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Statement by the Governor on the Restructuring of Nippon Credit Bank

Bank of Japan
I. Restructuring of Nippon Credit Bank

1. A package of restructuring plans to comprehensively improve the business of Nippon Credit Bank has been put together by relevant parties including Nippon Credit Bank itself. The content of the package consists of thorough restructuring by the bank itself, the comprehensive disposal of its nonperforming loans, and reinforcement of the capital base. In compiling the package, the principal premise has been that the bank itself will exercise maximum efforts in implementing its own restructuring plan. Based on the efforts of Nippon Credit Bank, it has been agreed that private financial institutions will collaborate as far as possible in increasing its capital and that the Bank of Japan will extend necessary support with the Ministry of Finance from the viewpoint of maintaining the overall stability of the Japanese financial system.

2. Concrete measures in the package are as follows:

(1) Withdrawal from overseas operations and thorough restructuring including a major reduction in personnel and salaries.

(2) The comprehensive disposal of nonperforming loans including legal resolution of three non-bank affiliates.

(3) Reinforcement of the capital base by approximately 300 billion yen.
   a) Capital subscription by private financial institutions
   b) Subscription of preference shares by the New Financial Stabilization Fund

3. Nippon Credit Bank has been facing difficulties with its large amount of nonperforming loans. In particular, its creditworthiness has significantly deteriorated in both domestic and overseas markets since autumn. On the other hand, the bank has played an important role, as one of the top-tier banks, because of its significant transactions both in terms of size and range in domestic and overseas financial markets. Taking all these into account, the bank's financial difficulties have to be dealt with promptly from the standpoint of domestic and international market stability.
Looking toward the 21st century, Japan has embarked on comprehensive reform of its financial system, and thus, resolution of Nippon Credit Bank's financial problems is considered vitally necessary to ensure the smooth promotion of such reform.

Based on the above, the Government and the Bank of Japan have concluded that restoration of confidence in Nippon Credit Bank by resolving its financial problems is an urgent task for the entire Japanese financial system. In line with this conclusion, it is considered indispensable to dispose of the bank's nonperforming loans and reconstruct its capital base simultaneously, the latter being necessary as a consequence of the disposal, on condition that the bank strenuously pursues comprehensive restructuring.

4. In coping with the problem, the Bank of Japan has judged, taking into account the strong request of the Government, that it is appropriate to extend necessary support to reconstruct the capital base of Nippon Credit Bank through utilization of the New Financial Stabilization Fund, if such reconstruction is difficult for Nippon Credit Bank to accomplish by itself.

The Bank of Japan firmly believes that trustworthiness of depositors and debenture holders in the bank and general confidence of the markets in the bank will be promptly restored through the efforts of Nippon Credit Bank itself as well as through the smooth implementation of restructuring plans with the cooperation of relevant parties.

II. Merger of Hokkaido Takushoku Bank and Hokkaido Bank

1. We have received reports from both Hokkaido Takushoku Bank and Hokkaido Bank today that they will start definitive deliberation regarding a merger of the two banks around April next year. At the same time, it has been reported that Hokkaido Takushoku Bank will implement comprehensive restructuring, including withdrawal from its overseas operations, and focus more closely on its local customer base.

2. The two banks have reported that the combined banks' principal base of business will be in the Hokkaido region, and that they will achieve more efficient management and strengthening of their financial base through the consolidation of branches and streamlining of overlapping investments. It is expected that the consequence will lead to an improvement in customer services and will also contribute to invigorating the local economy further.

3. We have been told that this merger plan was initiated voluntarily by the two banks and agreed upon with the objective of the new bank to further develop with strong managerial basis, while adapting positively to the far-reaching reform of the Japanese financial system. The Bank of Japan highly evaluates this decisive judgment made by the two banks.

III. Toward ensuring the credibility of Japan's financial system
1. The two plans that were announced today, one for the comprehensive restructuring of Nippon Credit Bank and the other in pursuit of efficient operation by the merger of Hokkaido Takushoku Bank and Hokkaido Bank, will contribute significantly, individually and collectively, to removing uncertainties from, and ensuring credibility in, the Japanese financial system.

The Japanese financial system is undergoing comprehensive reform through the so-called "Japanese Big Bang" project. Under such circumstances, the above mentioned initiatives are significant in the sense that they represent voluntary action taken by banks in preparation for reform.

We do not believe any funding problem may arise with respect to these banks, but, should there be a temporary liquidity shortage, we, as the central bank, are prepared to provide the necessary support, as we have already made clear.

2. The Bank of Japan, in close cooperation with the Government, remains totally committed to maintaining the overall stability of the Japanese financial system as well as to the smooth implementation of comprehensive reform measures envisioning the 21st century.