

(Provisional Translation)

Report on the Determination on the Necessity
to Take Measures for the Financial System Management

May 2003

This report is submitted to the Diet based on the Article
102.6 of the Deposit Insurance Law.

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Report on the Determination on the Necessity
to Take Measures for the Financial System Management

1. Introduction

This report is submitted to the Diet based on the Article 102.6 of the Deposit Insurance Law (Law No. 34, 1971), with regard to the contents of the determination on the necessity to take a measure for the Resona Bank, Ltd under the Article 102.1.(1) of the Law.

2. Conditions of the Resona Bank, Ltd

The Resona Bank, Ltd held a board meeting on May 17, 2003 and approved its settlement of account as of end-March 2003. However, the capital adequacy ratio of the bank went below 4 percent which is the minimum requirement for sound domestically operating banks (stipulated under the Article 1.1 and 1.2 of the order to define classification under the Article 26.2 of the Banking Law : Ordinance No.39 of the Prime Minister's Office and the Ministry of Finance, 2000). In this regard, the Government immediately requested a report based on the Article 24.1 of the Banking Law (Law No.59, 1981), and the bank reported its conditions including its capital adequacy ratios which were 2.3 percent (on a non-consolidated basis) and 2.1 percent (on a consolidated basis).

3. Request for Deliberations to the Financial System Management Council and its Report

On the same day, based on the situation, deliberations were requested to the Financial System Management Council on a determination of the necessity to take a measure under the Article 102.1 of the Deposit Insurance Law. After its deliberations, the Council issued a report that it judged that it was necessary to take a measure for the Resona Bank, Ltd under the Article 102.1.(1) of the Deposit Insurance Law.

4. Determination on the necessity to take a measure under Article 102.1.(1) of the Deposit Insurance Law and Setting of the time limit by which an Application for Recapitalization can be submitted

After the decision by the Financial System Management Council mentioned above, the determination on the necessity to take a measure for the Resona Bank, Ltd, based on the Article 102.1.(1), was made. Moreover, the time limit by which the bank can submit an application for recapitalization under the Article 105.1 of the law was set as May 30, 2003.

(Provisional Translation)

Report on the Determination on the Necessity
to Take Measures for the Financial System Management
(Attachment)

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Request for Deliberations by Prime Minister

Based on the Article 102.1 of the Deposit Insurance Law (Law No.34, 1971), I request deliberations regarding the determination on the necessity to take a measure under the Article 102.1.(1) of the law for the Resona Bank, Ltd.

(Provisional Translation)

Report in response to the Request for Deliberations of May 17, 2003

May 17, 2003

Junichiro Koizumi

Chairman, Financial System Management Council

The Financial System Management Council reports the results of its deliberations as follows, in response to the following Prime Minister's request of May 17, 2003 for deliberations, "request the Council to undertake deliberations regarding a determination on the necessity to take a measure under the Article 102.1.(1) of the Deposit Insurance Law (Law No.34, 1971) for the Resona Bank, Ltd.

Regarding the Resona Bank, Ltd, the capital adequacy ratio of the bank, at the settlement of accounts as of March, 2003, went below 4 percent which is the minimum requirement for sound domestically operating banks and became approximately 2 percent. Although the bank is not faced with problems such as deposit drain nor difficulty in raising money in the market at present, if such a situation is left without any measures, it is recognized that "there is a risk of serious threat to the maintenance of orderly functioning of the financial markets" stipulated in the Article 102.1 of the Deposit Insurance Law.

Therefore, the Council judged that a measure stipulated in the Article 102.1.(1) of the Deposit Insurance Law need to be taken for the Resona Bank, Ltd.

Moreover, the Council considers it appropriate that the time limit by which the Resona Bank, Ltd can submit an application for recapitalization under the Article 105.1 of the Deposit Insurance Law is to be set as May 30, 2003. Concrete contents of the recapitalization will be decided based on the bank's application. With regard to the amount of recapitalization, the Council adds its view that it is necessary to ensure its capital adequacy ratio well in excess of 10 percent, in order to dispel possible concerns of depositors, clients and markets.

The Council expects that the Resona Bank, Ltd ensures the soundness and improves its profitability by enhancing its capital through the measure stipulated in the Article 102.1. (1) of the Deposit Insurance Law and rigorous reforms of its own management, and that the stability of the Japanese financial system continues to be ensured.

(Provisional Translation)

Statement by Prime Minister Junichiro Koizumi
May 17, 2003

1. Today, I held a meeting of the Financial System Management Council and, after a decision by the Council, I made a determination on the necessity to take a measure to recapitalize the Resona Bank based on the Article 102. 1. (1) of the Deposit Insurance Law. I also set a time limit as May 30, 2003, by which the bank can submit an application for recapitalization.
2. Although, at the settlement of accounts as of March 2003, the capital adequacy ratio of the bank went below 4 percent which is the minimum requirement for sound domestically operating banks, the bank is not faced with problems such as deposit drain nor difficulty in raising money in the market at present. The measure to be taken this time is to recapitalize a financial institution not in failed conditions and to recover its soundness, which is different from measures for failed or insolvent financial institutions based upon the Article 102. 1. (2) or (3). Through this action, I will enhance the capital of the bank and thereby, prevent any critically significant disturbances in the maintenance of orderly functioning of the financial markets in Japan and in local areas where the bank is operating.
3. After this determination, the concrete decision regarding the recapitalization will be made based on an application from the bank. I intend to secure its capital adequacy ratio well in excess of 10 percent in order to ensure the stability in banks' businesses and not to raise concerns of depositors and others.
4. I believe that the soundness of the bank will be secured and its profitability will be enhanced through this recapitalization and thorough management reform. Since bank continues its businesses as usual and all types of deposits and transactions will not suffer from any problems, I hope all of its depositors, customer companies and others would feel secure.
5. At present, it is not in the situation where the implication of this event will affect the stability of the financial system. The Government is to continue to make assurance double sure on the stability of the financial system and also the protection of depositors and maintenance of orderly functioning of the financial markets in close cooperation with the Bank of Japan.