



Summary

October 2026

Bank of Japan



Note: This document presents a summary of the October 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 a decline in expectations regarding AI, and a substantial rise in interest rates, all happening simultaneously.
 - It is necessary to continue to carefully monitor the impact that factors such as the future situation in the Middle East, the profitability and financing of AI-related investment, and developments in the foreign non-bank financial intermediary (NBFI) sector have on the financial system through various channels.
- 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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2. Financial cycle and asset prices



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Box 1: Increases in housing loan interest rates and credit costs

Box 2: Frontier AI and cybersecurity

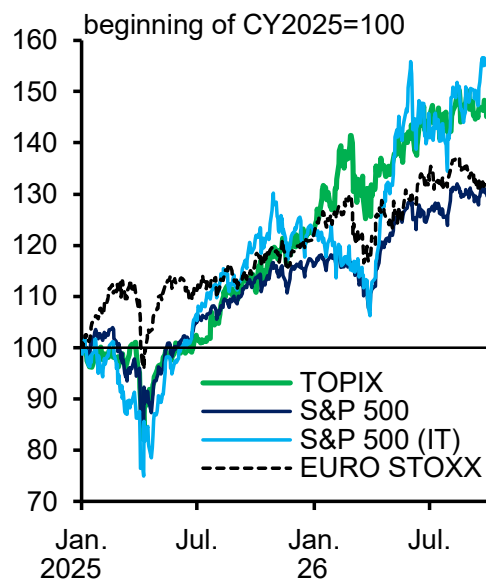
1. Financial markets and financial intermediation

- Domestic and foreign financial markets
- Financial intermediation

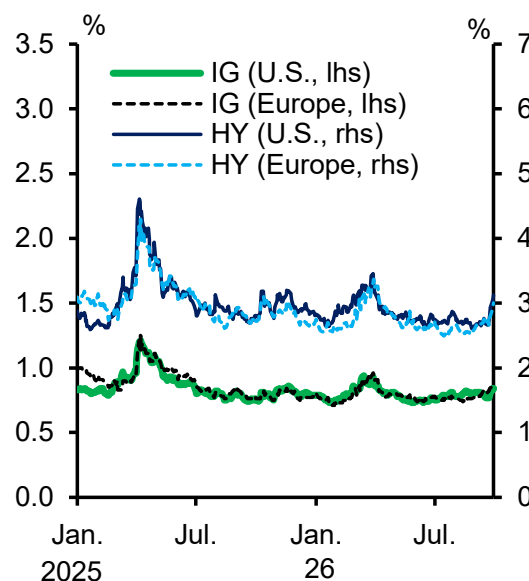
Domestic and foreign financial markets

- In domestic and foreign financial markets, the expansion in global AI-related demand had the effect of improving market sentiment, despite continued high uncertainties over the situation in the Middle East. Against this background, stock prices increased, and credit spreads on corporate bonds remained low.
- Long-term interest rates in Japan rose substantially amid the effects of the global rise in long-term interest rates, reflecting factors such as market views on fiscal and monetary policies. Crude oil prices saw large fluctuations and remained relatively high compared with early 2026.

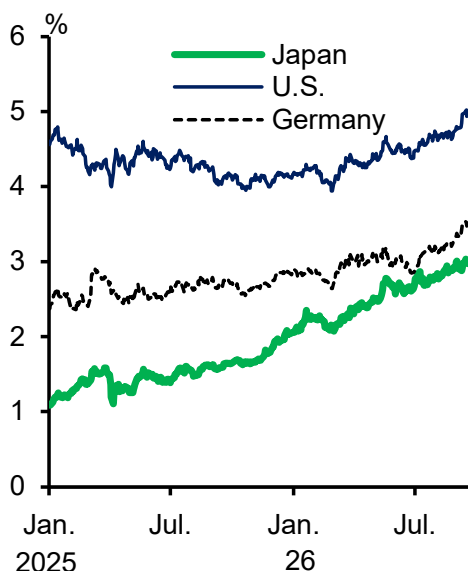
Stock prices



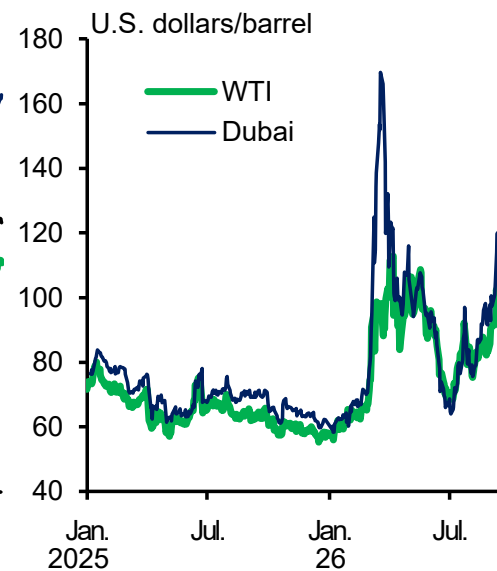
Credit spreads
on corporate bonds



Long-term interest rates



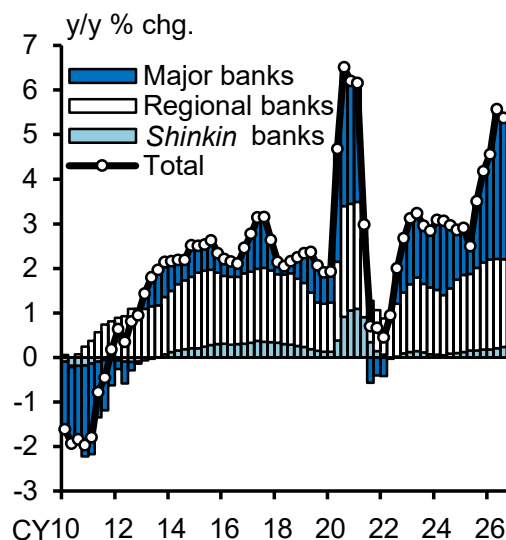
Oil prices



Financial intermediation

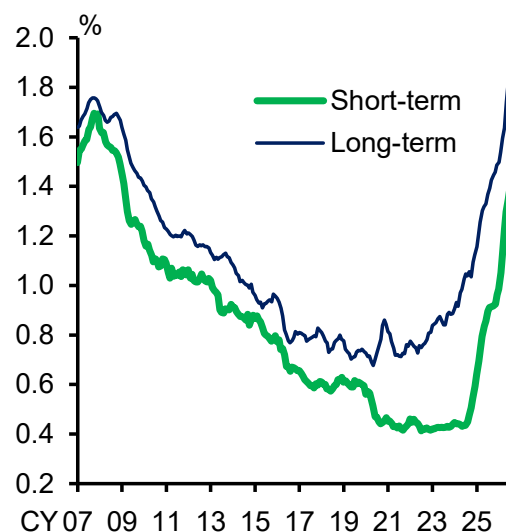
- Financial intermediation in Japan has continued to function smoothly. Firms' demand for loans has increased, while banks have maintained an active lending stance.
 - With regard to the annual growth rate of domestic loans by privately-owned banks, loan demand reflecting M&A deals has remained strong, and demand for real estate-related loans and demand for working capital amid the recovery in economic activity have been rising as well.
 - Lending rates have been rising for both long-term and short-term ones, due to rises in market interest rates and short-term prime rates, both of which serve as base rates.

Banks' domestic loans outstanding



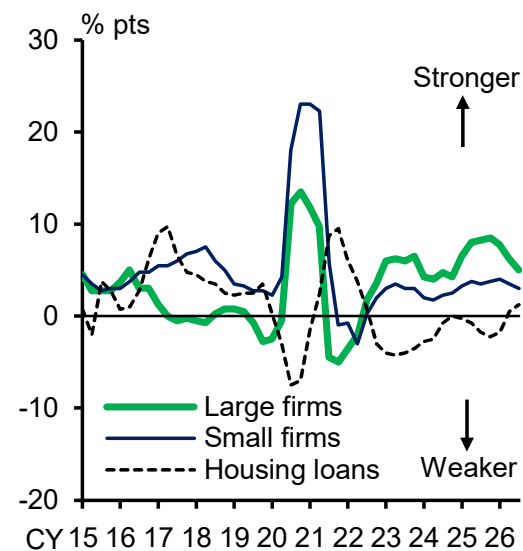
Note: See Chart III-1-1.

Average contract interest rates on new loans and discounts



Note: See Chart III-1-10.

DI for demand for loans



Note: See Chart III-1-3.

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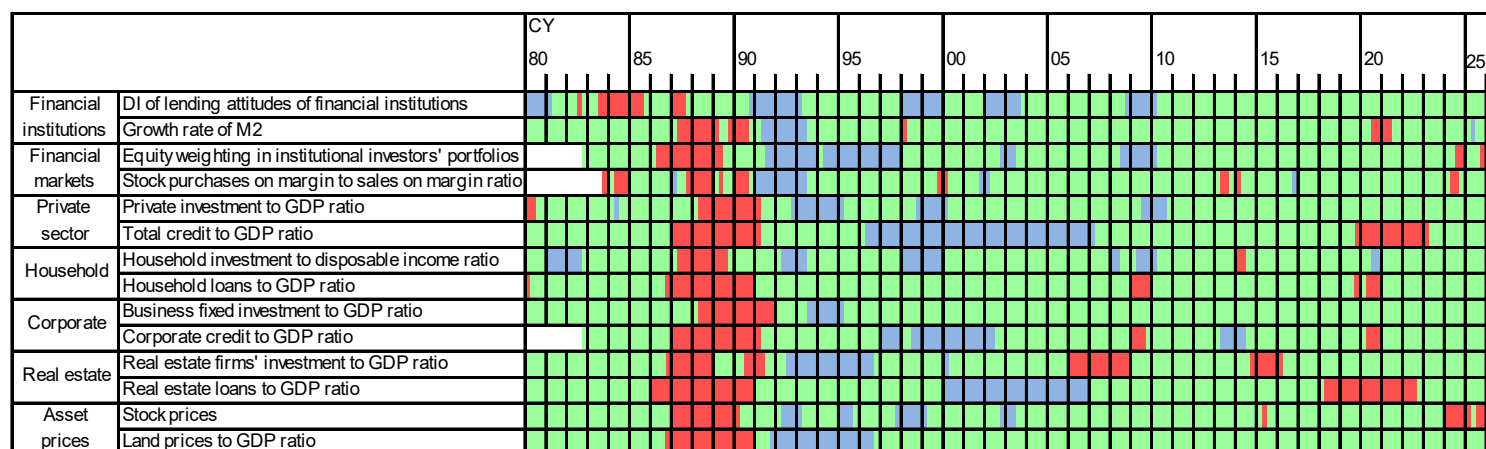
2. Financial cycle and asset prices

- Financial cycle
- Stock prices
- Real estate market developments

Financial cycle

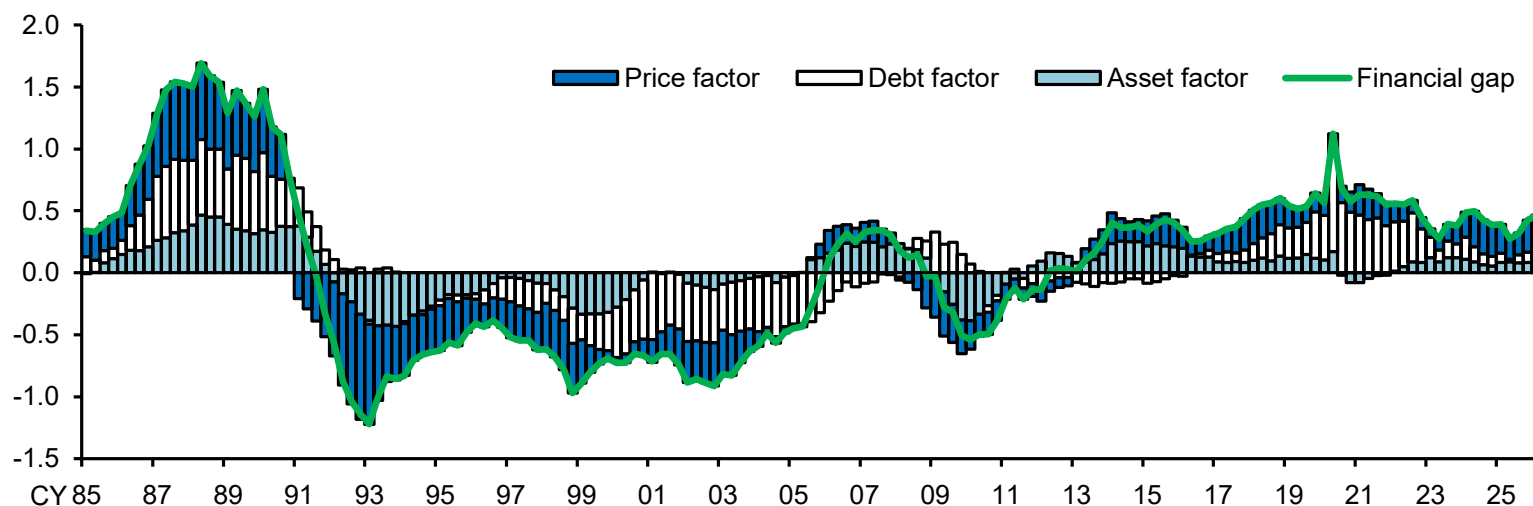
- 11 out of the 14 Financial Activity Indexes (FAIXs) in the heat map are recently "green," indicating a "state where there are no significant deviations from the trend." The financial gap has recently widened somewhat, mainly due to the "price factor."
- Although no major financial imbalances have been seen in current financial activities, developments in asset prices, such as real estate prices and stock prices, continue to warrant careful attention.

Heat map



Note: See Chart V-1-1.

Financial gap

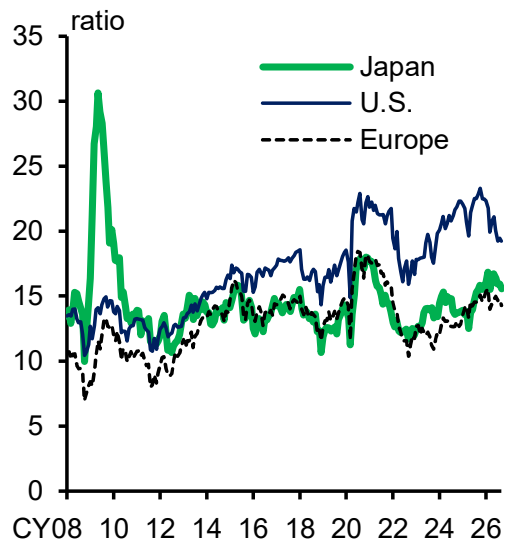


Note: See Chart V-1-2.

