

Japan

I. Institutional coverage

The statistics published in *Banking Statistics – Financial Statements of Banks* relate to all banks as defined in the Japanese publication “Analysis of Financial Statements of All Banks”, which is released every fiscal year by the Japanese Bankers Association. The number of all banks has changed from 129 banks in 2005 (7 city banks, 64 regional banks, 48 regional banks II, 8 trust banks, plus Shinsei bank and Aozora bank) to 123 banks in 2009 (6 city banks, 64 regional banks, 44 regional banks II, 7 trust banks, plus Shinsei bank and Aozora bank).

II. Geographical coverage and degree of consolidation

Coverage includes overseas branches of Japanese banks but exclude affiliates. Foreign banks are also excluded from the coverage.

III. Structure of the banking system

Types of banks

Private banks can be divided into several categories, based on such factors as their business function or historical background. The distinction between city, regional banks and member banks of the Second Association of Regional Banks (regional banks II) is not a legal one, but is a customary classification for the purposes of administration and statistics.

City banks are large in size, with headquarters in major cities and branches in Tokyo, Osaka, other major cities, and their immediate suburbs.

Regional banks are usually based in the principal city of a prefecture and they conduct the majority of their operations within that prefecture and have strong ties with local enterprises and local governments.

Like traditional regional banks, regional banks II serve smaller companies and individuals within their immediate geographical regions. Most of these banks have converted from mutual savings banks to ordinary commercial banks.

Market share

Banks play a dominant role in the Japanese financial markets.

At the end of 2008, the banks' market share is 64.9% of total fund¹ – raising (city banks: 21.9%, regional banks: 16.4%, member banks of Second Association of Regional Banks: 4.6%, trust banks: 5.2%, foreign banks: 0.8%, and trust accounts: 16 %) whereas the other financial institutions' market share in total fund-raising is 35.1% (postal savings: 14.4%).

Central Bank	Bank of Japan	
Private financial institution	Banks	City Banks (6)
		Regional Banks (64)
		Member banks of the Second Association of Regional Banks (44)
		Foreign Banks (61)
		Trust banks (19)
		Others (14)
	Depository institution	Bank holding companies (12)
		Schinkin Central bank
		Schinkin banks (279)
		Shinkumi Federation Bank
Cooperative-type financial institution	Credit cooperatives (162)	
	Rokinren	
	Labor banks (13)	
	Norinchukin Bank	
	Credit federation of agricultural cooperatives (36)	
	Agricultural cooperatives (740)	
	Credit federation of fishery cooperatives (30)	
	Fishery cooperatives (168)	
Other financial institution	Insurance companies	Life Insurance companies
		No-life Insurance companies
	Securities firms	
Public financial institution	Government financial institution	Japan Finance Corporation
		Japan Bank for international cooperation (JBIC)
		Okinawa Development Finance Corporation
	Joint corporation by local governments	Okinawa Development Finance Corporation
		Development Bank of Japan Inc.
The Shoko Chukin Bank, Ltd.*		
	Japan Post Bank Co.*	
	Japan Post Insurance Co.*	

* As the laws related to the privatisation of postal services took effect in October 2007, Japan Post Bank Co. and Japan Post Insurance Co. started their operations as subsidiaries of the government owned company Japan Post Holdings Co. Both institutions are categorised under “public financial institutions” in the above chart because they are in a transition period toward final privatisation slated for the end of September 2017 at the latest. The Development Bank of Japan, Inc. and The Shoko Chukin Bank, Ltd. are treated in the same manner until the final privatisation scheduled for sometime during the period from 2017 to 2019.

Note: Figures in parentheses represent the number of financial institutions in each category, basically as of 1 April 2009.

The banks’ market share in total loans is 64.2% (city banks: 27.9%, regional banks: 22.0%, member banks of Second Association of Regional Banks: 6.2%, trust banks: 6.2%, foreign banks: 1.1%, and trust accounts: 0.8%) whereas the other financial institutions’ market share in total loans is 35.8% (government financial institutions: 15.8%).

IV. Summary description of activities of banks

Scope of business

Businesses permitted to banks are defined primarily in the Banking Act, which was enacted in 1927 and overhauled in 1981, and fall into six main categories as illustrated below. Ancillary businesses may be conducted either by the bank itself or through its affiliate. Peripheral businesses, on the other hand, must be undertaken only through the bank’s affiliate.

