital has remained low.
- Despite higher super-long-term interest rates in early 2026, valuation losses on securities holding of banks, especially those with relatively low resilience to rising interest rates, have stayed at around the same level as in March 2025.
- Pre-provision net revenue (PPNR) has improved, even for such relatively low resilient banks.

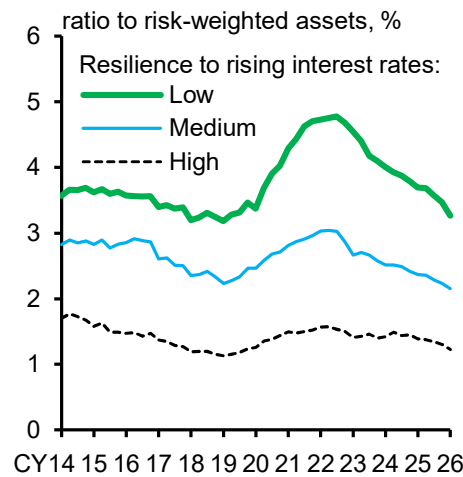
Interest rate risk in the banking book



Note: Shows yen interest rate risk in terms of the 100 BPV. See Chart IV-2-3.

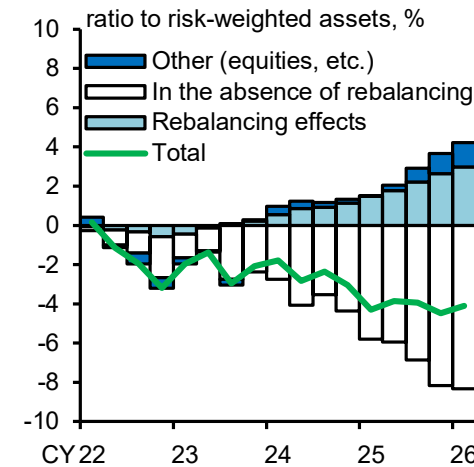
Interest rate risk and profits by resilience to rising interest rates

Interest rate risk of securities holdings

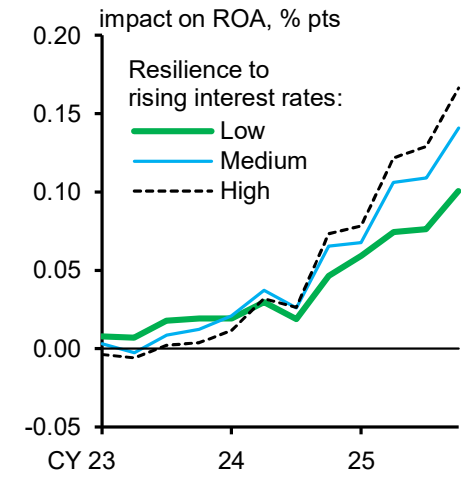


Note: Covers regional and *shinkin* banks. Latest data for the left-hand and middle chart are as of 2026/Q1 (end-February). "Banks with relatively low resilience to rising interest rates" is classified based on "the level of long-term interest rates at which the required capital adequacy ratios are maintained when valuation gains/losses on all investment securities are taken into account" as of end-March 2022. See Chart VI-1-9.

Valuation gains/losses on securities holdings (banks with relatively low resilience to rising interest rates)



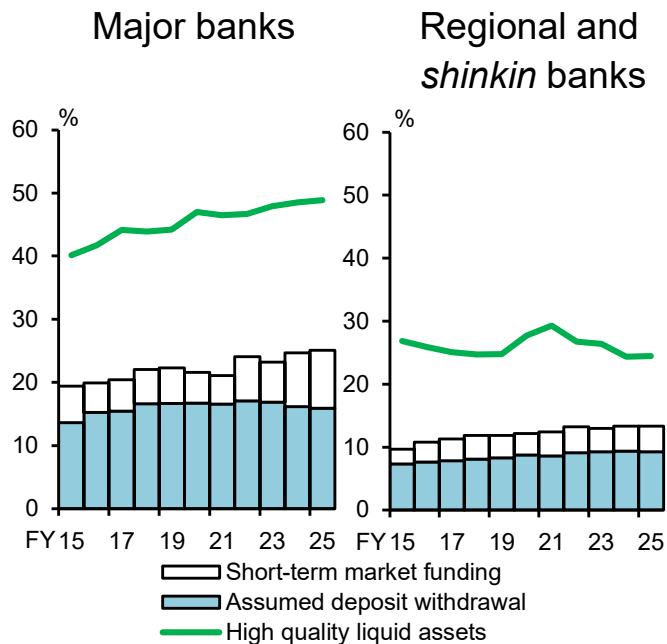
Impact of rising interest rates on profits



Developments in deposits (1)