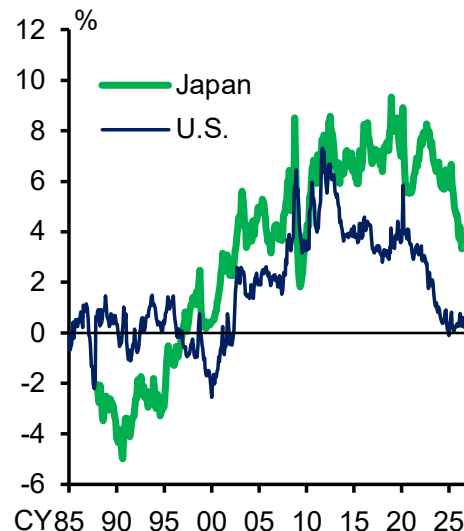
Stock prices

- Price-earnings (P/E) ratios have remained broadly around their average levels since 2008, reflecting higher expected earnings per share (EPS). Equity yield spreads have declined somewhat amid rising interest rates, but have remained relatively high from a longer-term perspective.
- Japanese stock prices have been rising on the back of the ongoing global expansion in AI-related demand.

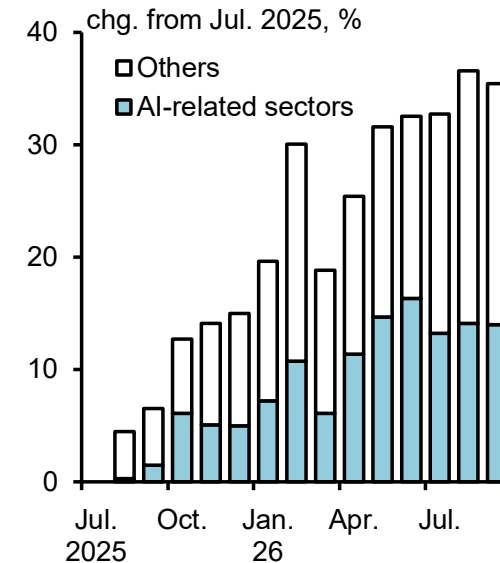
P/E ratios



Equity yield spreads



Stock price contribution of AI-related sectors



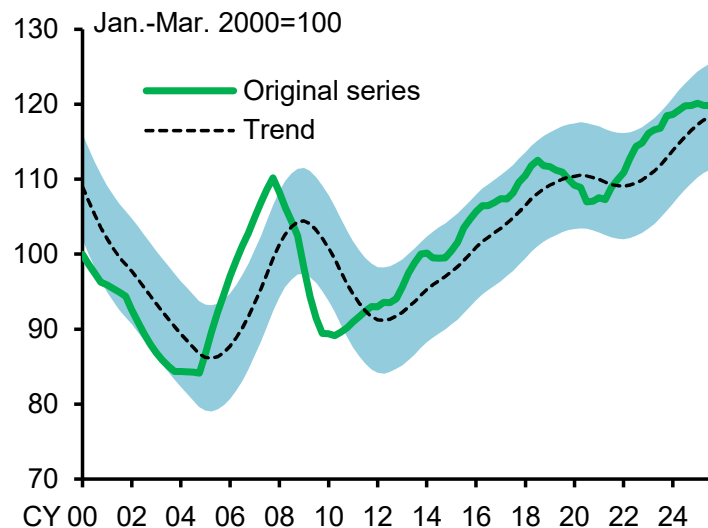
Note: See Chart II-2-10.

Note: In the left-hand chart, yield spreads are calculated as expected returns - 10-year government bond yields. In the right-hand chart, "AI-related sectors" refers to the following four TOPIX Sector Indices: Nonferrous Metals, Machinery, Electric Appliances, and Precision Instruments. See Chart V-1-5.

Real estate prices

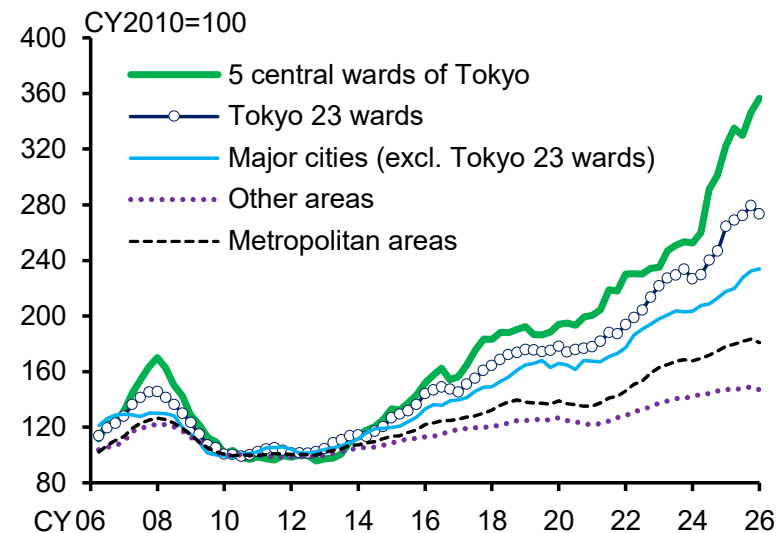
- Real estate prices have been rising overall, reflecting the economic recovery and price increases. The real estate prices to rent ratio has remained broadly in line with its trend.

Commercial real estate prices to rent ratio



Note: "Trend" is calculated using 3-year backward moving averages. The shaded areas indicate the root mean square of the deviation from the trend. See Chart V-1-6.

Commercial real estate transaction prices

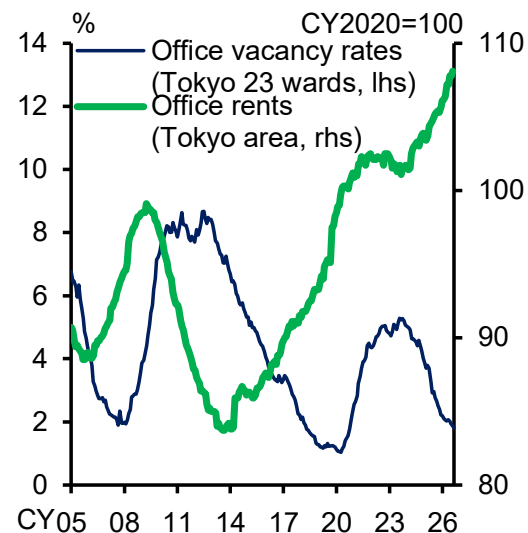


Note: Based on individual transaction data of "Real Estate Transaction-price Information." The chart indicates quality-adjusted prices estimated for each region. See Chart V-1-7.

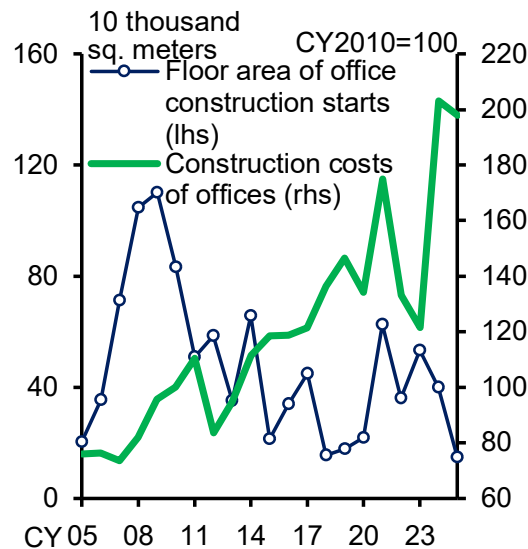
Commercial real estate

- In the Tokyo metropolitan office market, the floor area of office building construction starts has remained low despite declining vacancy rates, due to a surge in construction costs and to labor shortages. Rents have continued to rise as supply-demand conditions have tightened.

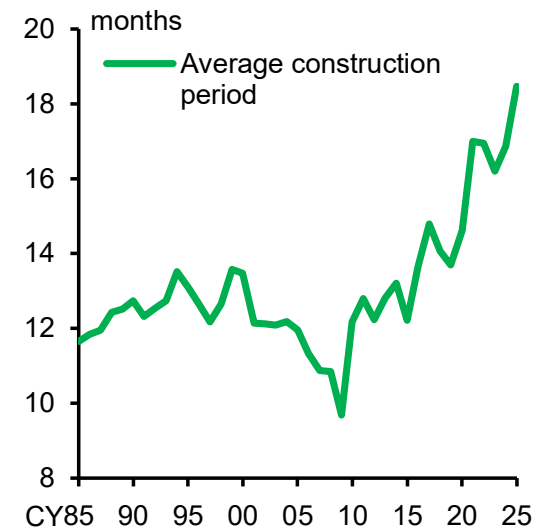
Vacancy rates and rents



Supply and construction costs



Average construction period

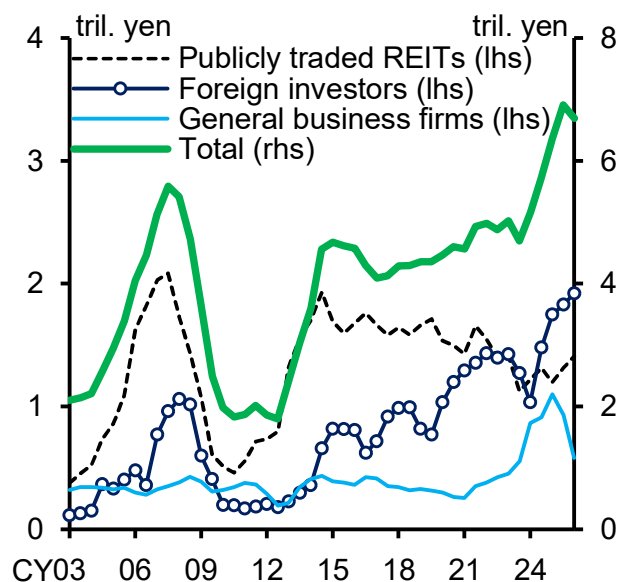


Note: See Chart V-1-8.

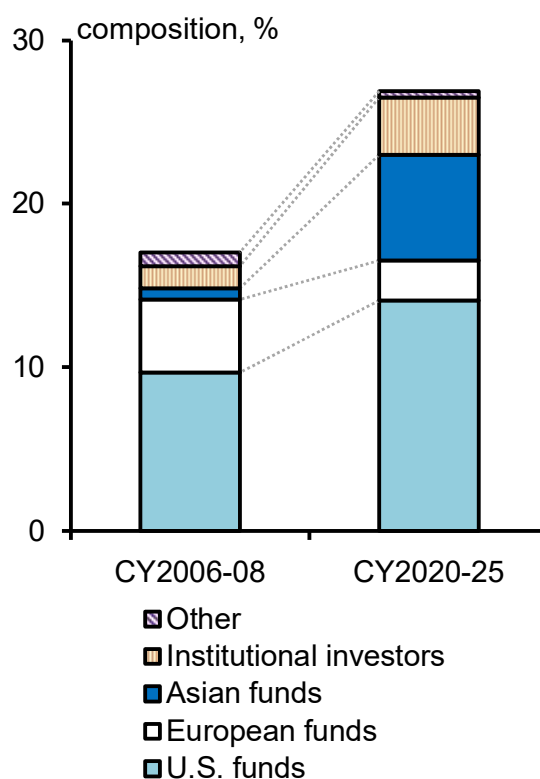
Foreign investors' real estate investment

- Foreign investors have generally maintained an active investment stance, with real estate investment continuing to increase, led mainly by U.S. and Asian funds.
- The yield gap for commercial real estate in Tokyo, an indicator of real estate risk premiums, has been declining amid recent increases in property prices and interest rates.

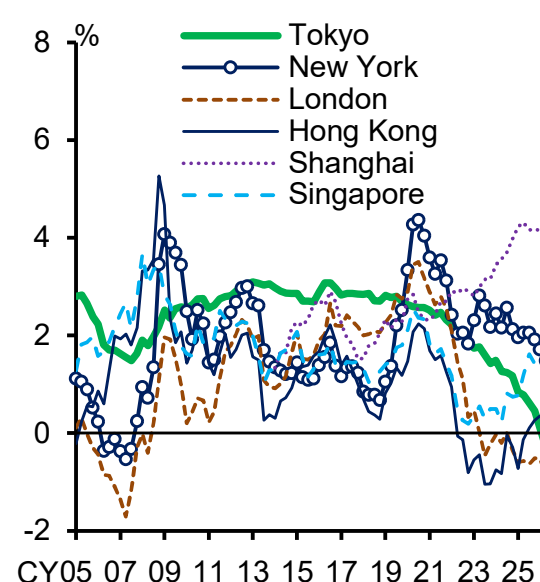
Real estate acquisitions
by type of investor



Composition of investors



Commercial real estate
yield gap

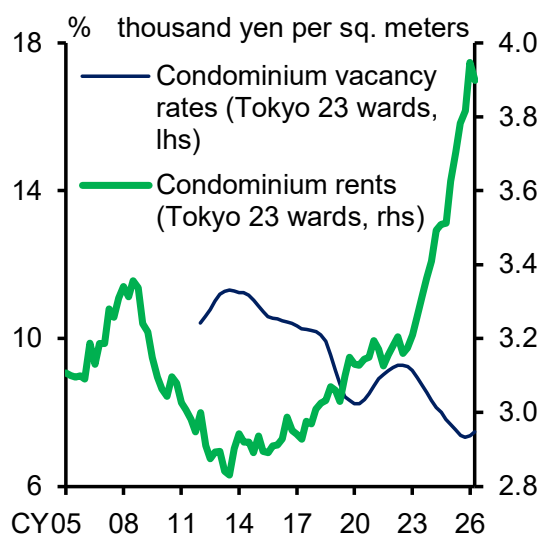


Note: The middle chart shows the share of real estate acquisition amount by foreign investors. In the right-hand chart, yield gaps are calculated as cap rates of Grade-A office buildings in each city (surveyed by JLL) - 10-year government bond yields for the corresponding country or region. See Chart V-1-9.

Condominium market in the Tokyo metropolitan area

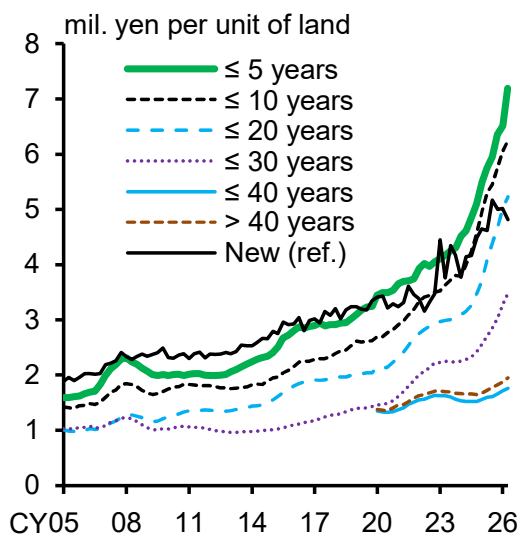
- The condominium market in the Tokyo metropolitan area has continued to see declining vacancy rates and rising rents.
- Prices for existing condominiums, especially for relatively new properties, which likely reflect demand, including for investment, have been rising significantly. Recently, the upward price pressure has extended to older properties around 30 years old.
- In the three central wards of Tokyo, however, price increases in existing condominiums appear to be leveling off.