Banking businesses may be conducted by bank agents. Revision to the Banking Act in October 2005 eliminated the regulations on wholly-owned subsidiaries and duty of dedicated services, and thus expanded the scope of parties that may serve as bank agents.

Typical bank businesses	Taking of deposits and instalment savings Lending, discounting of bills and notes Transfer of funds
Ancillary businesses	Guarantees and bill acceptance Trading of securities, securities over-the-counter derivatives, securities index futures, securities options and so on Securities lending Underwriting of government bonds, etc. Acquisition (factoring) and ceding of monetary claims Arrangement for private placement Subscription agency for local government, corporate and other bonds Other
Securities businesses	Retail sales and dealing of government bond and municipal bonds Retail sales of investment trust Intermediary business for the sale of stocks and other securities OTC transaction of some kinds of securities derivatives
Insurance business	Retail sales of insurance products*
Peripheral business	Leasing Venture capital Management consultation Investment advisory services Other
Trust businesses	

* Based on Article 12.

Fund-raising

The main source of funds differs depending on the type of banks. Ordinary banks depend on deposits, while trust banks' main source of funds is trusts, notably investment trusts, money in trusts and pension trusts.

Incidentally, the percentage of all household assets comprised by cash and deposits is comparatively large in Japan. At the end of June 2009, the currency and deposits account for 55.2% of the total households' assets (1 441.3 trillion yens).

Operation of funds

At the end of 2008, loans and discounts account for about 54% of the total assets of domestically licensed banks,² 813.3 trillion yens:

- breakdown by sector, manufacturing, real estate, services, and individuals are major borrowers;
- breakdown according to the size of the borrowers, there had been an increase in loans to small enterprises and to individuals in the 1980s. Since the end of 1980s, the share of loans to those borrowers has remained same at approximately 70%.

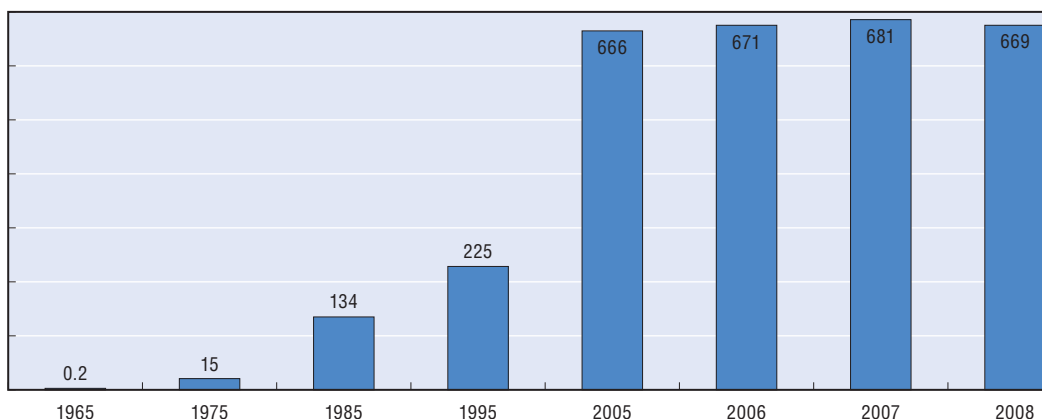
Securities businesses

The Financial Instruments and Exchange Act, formerly the Securities and Exchange Act (of which, Article 65 was the Japanese equivalent of the Glass-Steagall Act in the US), has instituted restrictions concerning the conducting of securities businesses by banks. Banks may underwrite and trade public bonds such as government bonds (GB), but may not engage in underwriting and trading equities and corporate bonds (however, banks are allowed to hold them in their portfolios). Due to deregulation in the last decade, banks now may sell investment trusts and handle intermediate sales of other securities including equities.

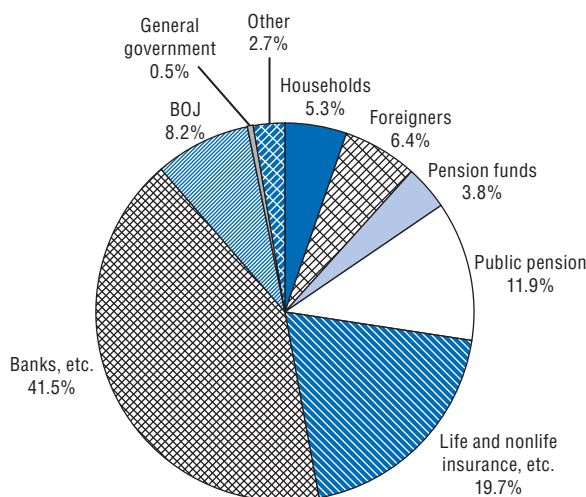
As to the GB-related business, the first GBs were issued in 1965, and since then banks have played a major role in this business. In correlation with the increase in the outstanding balance of bank's GB holdings, the Japanese government, in its revision of the Banking Act, initiated steps that allowed banks to engage in retail sales and the dealing of GBs from the early 1980s.