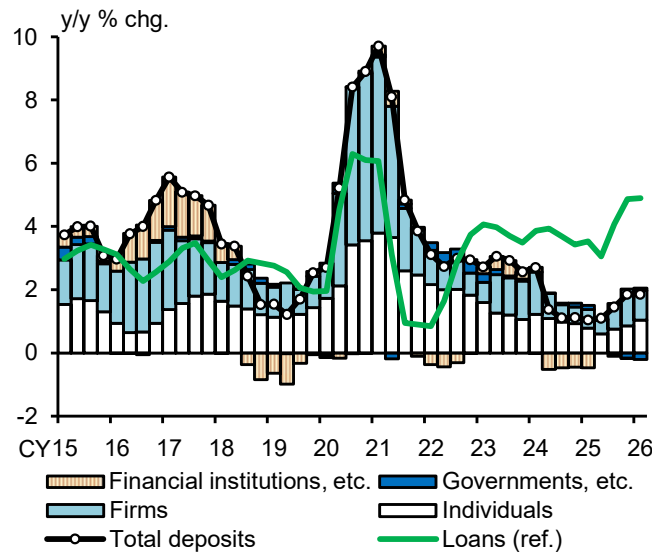
- Banks have stable yen funding with ample liquidity, supported by sticky small-sized retail deposits.
- Deposit growth has recently picked up slightly, although the rate of growth is slower than a while ago.
 - The share of major banks and new types of banks in total deposits has been increasing, while that of regional and *shinkin* banks has remained on a declining trend.

HQLA coverage



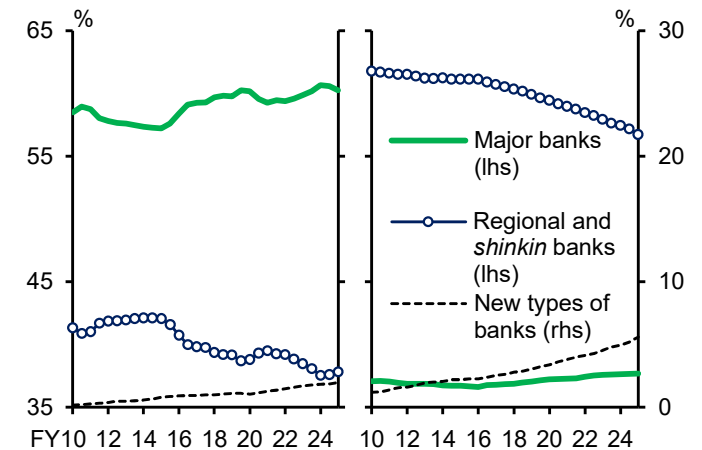
Note: Shows ratios to total assets of domestic business. See Chart IV-3-2.

Deposit growth by type of depositor



Note: Covers domestically licensed banks and *shinkin* banks. See Chart IV-3-3.

Share of deposits by type of bank

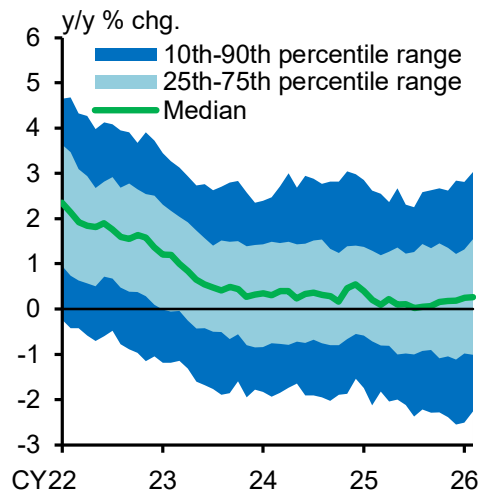


Note: See Chart IV-3-4.

Developments in deposits (2)

- Deposit growth in regional and *shinkin* banks has been relatively stable, and no major outflows have occurred.
- Among banks with increasing deposits, the deposit growth has mainly come from large corporate time deposits, with relatively higher interest rates applied to those deposits.
- For both banks with increasing deposits and decreasing deposits, loans have been increasing with "due from banks" decreasing.

Distribution of deposit growth (regional and *shinkin* banks)