Vacancy rates and rents



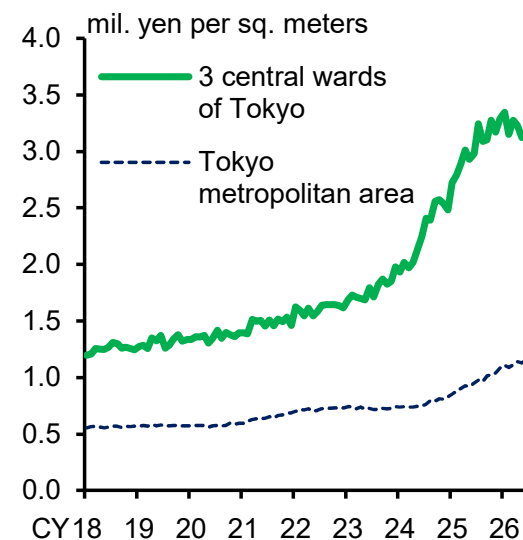
Note: See Chart V-1-10.

Condominium prices by age



Note: See Chart V-1-11.

Existing condominium prices in the 3 central wards of Tokyo

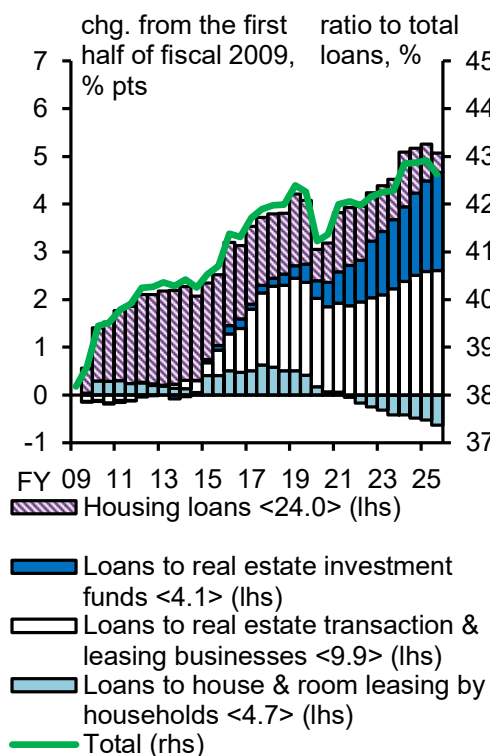


Note: See Chart V-1-11.

Real estate-related loans

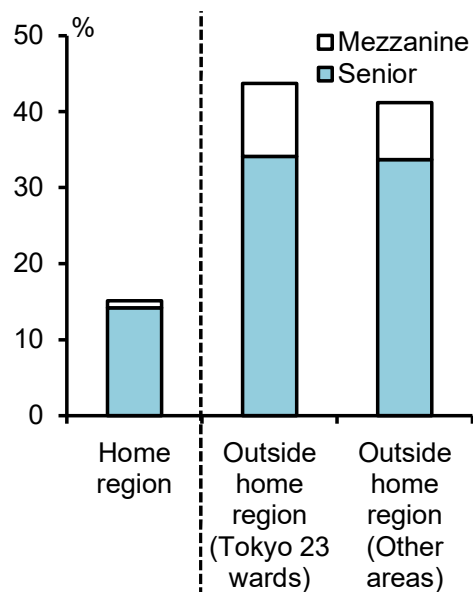
- Lending has shifted toward real estate funds and corporate loans to real estate businesses.
- Regional banks' lending to real estate funds includes substantial cross-prefecture lending, including in Tokyo, as well as some relatively high-risk mezzanine loans.
- Default rates have remained low for real estate businesses. For real estate leasing businesses, higher interest payments due to rising interest rates have offset the increase in operating profits from rising rents.

Change in the share of real estate-related loans



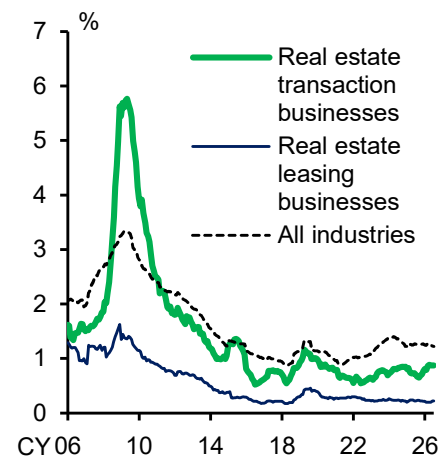
Note: Figures in brackets indicate the share of real estate-related loans to total loans as of end-March 2026. See Chart V-1-13.

Regional banks' lending to real estate funds



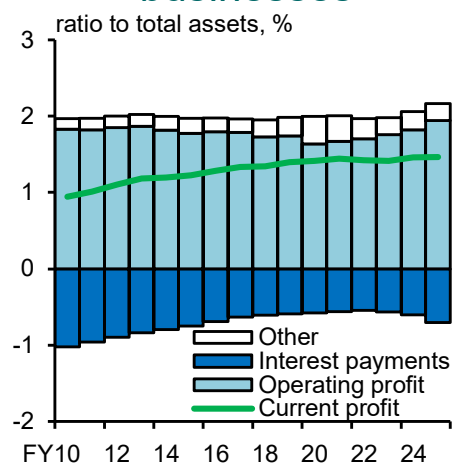
Note: The proportion of outstanding loans to real estate funds by lending arrangement. See Chart V-1-14.

Default rates of real estate businesses



Note: See Chart V-1-15.

Current profit of real estate leasing businesses



Note: Covers SMEs. See Chart V-1-17.

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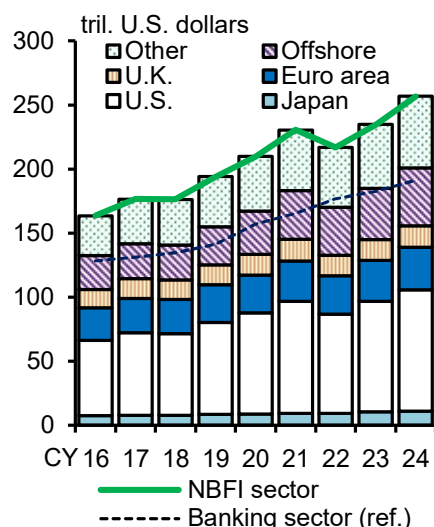
3. Foreign NBFIs and AI-related investment

- Expanding presence of foreign NBFIs and their linkages with Japan's financial system
- Private funds and AI-related investment
- Japanese banks' foreign loans

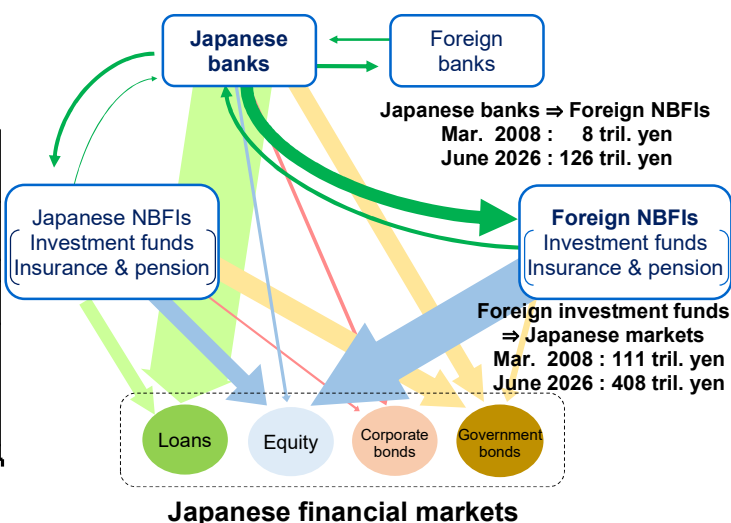
Linkages between foreign NBFIs and Japan's financial system

- The NBFI sector has expanded globally, raising concerns about its potential to amplify shocks during periods of stress.
- Domestic banks' lending to and investment in foreign NBFIs have increased steadily, while foreign NBFIs' investments in Japanese stocks and bonds have also risen. These developments may have increased Japan's financial system susceptibility to fluctuations in global financial markets and developments in foreign investment funds.

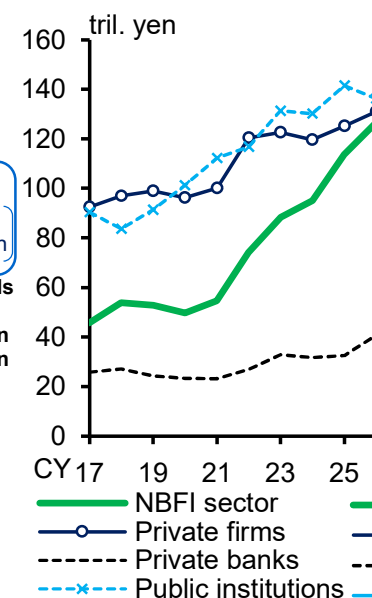
Size of financial assets (Global)



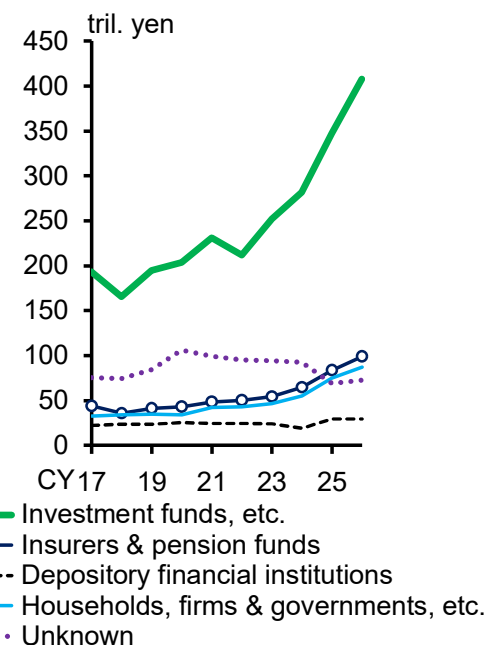
Interconnectedness of the domestic and foreign financial sectors via loan and investment activities



Foreign loans and investments outstanding of Japanese banks



Japanese securities held by foreign investors



Note: See Chart V-2-1.

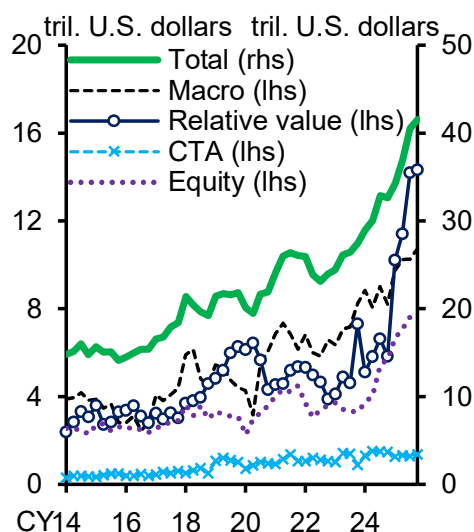
Note: Direction and width of arrows in the left-hand chart indicate the outstanding amount of loans and investments between the sectors and to the respective markets (as of end-June 2026). Some data are omitted due to data limitations. See Chart V-2-2.

Hedge funds (1)

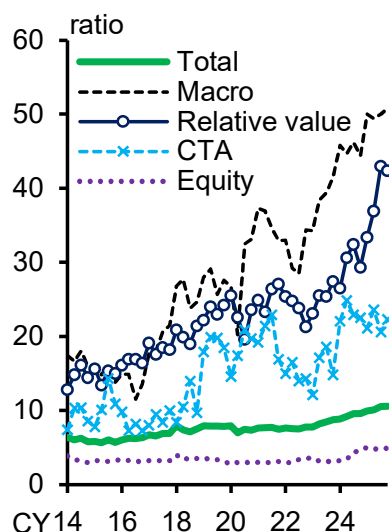
- Hedge funds operating in the United States have been expanding leverage through bank borrowings, repo transactions, and derivatives such as interest rate swaps, while increasing the gross notional exposure. Their investment in Japan has also been on an increasing trend.
- There have been concerns that the expansion of hedge funds' leverage could amplify market price fluctuations through position unwinding during periods of stress.

Investments and leverage of U.S. hedge funds

Gross notional exposure



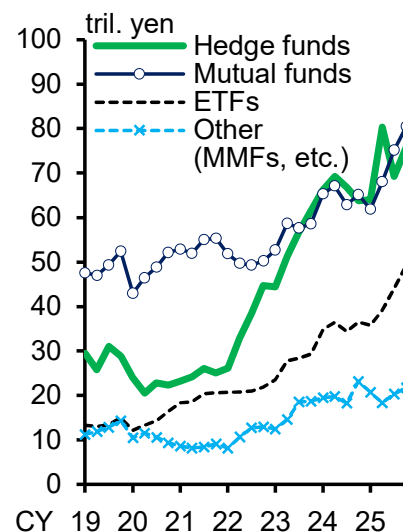
Synthetic leverage



Note: See Chart V-2-12.

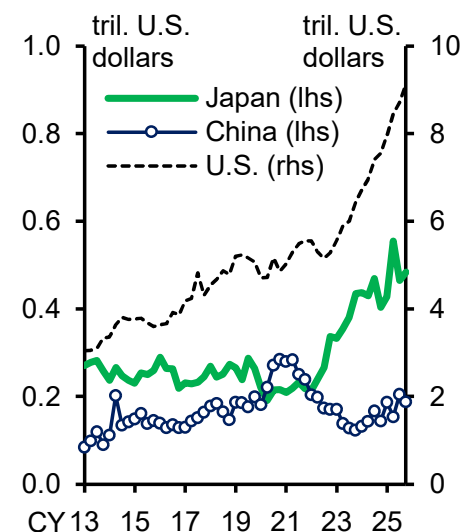
Investments to Japan by U.S. investment funds

Investments to Japan



Note: See Chart V-2-14.

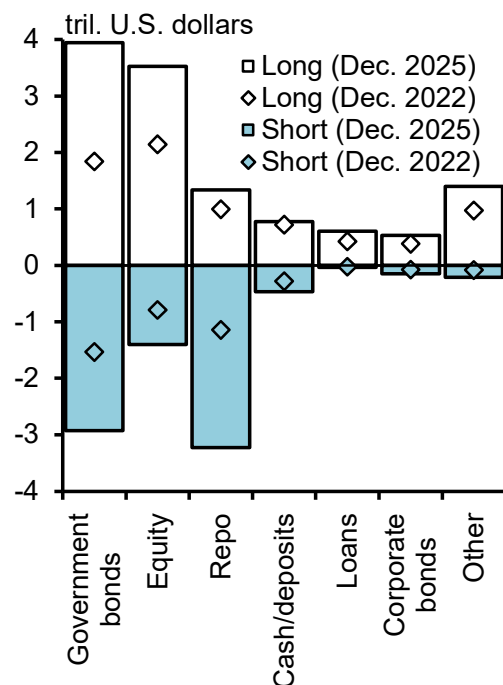
Hedge funds' investments by country



Hedge funds (2)

- A broad range of multi-strategy or macro-strategy hedge funds have increased leverage through repo financing or equity margin loans from prime brokers, while engaging in both equity investment and bond market transactions.
- The share of AI-related stocks in the U.S. equity portfolio of hedge funds has been increasing. A decline in expectations for the profitability of AI-related investment could therefore spill over to bond markets.