Banks as well as securities firms are now involved in commercial paper-related business.

Outstanding amount of government bonds (end of fiscal year)



Sectoral holdings of JGB (March 2009)



Other businesses

Insurance sales by banks

The sale of insurance by banks was not permitted in the past. However, the revisions to the Insurance Business Act in 2000 made it possible for banks to sell insurance products at bank counters and since then the bans have been lifted step by step. The deregulation of insurance sales at banks was completed in December 2007.

Promotion of deregulation concerning insurance sales

Insurance products for which the ban on sales was lifted	
Apr. 2001	Debt repayment support insurance, long-term fire insurance, credit life insurance related to housing loans, overseas travel accident insurance.
Oct. 2002	Private pension insurance, asset formation insurance, accident insurance with an annuity payout feature, asset formation accident insurance.
Dec. 2005	Single premium whole life insurance, single premium endowment insurance, level premium endowment insurance with an insured period of up to ten years, savings-based pure endowment insurance, non-life insurance for individuals other than automobile insurance, maturity refund personal accident insurance.
Dec. 2007	Complete lifting of the ban (term insurance, level premium whole life insurance, medical and long-term care insurance, automobile insurance, etc.).

International banking business

Japanese banks conduct international banking businesses such as foreign exchange operations, lending, securities business, trusts business, leasing business, foreign currency deposits, foreign currency exchanges, derivative operations (e.g. future, forwards, swaps and options), and trade finance and so on. Japanese banks were reducing their overseas business as a part of their restructuring programs since the mid-1990s. The number of foreign branches of Japanese banks decreased from 437 as of the end of March 1995 to 130 as of the end of March 2006. However, some signs of recovery have been appearing recently (there were 144 overseas branches as of the end of March 2009).

V. Reconciliation of national data with the OECD presentation³

VI. Sources

The data in *Banking Statistics – Financial Statements of Banks* come from Japanese Bankers Association. More detailed data are available on their website www.zenginkyo.or.jp/en.

Notes

1. Funds include deposits, debentures and trusts.
2. Domestically licensed banks are defined as banks which are established and licensed under the Japanese legislation.
3. See the tables “Income Statement Reconciliation” and “Balance Sheet Reconciliation” below.

Japan
Income statement reconciliation – All banks – 2008

OECD presentation	100 million Yen	National presentation
1. Interest income	132 295	
	95 228	Interest on loans and discounts
	27 341	Interest and dividends on securities
	1 353	Interest on call loans
	345	Interest on receivable under resale agreements
	432	Interest on receivables under securities borrowing transaction
	20	Interest on bills bought
	2 875	Interest on deposits with banks
	811	Interest on interest swaps
	3 887	Other interest income
2. Interest expenses	45 257	
	22 140	Interest on deposits
	3 031	Interest on negotiable certificates of deposit
	443	Interest on debentures
	1 794	Interest on call money
	2 144	Interest on payables under repurchase agreements
	1 463	Interest on payables under securities lending transactions
		Interest on bills sold
		Interest on commercial papers
	5 538	Interest on borrowings and rediscounts
	61	Interest on short-term bonds
	2 787	Interest on bonds
	5	Interest on bonds with subscription rights to shares
	1 873	Interest on interest swaps
	3 975	Other interest expenses
3. Net interest income	87 037	
4. Non-interest income (net)	-14 233	
a. Fees and commissions receivable	29 120	
	7 325	Fees and commissions on domestic and foreign exchanges
	18 648	Other fees and commissions
	3 146	Trust fees
b. Fees and commissions payable	9 078	Fees and commissions on domestic and foreign exchanges
	1 722	Other fees and commissions
	7 356	
c. Net profit or loss financial operations	-37 394	
	28 061	Income (1) + (2) + (3)
	5 813	(1) Trading income
	139	Gains on trading account securities transactions
	242	Income from securities and derivatives related to trading transactions
	4 792	Income from trading-related financial derivatives
	640	Other trading income
	14 430	(2) Other ordinary income
	2 124	Gains on foreign exchange transactions
	22	Gains on trading account securities transactions
	10 693	Gains on sales of bonds
	30	Gains on redemption of bonds
	1 242	Income from derivatives other than for trading or hedging
	318	Other
	7 818	(3) Other income
	4 182	Gain on sales of stocks and other securities
	308	Gain on money held in trust