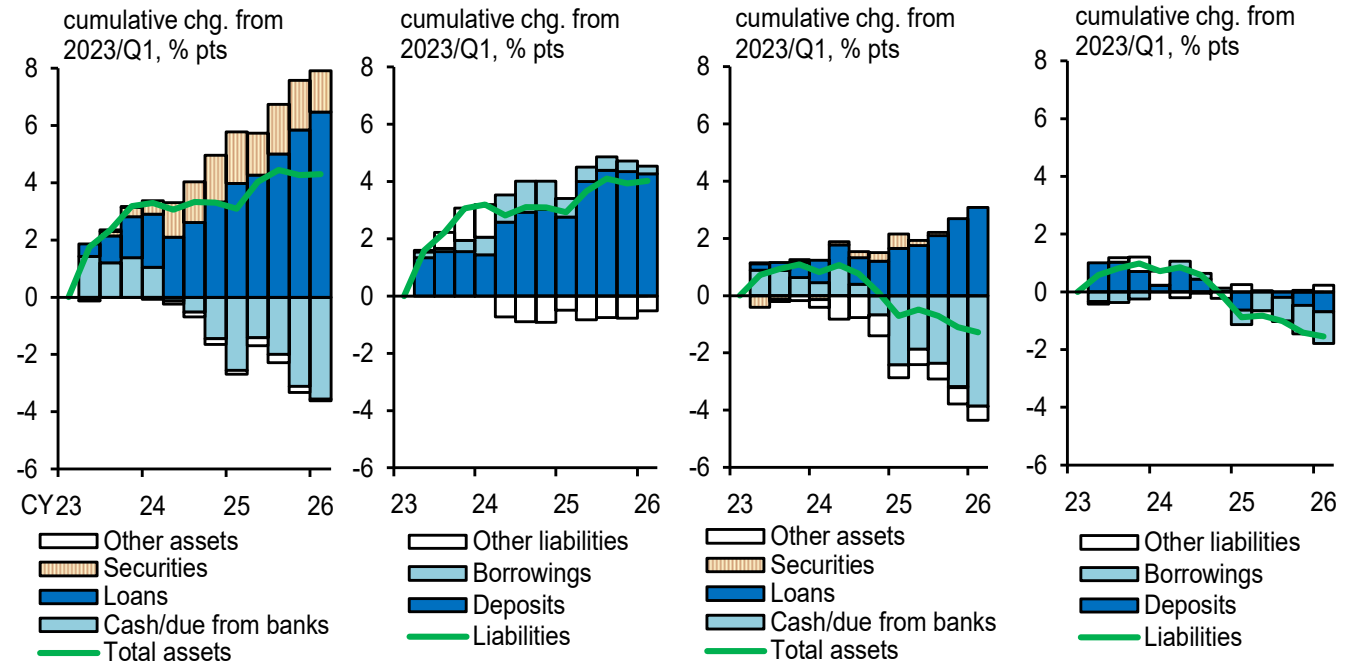


Note: See Chart IV-3-7.

Factors affecting changes in balance sheets by banks' deposit characteristic

Banks with increasing deposits (Assets) Banks with decreasing deposits (Assets)

(Liabilities) (Liabilities)



Note: Covers regional and *shinkin* banks. Classifies "Banks with increasing deposits" and "Banks with decreasing deposits" based on the year-on-year change in deposits during the period from January to June 2025. See Chart IV-3-11.

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C. Risks to financial markets	Chapter VI. Resilience of the financial system
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B. Financial intermediation by the NBFIs sector	Box 1: Developments in private funds
Chapter IV. Risks faced by financial institutions	Box 2: Developments in interest payments for housing loans
A. Credit risk	Box 3: Characteristics of bank branches engaging in cross-prefecture lending and interest rate setting that takes monitoring costs into account
B. Market risk associated with securities investment	Box 4: Developments in real estate markets
C. Funding liquidity risk	Box 5: Stress test based on a real estate stress scenario

6. Macro stress testing

- Financial stress scenario
- Rises in foreign interest rates scenario plus

Macro stress testing: Overview of scenarios

- Macro stress testing in this *Report* is conducted to examine the resilience of the financial system under (1) [the baseline scenario](#), (2) a "[financial stress scenario](#)," and (3) a "[rises in foreign interest rates scenario plus](#)."

- (1) [The baseline scenario](#) is based on forecasts for economic variables by private research institutions and international organizations as of January 2026. And it assumes that domestic and foreign interest rates will move in line with the forward rate curve as of late January 2026.

[A sensitivity analysis on yen interest rates](#) assumes a parallel upward shift of 1 percentage point in yen interest rates, compared to the baseline scenario.

- (2) [The financial stress scenario](#) assumes adjustments of the same magnitude as those observed at the time of the global financial crisis; a significant deterioration in domestic and foreign economies is assumed.

- (3) [The rises in foreign interest rates scenario plus](#) assumes lower global trade and higher crude oil prices, triggered by the materialization of geopolitical risks, which causes interest rates to rise and foreign economies to slow down, simultaneously.