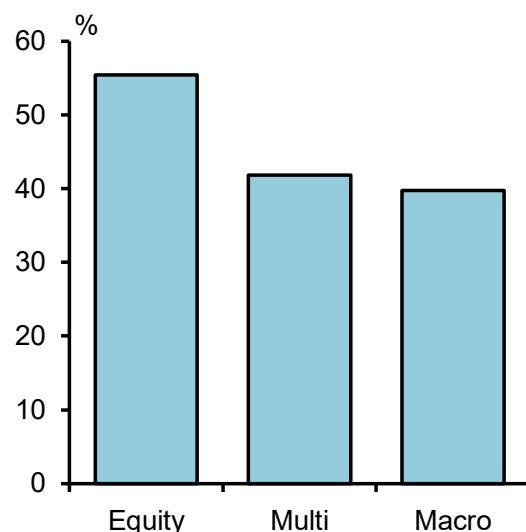
U.S. hedge funds' exposure by asset type



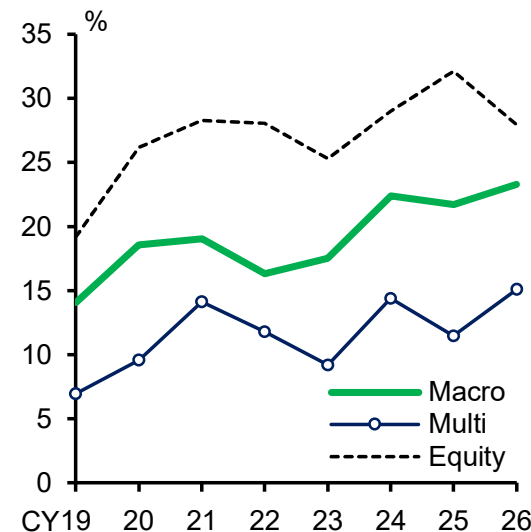
Note: See Chart V-2-13.

Equity investments of hedge funds by strategy

Share of U.S. equity-related investments



Share of investments in high-tech firms' stocks

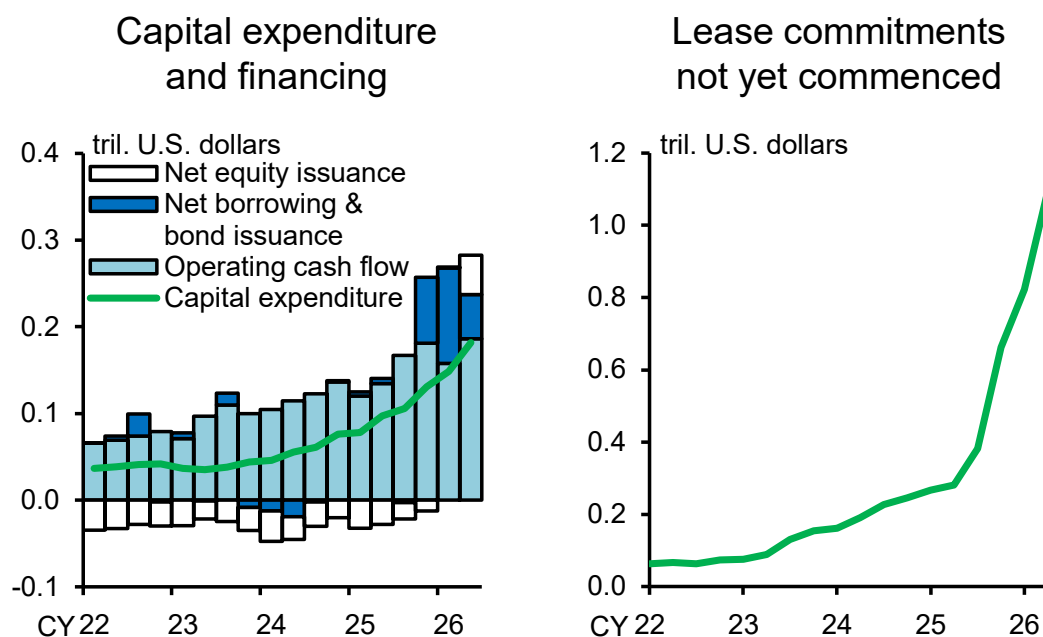


Note: Covers the top 15 funds by AUM in each strategy. Figures in the right-hand chart show the ratios of holdings in seven major U.S. high-tech firms' stocks (the "Magnificent Seven") to the total value of individual stock holdings as of Q1 in each year. See Chart V-2-18.

Private funds and AI-related investment

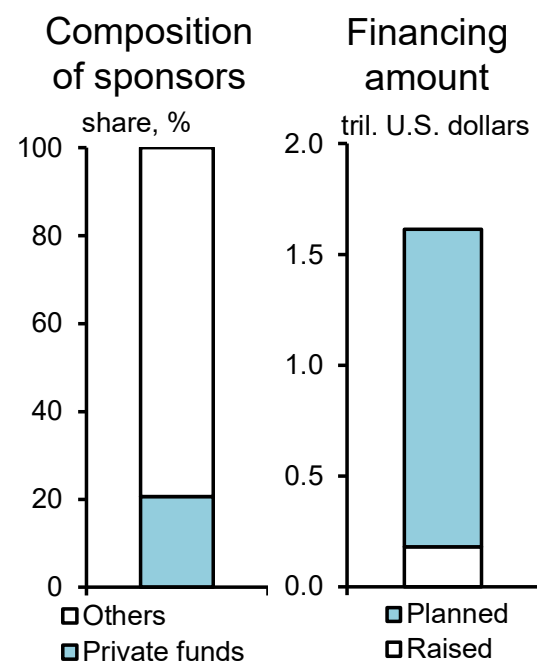
- Driven by strong expectations for growth in AI-related markets, hyperscalers, particularly in the United States, have significantly increased their fixed investment. Hyperscalers have increased external financing mainly through corporate bond issuance and have increasingly sought to secure rights to use third-party data centers via long-term lease commitments.
- Foreign NBFIs, including private funds, have been playing a growing role in meeting financing needs not covered by hyperscalers' internal funds. The possibility of growing concentration in private funds' portfolios warrants attention.

Capital expenditure by hyperscalers



Note: The positive values of "Net borrowing & bond issuance" and "Net equity issuance" indicate financing. See Chart V-2-8.

Financing of data centers

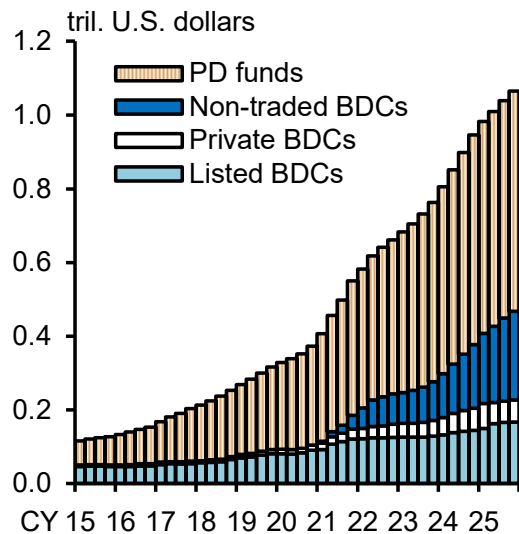


Note: Covers projects in the U.S. released from January 2023 to August 2026. Figures in the left-hand chart are based on the number of projects. Figures in the right-hand chart are as of August 2026. See Chart V-2-9.

Non-traded BDCs

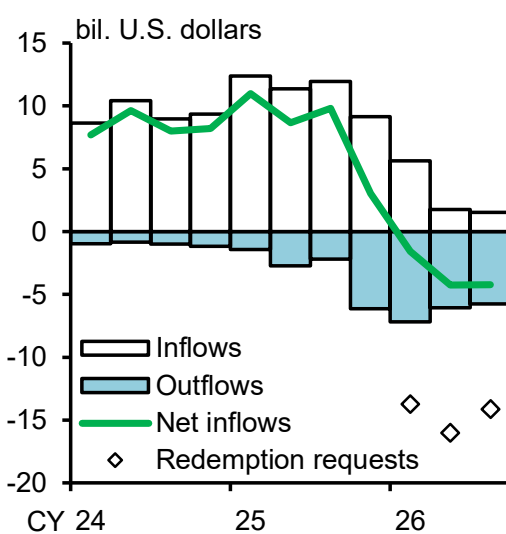
- Since the start of 2026, non-traded business development companies (BDCs) have continued to see capital outflows due to redemptions, mainly reflecting concerns over the software industry outlook.
- The increase in redemptions and the slowdown in capital inflows appear to have been driven primarily by retail investors. By contrast, institutional investors' investment stance appears to have remained broadly unchanged, as suggested by the recent narrowing of non-traded BDC corporate bond spreads. No significant changes have been observed in their financing trends of private debt (PD) funds, whose principal investors are institutional investors.

Assets under management
in U.S. PC funds by type



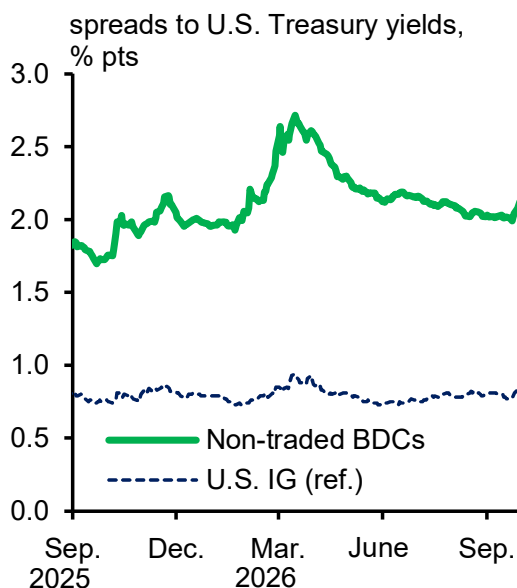
Note: Covers direct lending funds in the North American region. See Chart V-2-4.

Inflows and outflows
of non-traded BDCs



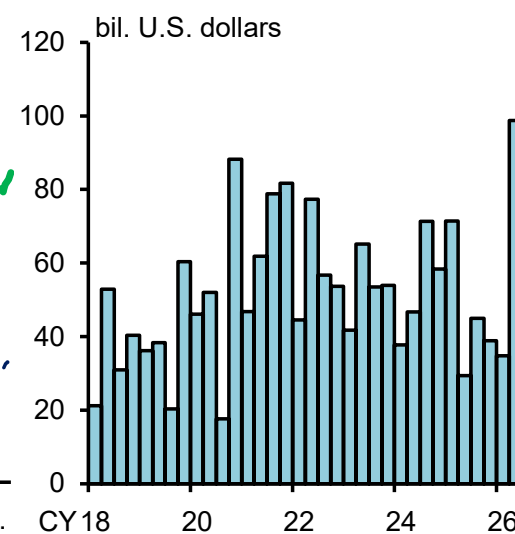
Note: Covers the top 10 non-traded BDCs by AUM as of 2025/Q4. See Chart V-2-5.

Credit spreads on non-traded
BDCs corporate bonds



Note: Covers the top 10 non-traded BDCs by AUM as of 2025/Q4. See Chart V-2-6.

Fundraising
by PD funds

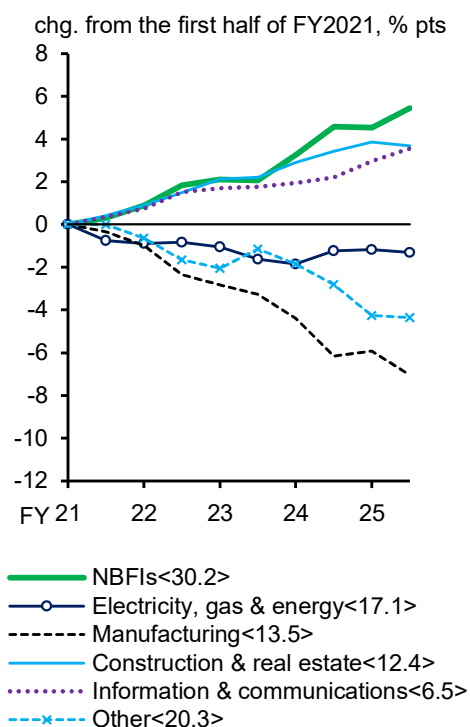


Note: Covers global markets. See Chart V-2-7.

Japanese banks' foreign loans

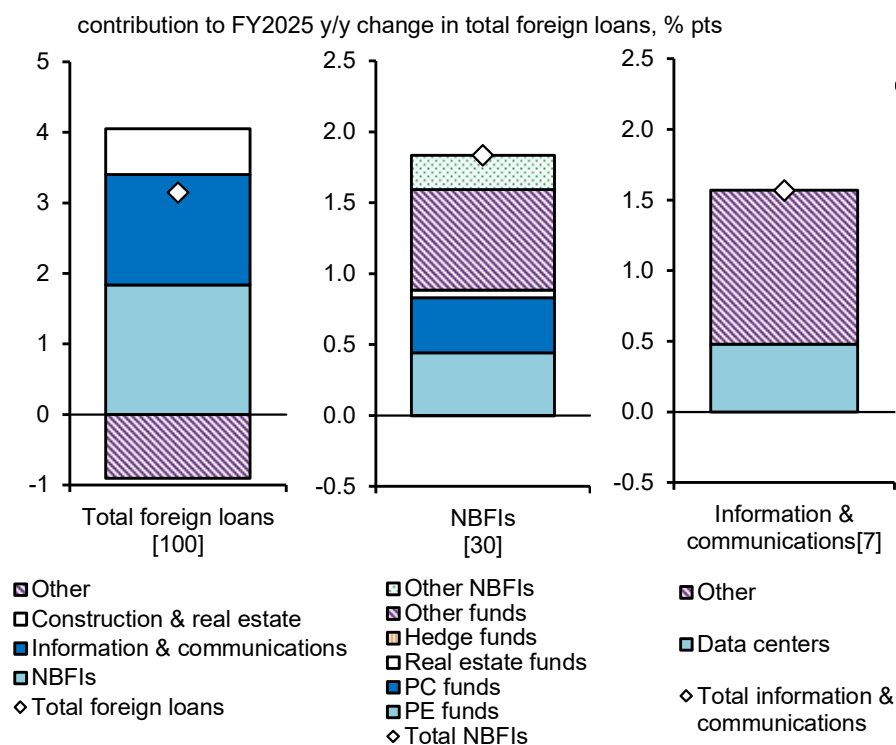
- Major banks' overseas lending has shifted toward the NBFIs and information and communications sectors, with lending to foreign funds and data centers increasing.
- Investment grade loans account for a large share of lending to foreign funds. Nevertheless, banks need to manage portfolio quality carefully.
 - For a stress test scenario assuming substantial adjustment in AI-related investment, see 6. Macro stress testing.