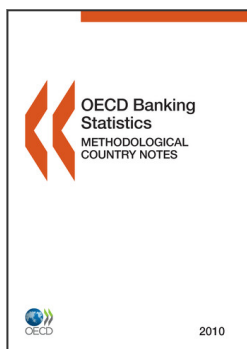
Japan

Income statement reconciliation – All banks – 2008 (cont.)

OECD presentation	100 million Yen	National presentation
	3 327	Other
	65 455	Expenses (4) + (5) + (6)
	697	(4) Trading expenses
		Expenses on trading securities and derivatives
	124	Expenses on securities and derivatives related to trading transactions
	570	Expenses on trading-related financial derivatives transactions
	2	Other trading expenses
	20 956	(5) Other ordinary expenses
	389	Loss on foreign exchange transactions
	1	Loss on trading account securities transactions
	6 734	Loss on sales of bonds
	2 204	Loss on redemption of bonds
	7 371	Loss on devaluation of bonds
	5	Amortisation of debenture issuance cost
	39	Amortisation of bond issuance cost
	584	Expenses on derivatives other than for trading or hedging
	3 628	Other
	43 802	(6) Other expenses
	14 094	Written-off of loans
	3 767	Losses on sales of stocks and other securities
	20 034	Losses on devaluation of stocks and other securities
	259	Loss on money held in trust
	5 648	Other
d. Other net non-interest income	3 119	(1) – (2)
	5 990	(1) Extraordinary profits
	1 230	Gain on disposal of noncurrent assets
	796	Reversal of allowance for loan losses
	1 203	Recoveries of written-off claims
	2 761	Other
	2 871	(2) Extraordinary loss
	670	Loss on disposal of noncurrent assets
	380	Impairment loss
	1 820	Other
5. Net interest and non-interest income	72 804	
6. Operating expenses	69 348	General and administrative expenses
	29 209	Personnel expenses
	36 561	Non-personnel expenses
	3 577	Taxes
7. Net income before provisions	3 456	
8. Net Provisions	16 430	
a. Provisions on loans	16 430	Provisions of allowance for loan losses
b. Provisions on securities		
c. Other net provisions		
9. Income before tax	-12 974	Income before income taxes
10. Income tax	3 415	Income taxes-current
11. Profit after tax	-16 389	Income taxes-deferred
12. Distributed profit	11 546	Dividends from surplus
13. Retained profit	-27 935	

Japan
Balance sheet reconciliation – All banks – 2008

OECD presentation	100 million Yen	National presentation
Assets		
14. Cash and balance with Central bank		
15. Interbank deposits	317 349	Cash and due from banks
	76 987	Cash
	240 361	Due from banks
16. Loans	4 659 971	Loans and bills discounted
	30 607	Bills discounted
	262 140	Loans on bills
	3 700 233	Loans on deeds
	666 989	Overdrafts
17. Securities	1 961 943	
	12 631	Trading assets: Trading account securities
	1 179	Trading account securities
	1 948 133	Securities
	961 098	Government bonds
	97 800	Local government bonds
	190	Short-term corporate bonds
	296 570	Corporate bonds
	183 949	Stocks
	408 524	Other securities
18. Other assets	1 129 624	Residual
Liabilities		
19. Capital and reserves	289 677	
20. Borrowing from Central bank		
21. Interbank deposits		
22. Customer deposits	6 117 889	
	5 763 524	Deposits
	320 928	Current deposits
	2 416 623	Ordinary deposits
	76 500	Saving deposits
	83 000	Deposits at notice
	2638 889	Time deposits
	10 841	Installment deposits
	217 120	Other deposits
	354 365	Negotiable certificates of deposit
23. Bonds	179 981	
	44 732	Debentures
	5 741	Short-term bonds payable
	128 639	Bonds payable
	870	Bonds with subscription rights to shares
24. Other liabilities	1 481 340	Residual
Balance sheet total		
25. End-year total	8 068 887	Total assets = Total liabilities and net assets



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