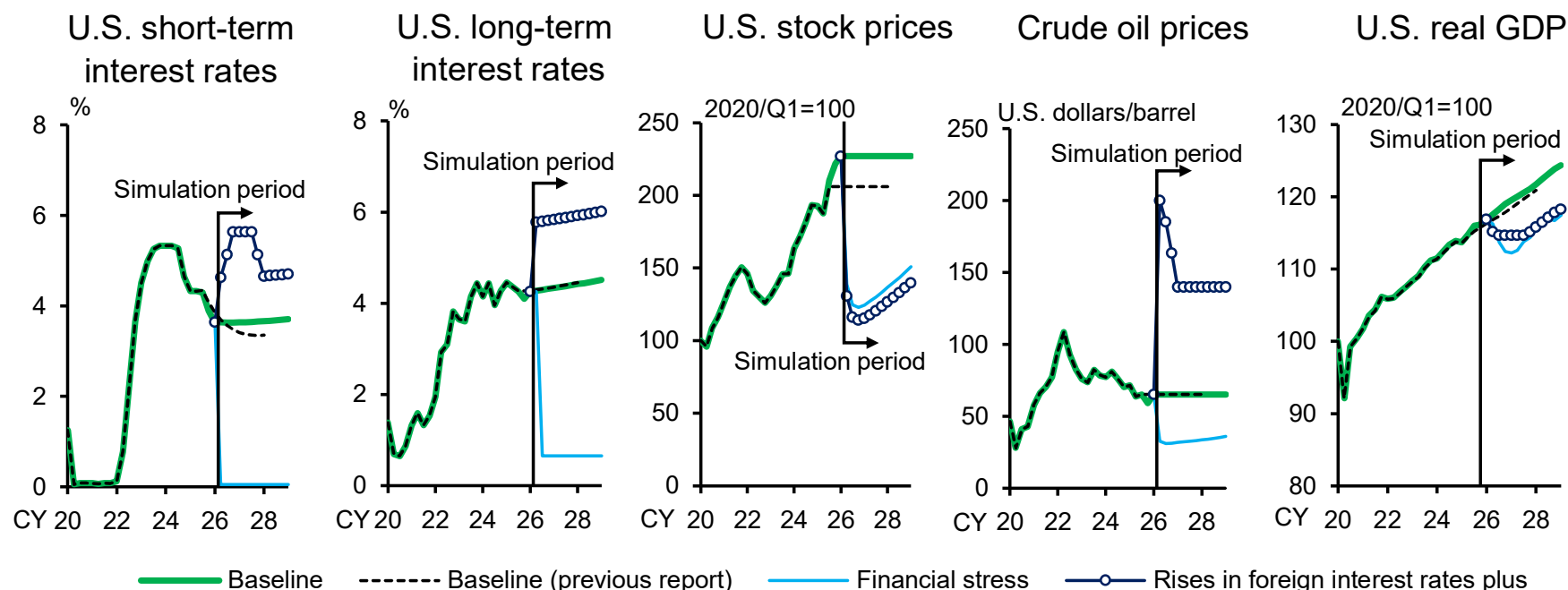
Compared to the scenario in the previous *Report*, key features of this scenario include (1) higher [crude oil prices](#) (up to 200 U.S. dollars/barrel in the initial phase); (2) a substantial decline in [AI-related stock prices](#) and an impairment in related investment and lending; and (3) higher long-term interest rates in Japan and the United States, where shocks are amplified by [the NBF1 sector](#).

- Additionally, an update to the "[real estate shock scenario](#)" in the April 2024 issue of the *Report* is presented (see slides 25-26).

Assumptions on foreign financial markets and foreign economies

- Financial stress scenario: Foreign economies decelerate to the same extent as in the global financial crisis. Prices of risky assets decline to the same level as in the global financial crisis. Foreign interest rates decline to a record low.
- Rises in foreign interest rates scenario plus: The U.S. federal funds rate is assumed to be 2 percentage points higher than the baseline scenario, and remains high for one year. Long-term interest rates are assumed to be 1.5 percentage points higher than the baseline scenario and remain elevated. Prices of risky assets are assumed to decline significantly, to the same extent assumed in the financial stress scenario. WTI crude oil futures are assumed to rise temporarily to 200 U.S. dollars/barrel and thereafter remain at the record high level.