Shares in foreign loans by industry



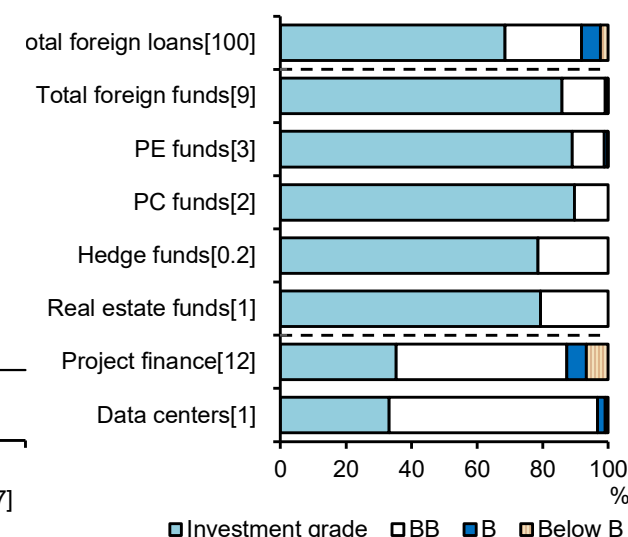
Note: Covers the three major banks.
Figures in brackets indicate the share of respective sectors as of end-March 2026. See Chart IV-1-15.

Loans to foreign NBFIs and information & communications



Note: See Chart IV-1-16.

Rating composition of foreign loans



Note: Data as of end-March 2026. Figures in brackets indicate the share in total foreign loans. Covers the three major banks. See Chart IV-1-17.

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Box 1: Increases in housing loan interest rates and credit costs

Box 2: Frontier AI and cybersecurity

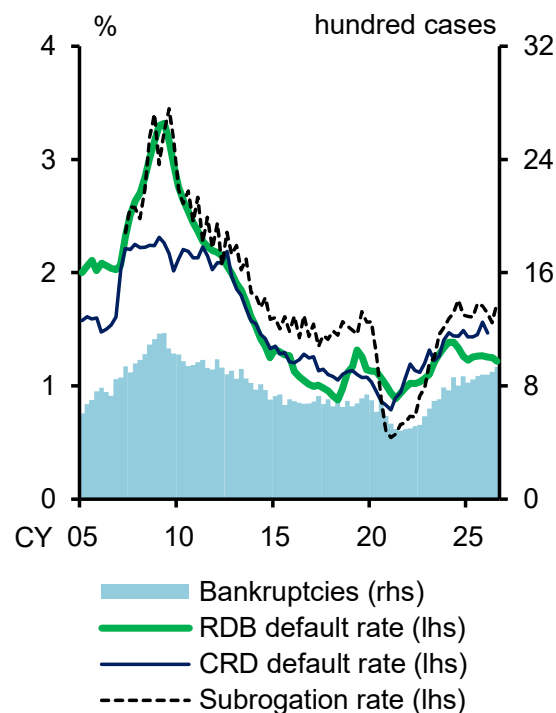
4. Firms' and households' credit costs

- Corporate bankruptcies and defaults and the effects of higher crude oil prices
- Firms' and households' resilience to rising interest rates

Corporate bankruptcies and defaults

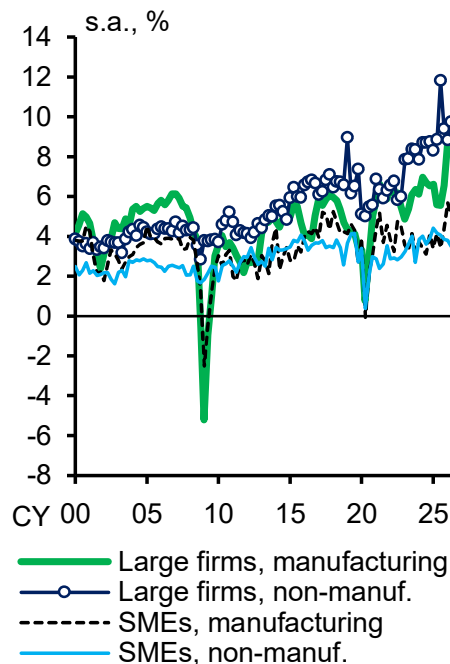
- Corporate bankruptcies and default rates have been broadly unchanged, while remaining above pre-pandemic levels.
- Operating profit margins for small and medium-sized enterprises (SMEs) have remained below those for large firms. The distribution of SMEs' operating profit margins shows substantial disparities across firms. Abstracting from short-term fluctuations, margins have improved steadily among SMEs in the upper range of the distribution, while those in the lower range have remained broadly unchanged in negative territory.

Bankruptcies and default rates



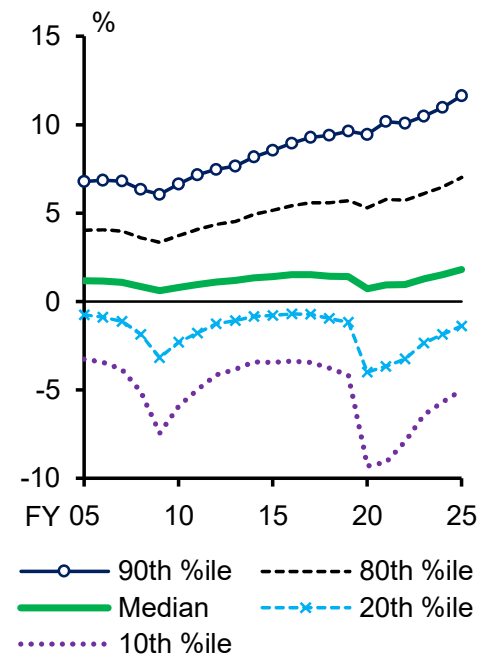
Note: See Chart IV-1-3.

Ratio of operating profits to sales



Note: See Chart IV-1-4.

Distribution of ratio of operating profits to sales (SMEs)

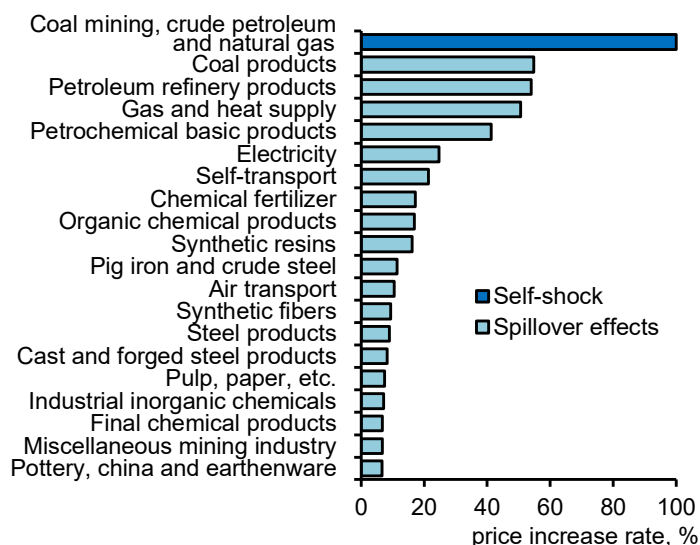


Note: See Chart IV-1-4.

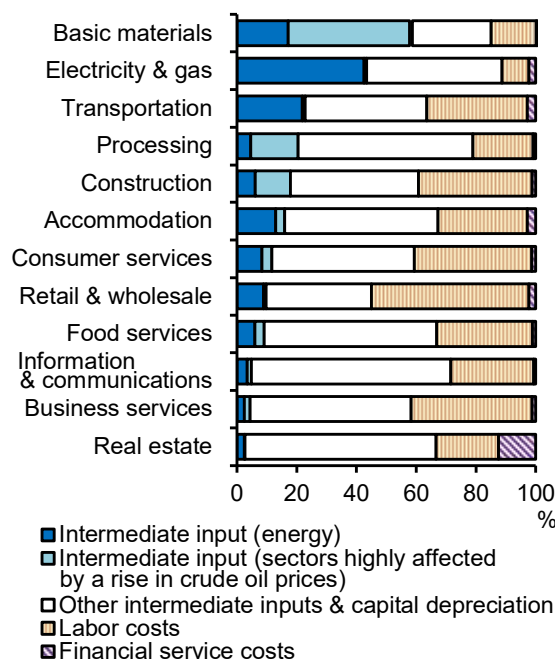
Effects of higher crude oil prices on default probabilities

- Large-scale supply chain disruptions have been avoided despite the situation in the Middle East, partly due to progress in securing alternative supply sources. However, higher raw material and energy prices appear to be exerting downward pressure on profits, particularly at SMEs.
- A hypothetical 100 percent rise in crude oil prices would increase default probabilities for only a small share of SMEs overall. However, certain firms are relatively susceptible to higher crude oil prices.

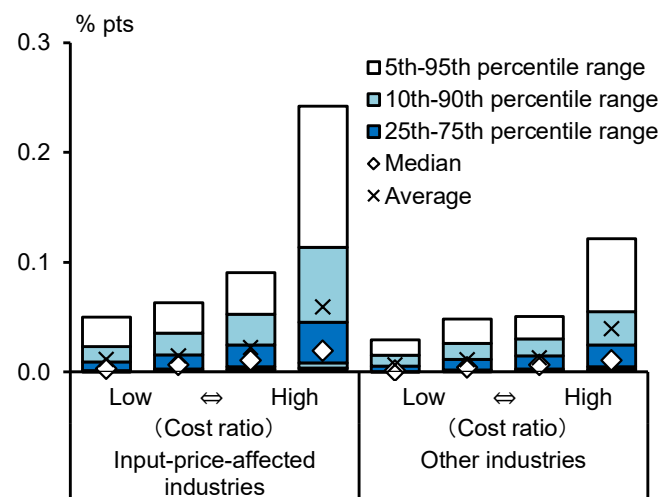
Spillover effects of higher crude oil prices



Cost structures by industry



Changes in probability of default



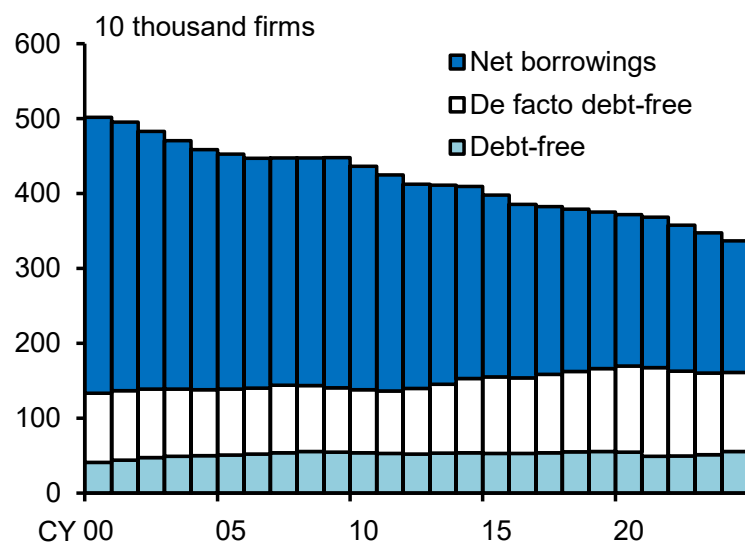
Note: Estimated based on the transaction structure of the 2020 input-output tables. See Chart IV-1-5.

Note: Estimated based on the scenarios and results presented in the left-hand chart. The analysis covers firms with capital of 100 million yen or less. See Chart IV-1-6.

Firms' resilience to rising interest rates (1)

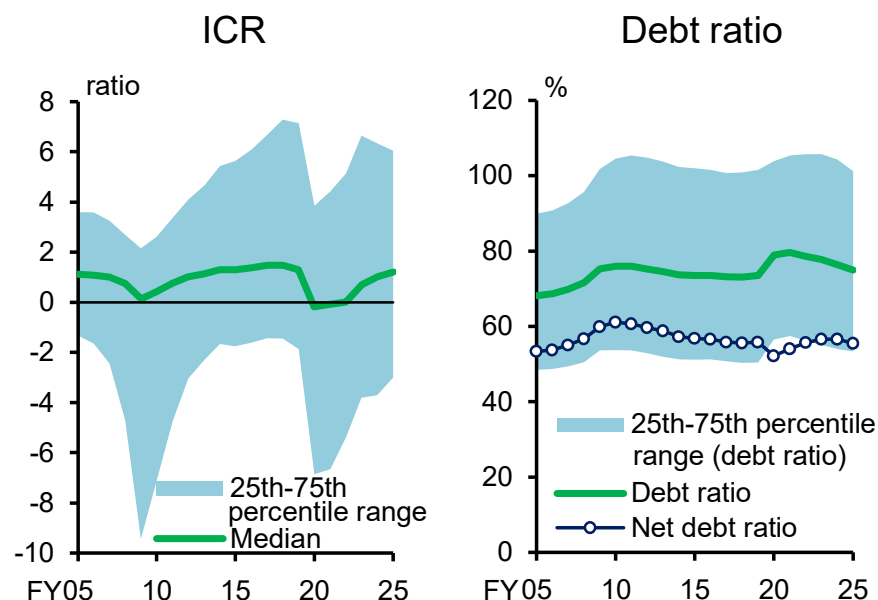
- The share of de facto debt-free firms has continued to rise. Among firms whose borrowings exceed their cash and deposit holdings, interest coverage ratios (ICRs) and debt ratios have also been on a moderate improving trend, indicating improved overall resilience to higher interest rates.
- However, financial indicators vary substantially across these firms, and the impact of rising interest rates may differ across borrowers, depending on factors such as the type of lending rate.

Number of firms by borrowing status



Note: See Chart IV-1-7.

Financial positions of firms with net borrowings

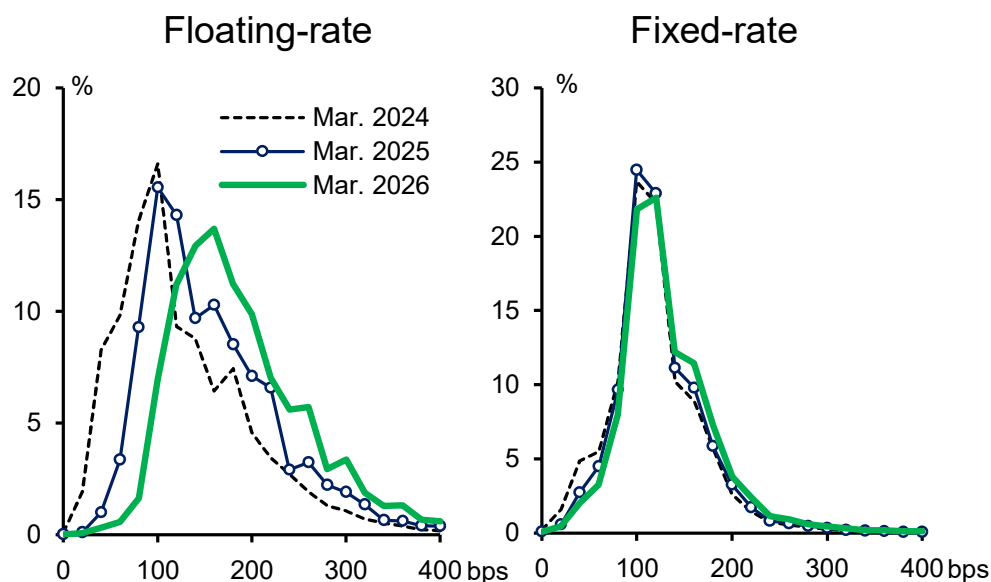


Note: Covers firms with capital of 100 million yen or less with net borrowings (i.e., interest-bearing debt exceeding cash and deposit holdings). See Chart IV-1-8.