Foreign financial and economic variables assumed in macro stress testing

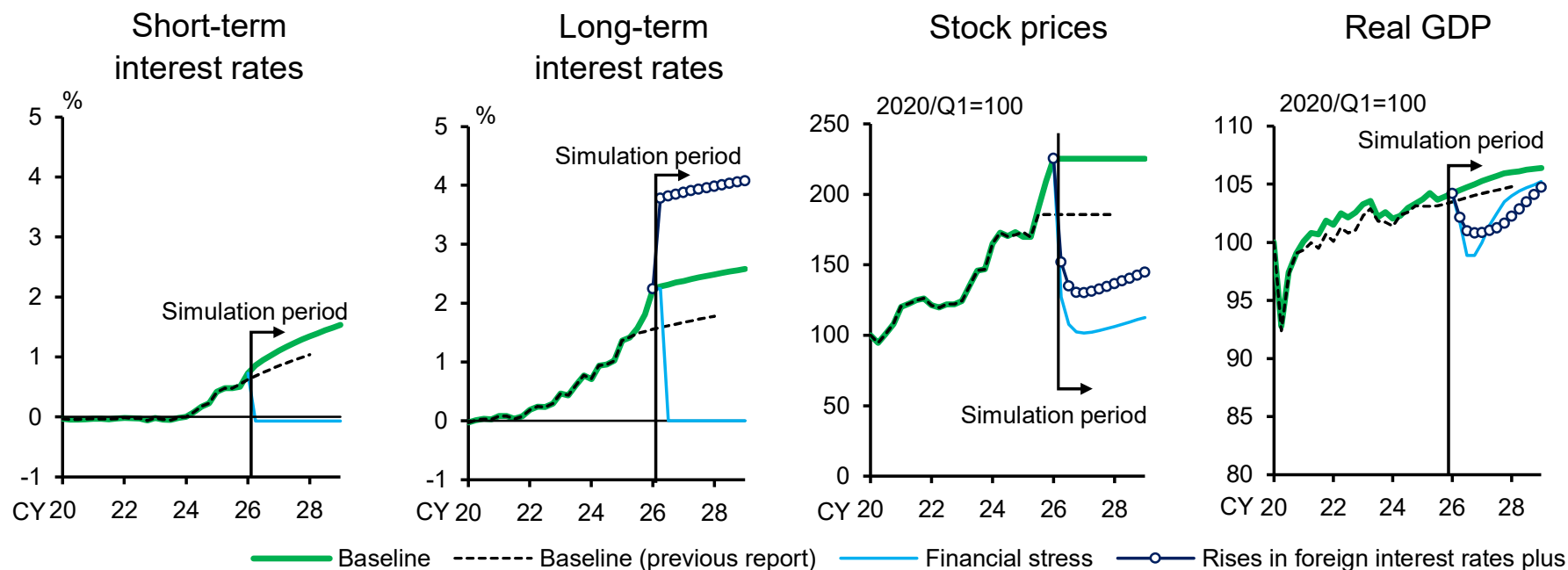


Note: "Short-term interest rates" refers to the overnight rate, "long-term interest rates" refers to the 10-year yield, and "crude oil prices" refers to WTI crude oil futures. See Chart VI-2-1, Chart VI-2-2, Chart VI-2-6, and the "Scenario Tables."

Assumptions on domestic financial markets and Japan's economy

- Financial stress scenario: Japan's economy decelerates significantly; domestic interest rates drop significantly.
- Rises in foreign interest rates scenario plus: Domestic long-term interest rates climb 1.5 percentage points above baseline, and risky asset prices drop sharply, driven by shrinking expectations about profitability of AI-related investment.

Japanese financial and economic variables assumed in macro stress testing

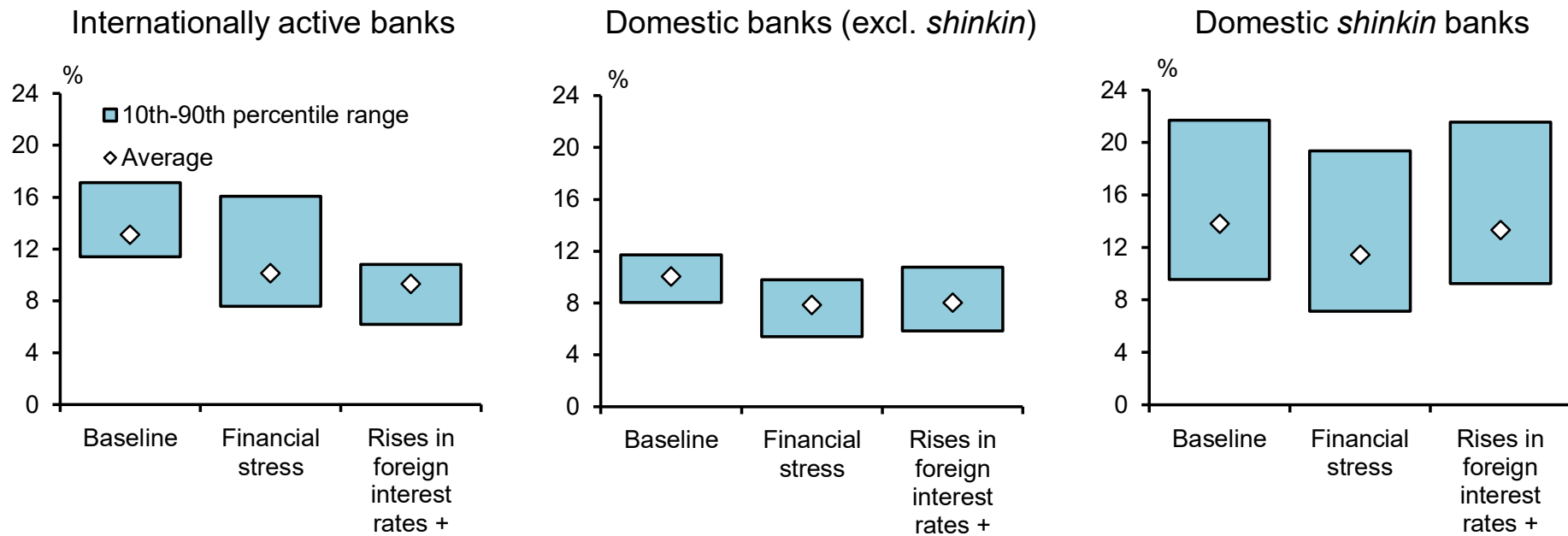


Note: The paths of Japanese short-term interest rates in the rises in foreign interest rates scenario plus are the same as in the baseline scenario. "Short-term interest rates" refers to the overnight rate, and "long-term interest rates" refers to the 10-year yield. See Chart VI-2-1, Chart VI-2-2, Chart VI-2-6, and the "Scenario Tables."

Results of macro stress testing (1)

- Financial stress scenario: Capital adequacy ratios decline due to lower net interest income, higher credit costs, and losses on securities.
- Rises in foreign interest rates scenario plus: Capital adequacy ratios decline, in particular for internationally active banks, due to higher foreign currency funding costs, a large exposure to AI-related investment, and valuation losses on stocks and bonds.
- Even under these downside scenarios, banks' capital adequacy ratios, on average, remain above regulatory requirements.

Distribution of capital adequacy ratios under each scenario

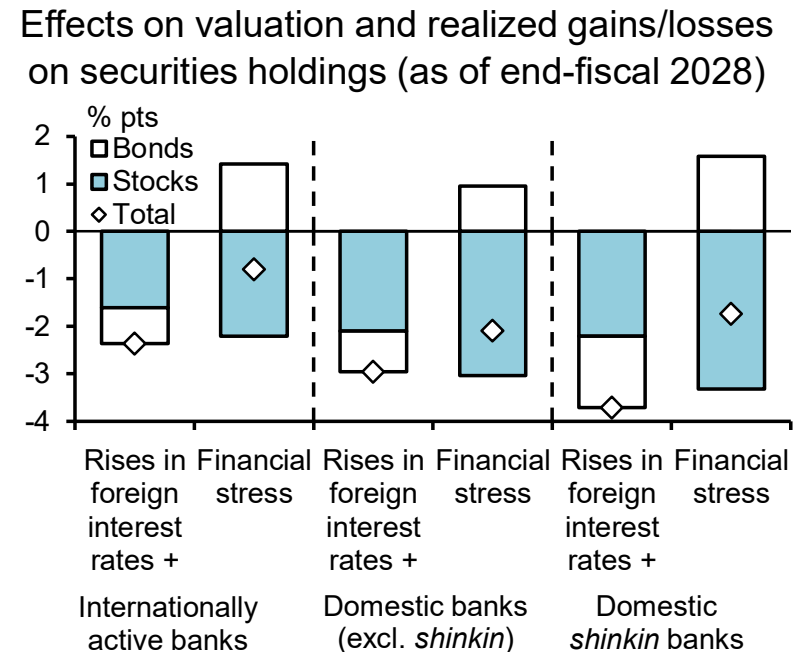
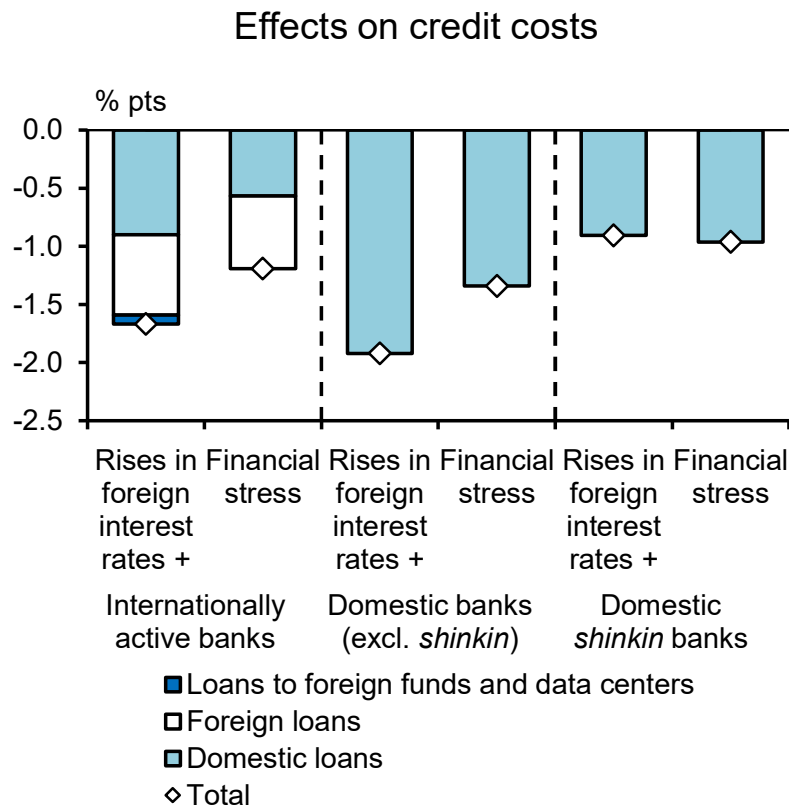


Note: Shows capital adequacy ratios at the end of the simulation period (as of end-fiscal 2028). See Chart VI-2-10.