Firms' resilience to rising interest rates (2)

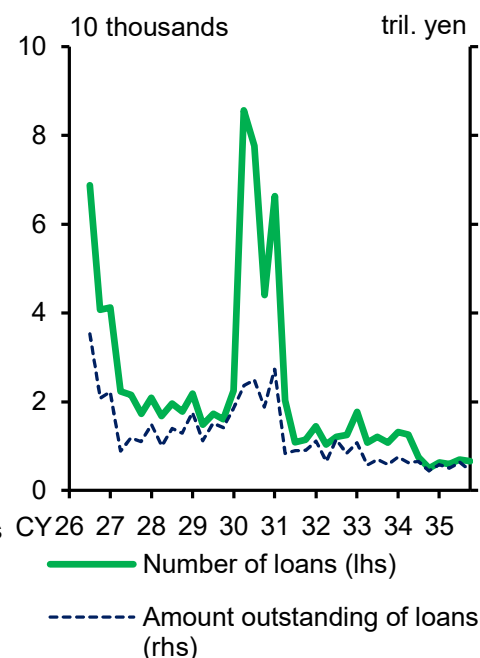
- Applied interest rates on regional banks' floating-rate loans to firms have increased, while those on fixed-rate loans have remained broadly unchanged. Maturities of fixed-rate loans are clustered around 2030-31 and most of these loans were extended during the pandemic.
- Financially vulnerable firms tend to have longer remaining maturities of fixed-rate loans, likely reflecting the effects of COVID-19-related loans. These loans are likely to partially mitigate the effects of recent interest rate increases on the corporate sector, although principal and interest payments are expected to proceed gradually.

Distribution of lending rates



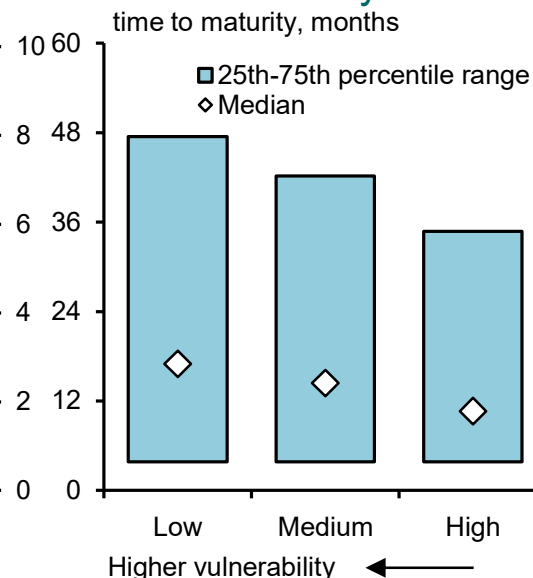
Note: Covers borrowers from regional banks that had loans outstanding at all points in time. See Chart IV-1-9.

Maturity of loans



Note: Data as of end-March 2026. Covers fixed-rate loans extended by regional banks to their borrowers. See Chart IV-1-10.

Liquidity ratio and maturity

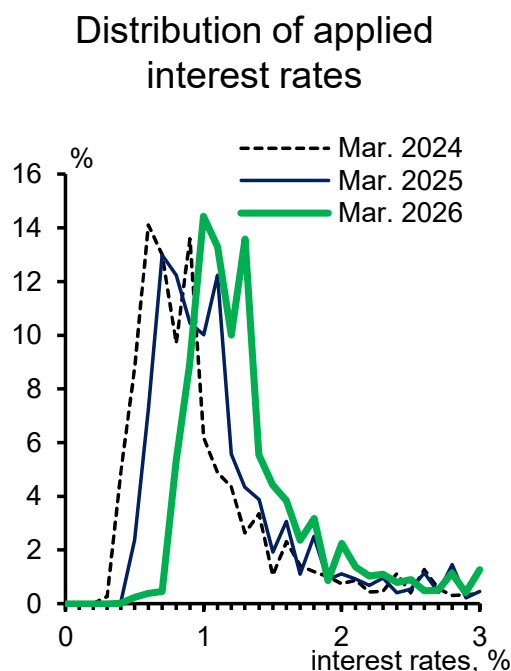


Note: Data as of end-March 2026. Covers SMEs borrowing from regional banks I (firms with capital of less than 100 million yen). See Chart IV-1-11.

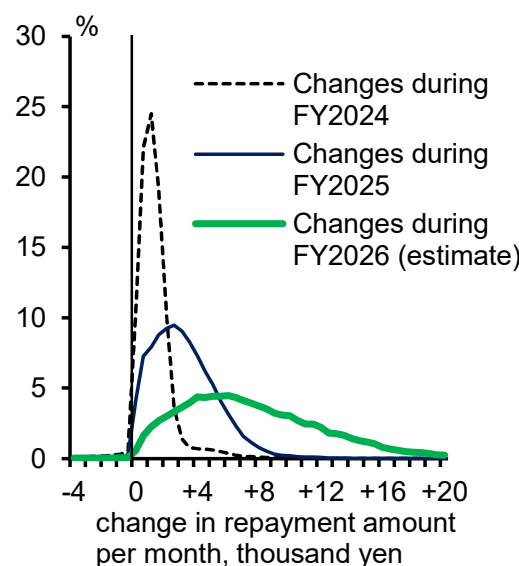
Households' resilience to rising interest rates (1)

- Applied interest rates on floating-rate housing loans, which account for the majority of housing loans, have been rising. For existing loans subject to rate revisions during fiscal 2026, monthly repayments are expected to increase by around 5,000 yen at the mode.
- Although repayment amounts are expected to continue to increase with a lag as interest rates rise, improvements in the employment and income situation, such as recent wage growth, are likely to mitigate the repayment burden.

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

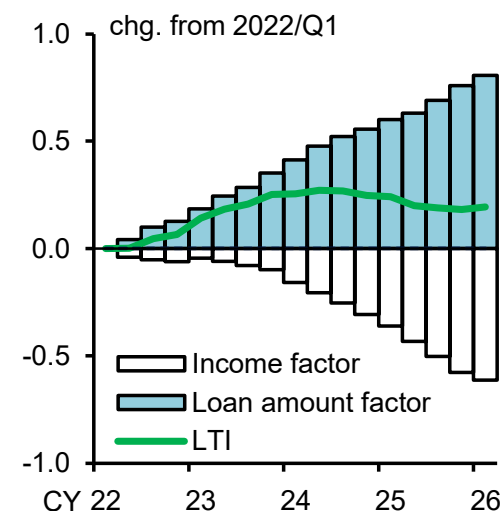


Distribution of changes in repayment amounts for loans with repayment changes during each fiscal year



Note: The data cover floating-rate housing loans extended by regional banks I. See Chart B1-1.

LTI at the time of housing loan origination

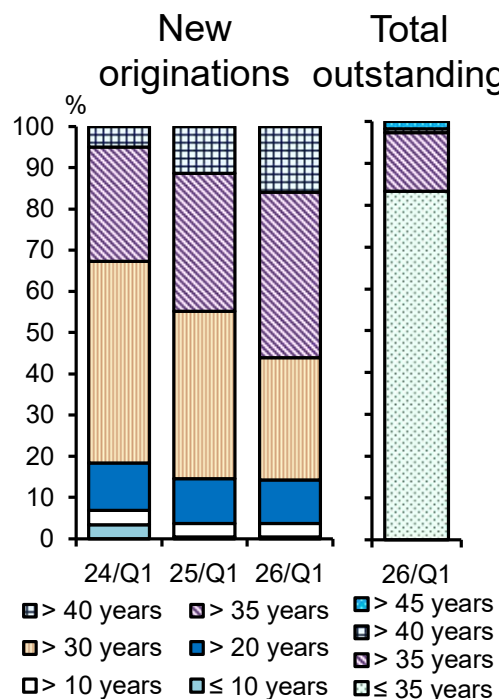


Note: See Chart B1-2.

Households' resilience to rising interest rates (2)

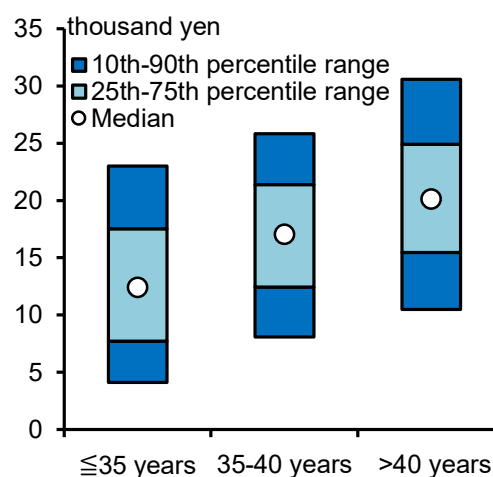
- Housing loans have become larger in size, while the use of super-long-term loans with maturities of over 35 years has increased. Repayments on these loans tend to result in a large increase when interest rates rise, partly because principal balances decline slowly.
- Many banks maintain an "interest rate buffer" -- the gap between the stress interest rate and the actual loan interest rate -- of around 2 to 3 percentage points, suggesting that recently originated super-long-term housing loans retain considerable resilience to rising interest rates. Nevertheless, banks are expected to account for the possibility that interest payments may increase and borrowers' debt servicing capacity may deteriorate over the long loan term.

Composition of housing loans outstanding by repayment periods



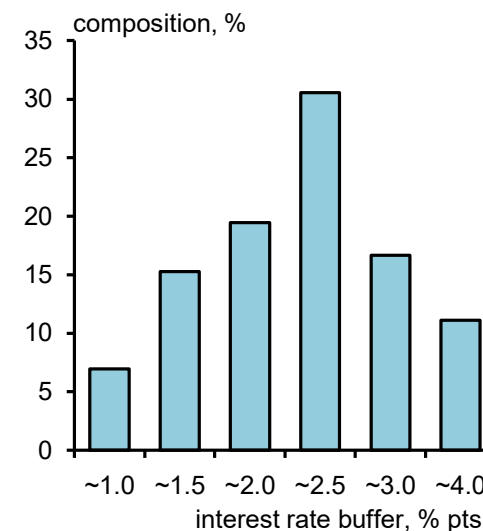
Note: Share of loan amount. See Chart B1-4.

Increase in loan repayments amid rising interest rates



Note: The chart shows changes in monthly repayment amount when interest rates rise by +1 percentage point. Measures to prevent drastic changes in repayments, such as the 5-year rule, are not taken into account. See Chart B1-5.

Interest rate buffers on housing loans



Note: Interest rate buffer is calculated as: stress interest rate - interest rate on new loans (both rates are for floating-rate loans). See Chart B1-6.

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C. Risks to financial markets	Chapter VI. Resilience of the financial system
Chapter III. Financial intermediation	A. Banks' financial bases and capacity to absorb losses
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Chapter IV. Risks faced by financial institutions	Box 2: Frontier AI and cybersecurity
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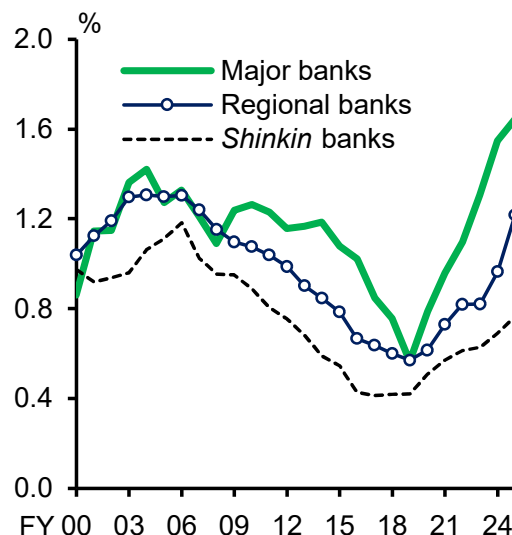
5. Banks' loss-absorbing capacity amid rising interest rates

- Banks' core profitability
- Valuation gains/losses on securities holdings
- Developments in deposits

Banks' core profitability

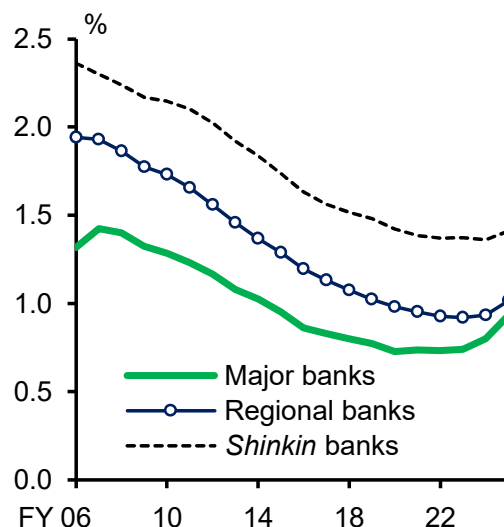
- With regard to banks' profits, pre-provision net revenue (PPNR) has continued to improve for all types of banks.
- Although interest rate spreads on loans remain narrow compared with historical levels, they have recently started to widen, especially at major banks.
- The loan rate curve by credit ratings bottomed out in fiscal 2022 and subsequently shifted upward.

RORA based on PPNR
by type of bank



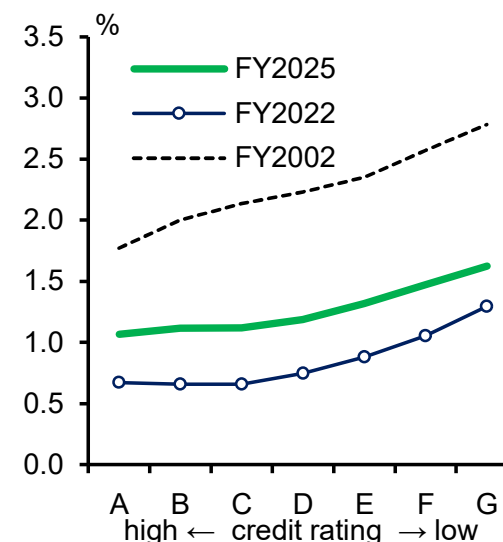
Note: See Chart VI-1-2.

Interest rate spreads on loans



Note: Figures are based on domestic business sector. See Chart VI-1-9.

Lending rates by credit rating for loans to SMEs

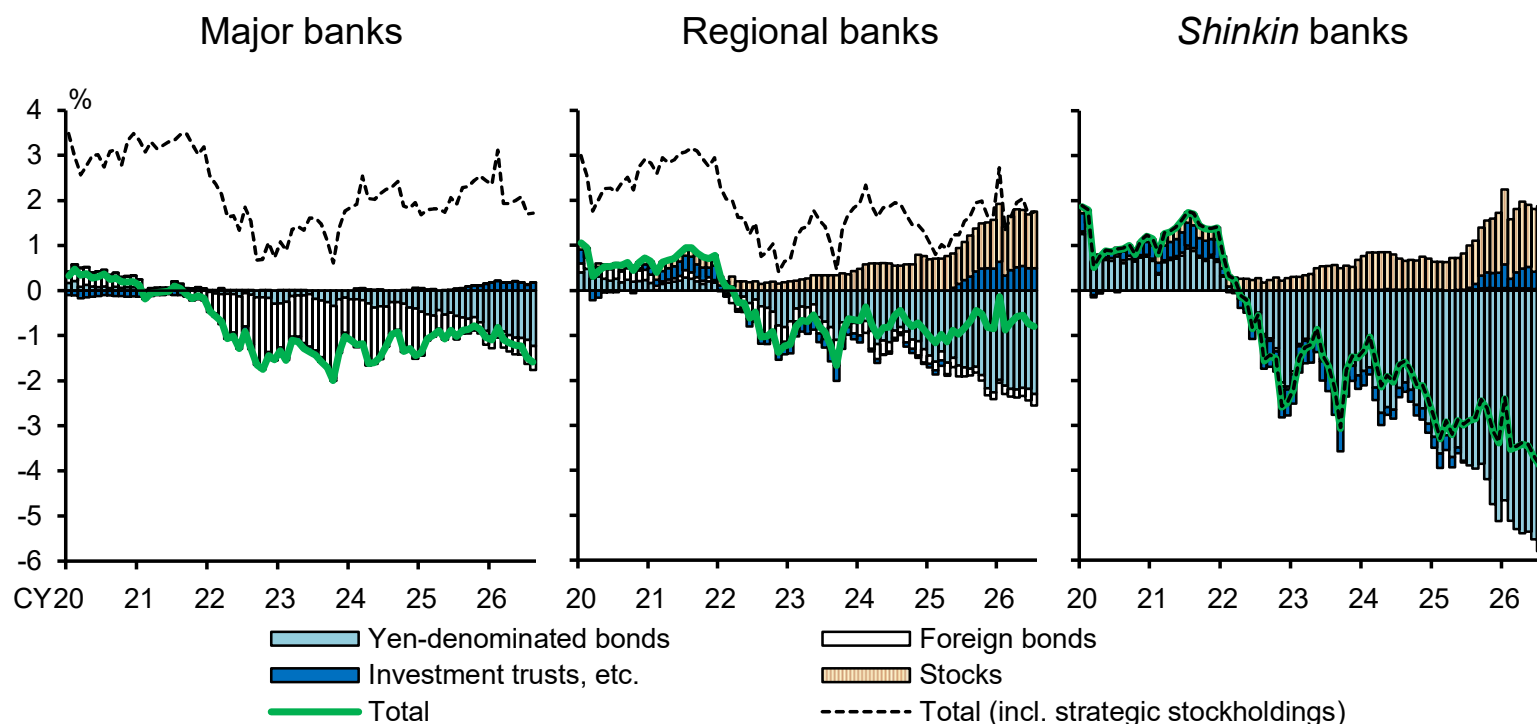


Note: Covers SMEs with capital of 10 million yen to less than 100 million yen. See Chart VI-1-10.

Valuation gains/losses on securities holdings

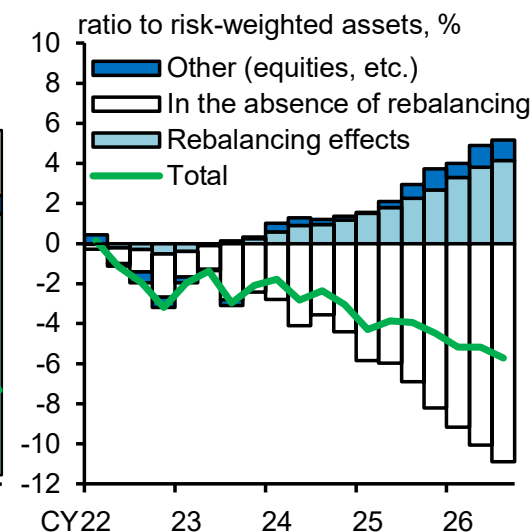
- Valuation losses on yen-denominated bonds have been increasing amid rising interest rates, particularly at regional banks and *shinkin* banks with large yen-denominated bondholdings.
- Even among banks with relatively low resilience to rising interest rates, many have reduced interest rate risk by cutting yen-denominated bondholdings and shortening their duration, thereby containing the increase in valuation losses.

Valuation gains/losses on securities holdings



Note: Shows ratios to risk-weighted assets (including valuation gains/losses on held-to-maturity securities). See Chart VI-1-12.

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

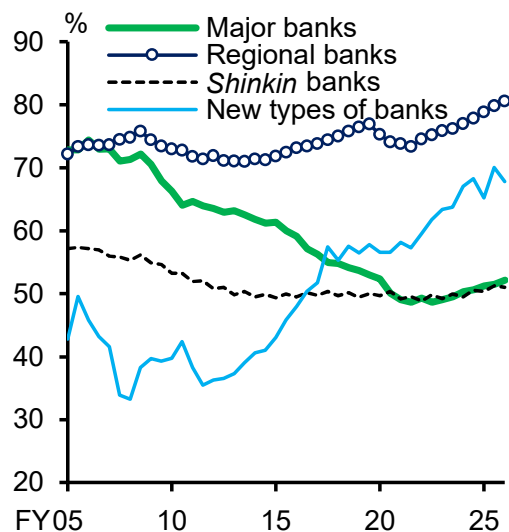


Note: Covers regional and *shinkin* banks. See Chart VI-1-13.

Deposits (1)

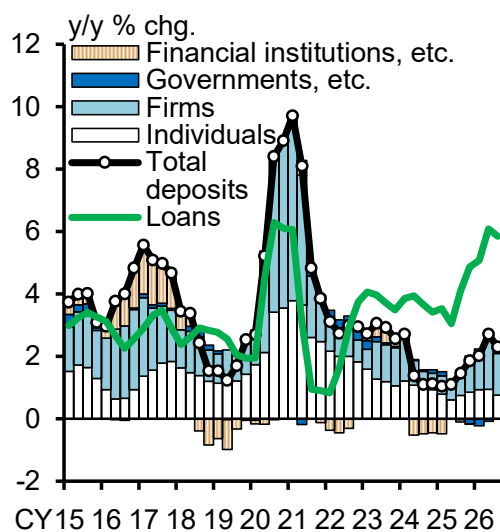
- With regard to developments in loan-to-deposit ratios, banks' deposits outstanding far exceed loans outstanding overall.
- Deposit growth has picked up somewhat recently.
 - Corporate deposit growth has accelerated, amid higher sales accompanying moderate growth in economic activity.
 - Retail deposits have continued to grow at a slower pace, as increases from rising wages have been partly offset by investments, including in stocks, investment trusts, and Japanese government bonds (JGBs).

Loan-to-deposit ratio



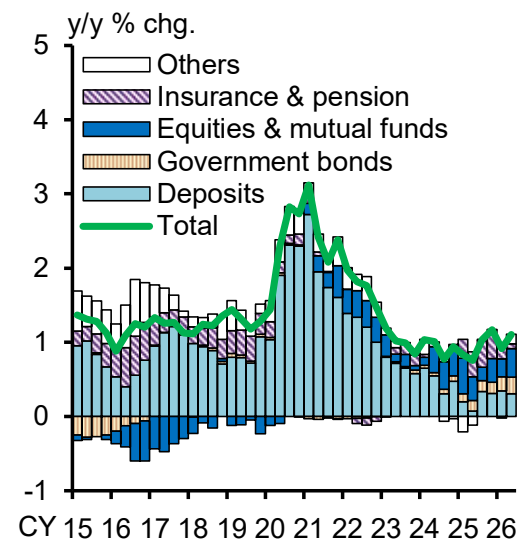
Note: Data based on domestic branches. See Chart IV-3-1.

Deposit growth by type of depositor



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

Household's financial assets

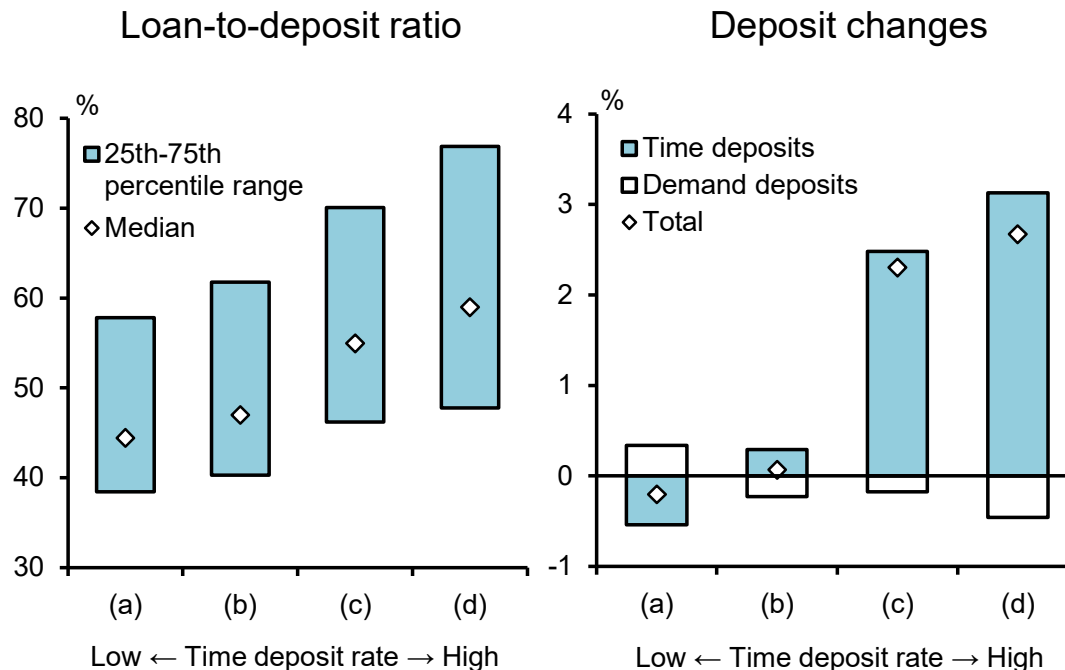


Note: Shows flow figures (excluding the evaluation effect of assets held). See Chart IV-3-4.

Deposits (2)

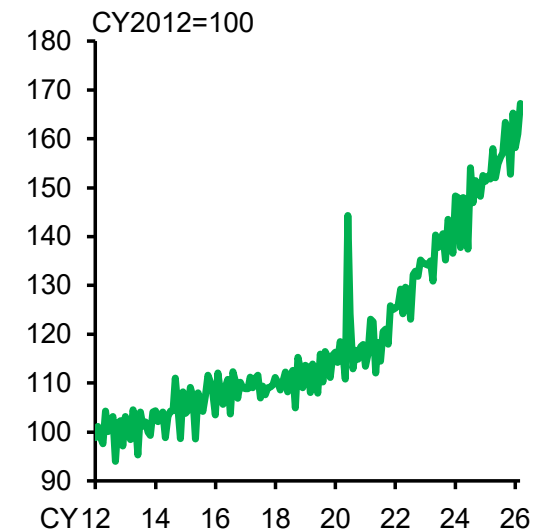
- Regional banks and *shinkin* banks with higher loan-to-deposit ratios tend to offer relatively high time deposit rates, contributing to deposit growth. However, deposits attracted at high interest rates may be relatively sensitive to changes in interest rate and economic conditions, and therefore less sticky.
- The turnover rate of demand deposits -- the number of transfers per ordinary deposit account -- has been on an upward trend. As a diverse range of payment and mobile services becomes more widespread, the declining effort and costs required to transfer deposits may affect deposit stickiness.

Loan-to-deposit ratio and deposit changes by time deposit rate



Note: Covers regional and *shinkin* banks. See Chart IV-3-10.

Turnover rate of demand deposits



Note: Shows the number of small-value transfers per account (seasonally-adjusted). See Chart IV-3-13.

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6. Macro stress testing

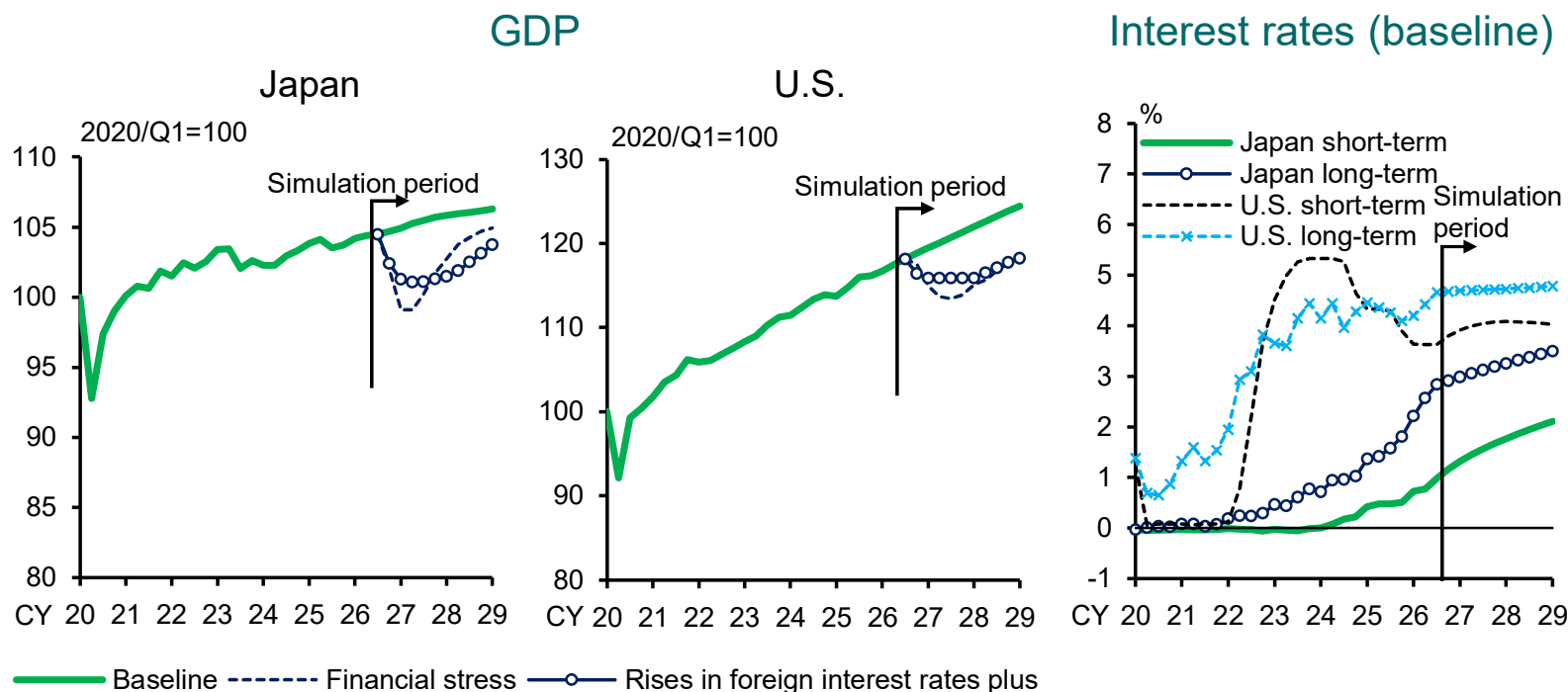
- Financial stress scenario
- Rises in foreign interest rates scenario plus

Macro stress testing: Scenario (1)

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 July 2026, and it assumes that domestic and foreign interest rates will move in line with the forward rate curve as of early August 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.