Results of macro stress testing (2)

➤ Rises in foreign interest rates scenario plus: Credit costs for internationally active banks and domestic banks (excluding *shinkin* banks) exceed those in the financial stress scenario. This is due to their high exposure to the manufacturing sector, losses of vulnerable SMEs that are susceptible to rising crude oil prices, and the rising debt burdens of borrowing firms caused by higher interest rates. Simultaneous declines in both stock and bond prices also result in greater valuation and realized losses on securities compared to the financial stress scenario.

Losses relative to the baseline scenario



Note: Shows the contribution to the difference between the results under the baseline scenario and each downside scenario. See Charts VI-2-8 and VI-2-9.

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Chapter II. Risks observed in financial and capital markets

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C. Risks to financial markets

Chapter III. Financial intermediation

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B. Financial intermediation by the NBFIs sector

Chapter IV. Risks faced by financial institutions

A. Credit risk

B. Market risk associated with securities investment

C. Funding liquidity risk

Chapter V. The financial cycle and challenges following changes in the business environment

A. Domestic financial cycle

B. Global financial stability

C. Opportunities and risks posed by changes in the business environment

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Box 1: Developments in private funds

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Box 5: Stress test based on a real estate stress scenario

7. Opportunities and risks posed by changes in the business environment

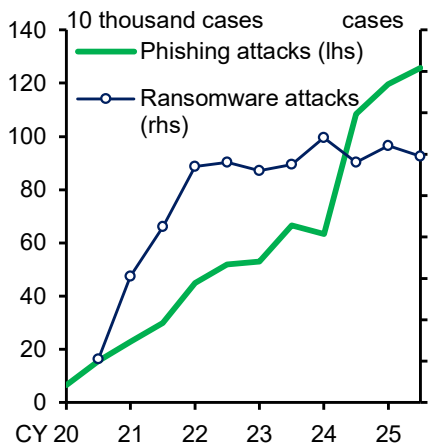
- The threat of cyberattacks
- Adaptation to new technologies

The threat of cyberattacks

- The number of ransomware attacks in Japan has been at a high level, and the amount of damage caused by unlawful money transfers through online banking has been increasing.
- Reportedly, some cyberattacks have been carried out by state-sponsored actors or have taken place in the wake of disruptions following natural disasters or geopolitical events.
- According to the results of a survey conducted by the Bank of Japan, more than 90 percent of institutions identify cyberattacks as emergency situations for business continuity.

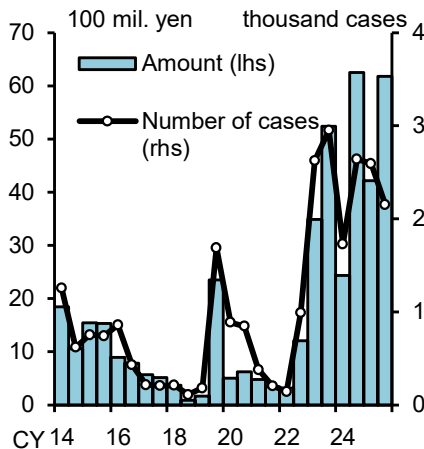
Number of cyber-related attacks in Japan

Cyberattacks

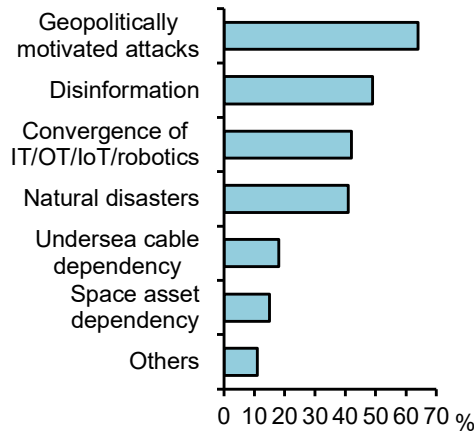


Note: See Chart V-3-1.

Unlawful online money transfers

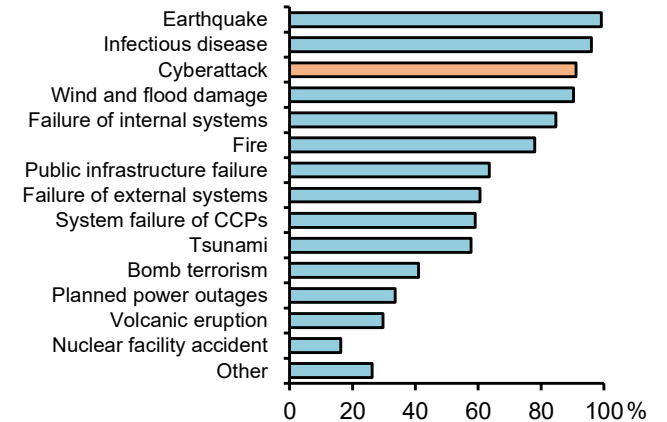


Major factors considered in organizational cybersecurity plans



Note: Based on Global Cybersecurity Outlook 2026 survey (August-October 2025). See Chart V-3-2.

Events considered as emergencies in BCP



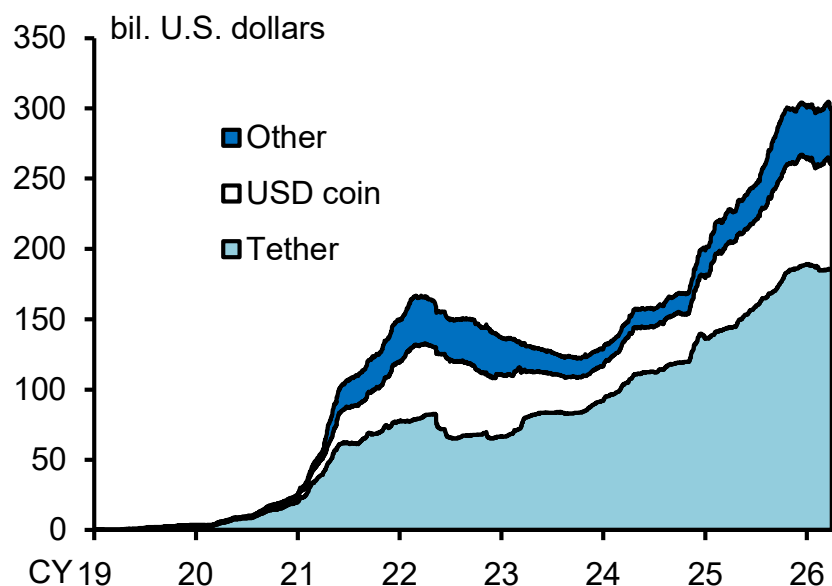
Note: Based on the results of the Bank of Japan's survey (April-May 2025). See Chart V-3-3.

Adaptation to new technologies

- Stablecoins are crypto-assets designed to maintain a stable value by being linked to the value of fiat currencies or other assets, with potential benefits including faster fund transfers and cost reduction through the use of distributed ledger technology.
- Although their use remains currently limited, the market size may grow as major jurisdictions develop legislation, regulations, and supervisory frameworks for stablecoins.
- Discussions are under way regarding risks to financial stability and the appropriate regulation and supervision frameworks.

Developments in stablecoins

Market capitalization of stablecoins



Various topics surrounding stablecoins

- Macrofinancial Stability**
Volatility in value and runs, Market risks through reserve assets, Impairment of financial intermediary functions, Interconnections with the financial system, Infringement of monetary sovereignty, Circumvention of capital controls, etc.
- Operational Safety and Efficiency**
Cyberattacks, System failures, Vulnerability in smart contracts, etc.
- Financial Integrity**
Money laundering and terrorism financing, Avoiding regulation and supervision, etc.
- Legal Certainty**
Legal classification, Issuer or custodian insolvency regimes, Inconsistencies across jurisdictions, etc.

Note: The right-hand chart is based on the report by IMF staff (Adrian et al., 2025). See Chart V-3-4.

Conclusion: Stability assessment and caveats

- Japan's financial system has been maintaining stability on the whole.
- Financial intermediation has continued to function smoothly, and no major financial imbalances have been seen in the financial intermediation activities.

Risks faced by financial institutions

- The quality of banks' domestic and foreign loan portfolios has been maintained. Credit costs have been limited. Depending on the future course of the situation in the Middle East, there is a risk that firms' commodity procurement costs could be elevated, and effects through supply chains could emerge. Under these circumstances, it remains necessary to pay close attention to the possibility that this could have an impact on firms' financial positions and their cash flow management.
- With the links between (1) the domestic banking sector and financial markets and (2) the foreign NBFIs sector strengthening, Japan's financial system may have become more susceptible to fluctuations in global markets and the influence of foreign funds. Keeping these points in mind, banks need to identify and manage risks associated with securities holdings.
- Banks have sufficient yen funding liquidity. As for foreign currency, they have maintained stable funding. Banks need to continue to work toward establishing stable funding bases.
- Banks need to continue to properly manage risks related to digital technologies and climate-related financial risks.

Resilience of the financial system

- Regarding banks' loss-absorbing capacity, their capital well exceeds regulatory requirements.
- Banks' amount of yen interest rate risk relative to their capital has remained low with that on the asset and liability sides being more or less in balance.
- Based on the results of the macro stress testing, it can be judged that the stability of Japan's financial system is maintained even under stress equivalent to the global financial crisis and compound stress of the materialization of geopolitical risks such as a rise in crude oil prices, together with shrinking expectations about future prospects of AI, and a substantial rise in interest rates.
- It is necessary to carefully monitor the impact on the financial system, which could materialize through various channels, of developments in the economic policy formulation in each jurisdiction, geopolitical risks particularly regarding the situation in the Middle East, and activities of the foreign NBFIs sector. Banks must remain vigilant against the materialization of various risks and implement effective measures to manage such risks.