Note: See Chart VI-2-1.

Note: See Chart VI-2-2.

Macro stress testing: Scenario (2)

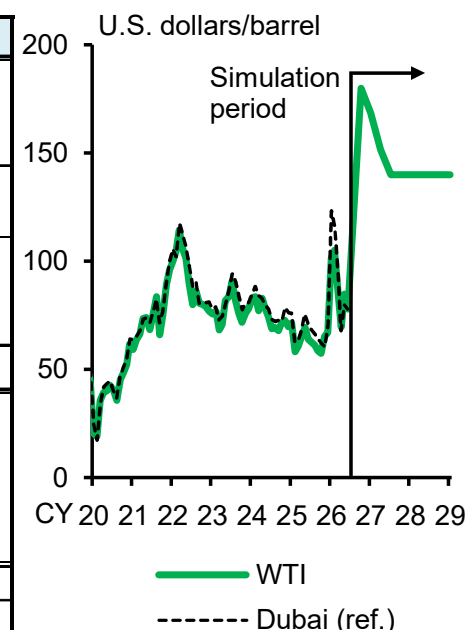
- (2) [The financial stress scenario](#) assumes adjustments of the same magnitude as those observed at the time of the global financial crisis; a significant deterioration in domestic and foreign economies is assumed.
- (3) [The rises in foreign interest rates scenario plus](#) assumes a slowdown in foreign economies and higher foreign interest rates reflecting a rise in crude oil prices and a global surge in prices triggered by geopolitical risks and other factors. It also refines the specification of the impact of a decline in expectations for the profitability of AI-related investment, a factor considered in the previous *Report*, and assumes a situation where such shocks are amplified mainly by portfolio adjustments in the domestic and foreign NBFi sectors.

Assumptions in the rises in foreign interest rates scenario plus

Assumption on main variables

Main variables		Estimation methods	Maximum deviation rate
Financial variables	U.S. and Japanese long-term interest rates	Assuming the same increase as in the last <i>Report</i> in April 2026 (the levels of interest rates are higher than in the last <i>Report</i> , due to the upward revision in the baseline interest rates)	+1.5%pts
	U.S. stock prices Japanese stock prices	AI-related stocks assumed to decline sharply in line with the dot-com bubble collapse, with others based on the real GDP	About -50% About -40%
	Credit spreads on U.S. corporate bonds (BBB)	Assuming an additional 600bps widening relative to the rises in foreign interest rates scenario plus in the last <i>Report</i> in April 2026, due to the amplification effect of NBFIs	About +1,100bps
	Fund prices	Based on the asset price related to each fund price	About -35%
Real economic variables	U.S. real GDP Asian real GDP Japanese real GDP Value-added by industry	Panel data regression for value-added and GDP of foreign economies, and FMM for Japan	About -5% About -7% About -4% About -15%
Foreign loans	Loans to data centers	Based on the default rates of high-yield bonds during the dot-com bubble collapse	About -10%pts
	Loans to PC funds	Based on the default rates of high-yield bonds during the dot-com bubble collapse	About -10%pts

Assumption on oil prices

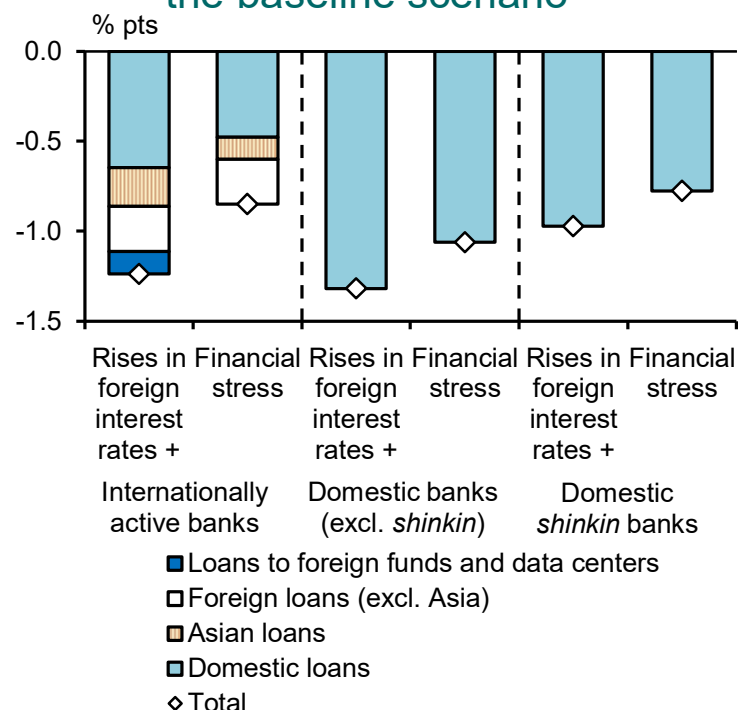


Note: See Chart VI-2-6.

Results of macro stress testing (1)

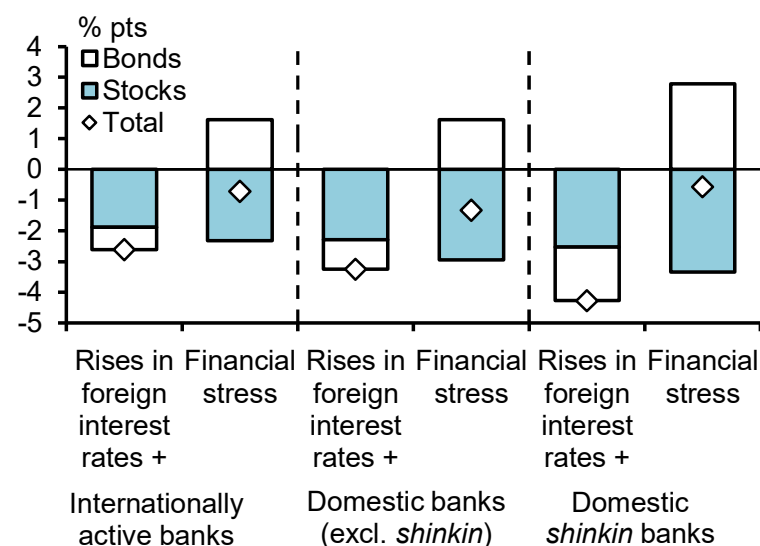
- As for the effects on domestic credit costs in the rises in foreign interest rates scenario plus, such costs increase to a greater extent than in the financial stress scenario because higher crude oil prices weigh on corporate profits, with the mitigating effect of lower interest rates on debt repayment being absent. For foreign exposures, credit costs increase notably in Asian economies, where AI-related manufacturing industries account for a high share, while impairment of loans to PC funds and data centers also contributes to the increase.
- Regarding the impact on valuation and realized gains/losses on securities, declining stock and fund prices exert considerable downward pressure. Bonds also contribute to the downturn by both rising long-term interest rates and the widening of U.S. corporate bond spreads.

Credit costs compared to the baseline scenario



Note: Shows ratios to risk-weighted assets. See Chart VI-2-8.

Valuation and realized gains/losses on securities holdings compared to the baseline scenario (as of end-fiscal 2028)

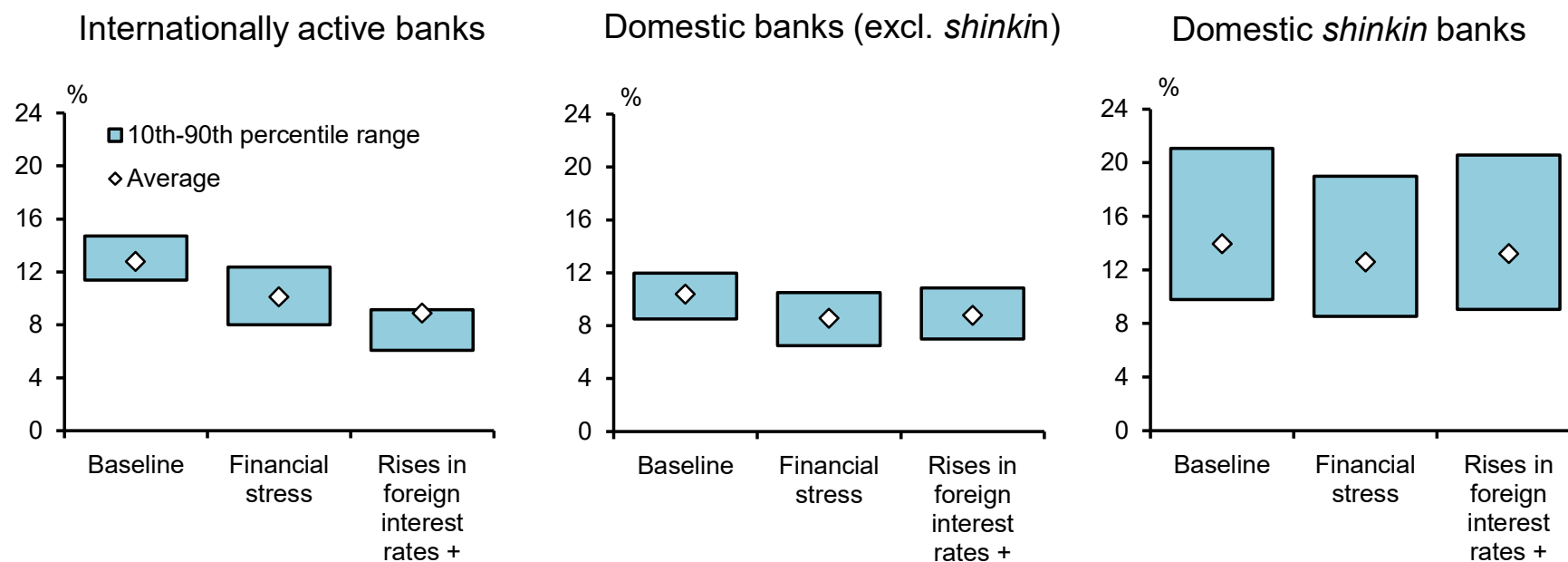


Note: Shows ratios to risk-weighted assets. See Chart VI-2-9.

Results of macro stress testing (2)

- The simulation results indicate that capital adequacy ratios at the end of fiscal 2028 are substantially lower than those in the baseline scenario.
- Nevertheless, capital adequacy ratios overall remain above regulatory requirements throughout the simulation period. It can be judged that the stability of the financial system as a whole is maintained in all three scenarios.

Distribution of capital adequacy ratios



Note: See Chart VI-2-10.

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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

Chapter VI. Resilience of the financial system

A. Banks' financial bases and capacity to absorb losses

B. Macro stress testing

Box 1: Increases in housing loan interest rates and credit costs

Box 2: Frontier AI and cybersecurity

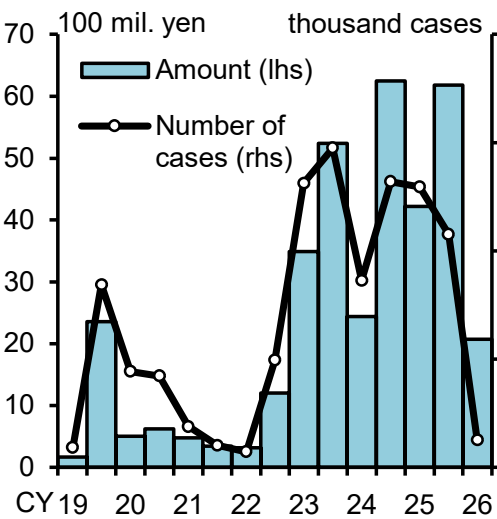
7. Frontier AI and cybersecurity

- Cyberattack risks
- Adapting to frontier AI

Frontier AI and cybersecurity

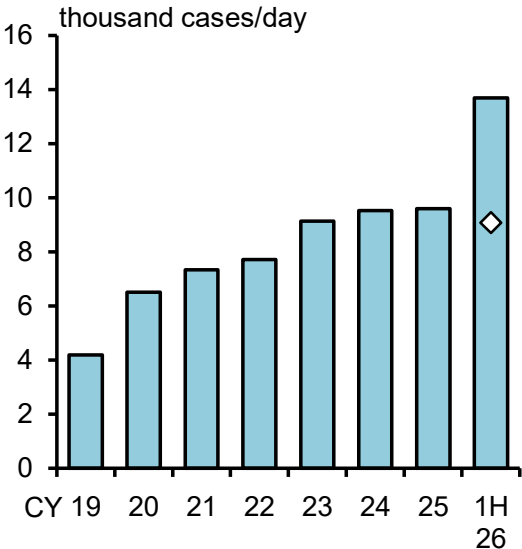
- Losses from unlawful money transfers through online banking have recently been decreasing significantly, partly reflecting strengthened measures such as multi-factor authentication. However, suspicious access attempts, such as vulnerability scanning from overseas, have increased.
- Advances in "frontier AI" have heightened cybersecurity threats by potentially increasing the speed and scale of cyberattacks. Financial institutions are required to ensure stable business operations by establishing governance structures and risk management frameworks, with senior management actively involved in and leading with a thorough understanding of the benefits and risks of using new technologies.

Unlawful online money transfers



Note: See Chart V-3-1.

Suspicious access attempts



Note: The marker indicates the figure for the first half of 2025. See Chart V-3-1.

Request Regarding Short-Term Measures

(1)	Positioning the Measure to Frontier AI as a Management Priority
(2)	Identification of Priority Services and IT Systems
(3)	Resolution of Technical Debt in Identified Assets
(4)	Securing Personnel for Patching
(5)	Verification of Vendor Maintenance Contracts
(6)	Adopting a Risk-Based Approach to Patching
(7)	Strengthening Measures Beyond Patching
(8)	Preparation for the Disruption of Priority Services and IT Systems
(9)	Maintaining and Strengthening External Collaboration

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. With regard to the impact of the situation in the Middle East, large-scale disruptions in supply chains have been avoided, partly due to progress in securing alternative sources of supply. Nevertheless, it remains necessary to pay close attention to the impact on SMEs of developments such as the rise in raw material and energy prices.
- 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 appropriately.
- 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, taking into account changes in the business environment.
- Advances in so-called "frontier AI" have further heightened cybersecurity threats. It is therefore necessary to further enhance the resilience of individual financial institutions and the financial system as a whole.

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 (1) stress equivalent to the global financial crisis and (2) a compound stress of the materialization of geopolitical risks such as a rise in crude oil prices, together with a decline in expectations regarding AI, and a substantial rise in interest rates.
- It is necessary to continue to carefully monitor the impact that factors such as the future situation in the Middle East, the profitability and financing of AI-related investment, and developments in the foreign NBFIs sector have on the financial system through various channels. Banks need to remain alert to a range of risks that may materialize and put in place frameworks to appropriately manage such risks.