Executive Summary of a “Report on the Monitoring and Analysis of Deposit-Taking Financial Institutions” (July 31, 2026)

The Financial Services Agency (FSA) published a “Report on the Monitoring and Analysis of Deposit-Taking Financial Institutions” on July 31, 2026. This report aims to present the activities of the FSA in Business Year (BY) 2025 (from July 2025 to June 2026) from the perspective of prudential supervision of deposit-taking financial institutions.

This report does not provide a comprehensive summary of the FSA’s prudential supervisory activities relating to those financial institutions, nor does it indicate the FSA’s priorities among the topics described in this report and other topics not covered herein. This report is not intended to serve as a checklist for the FSA’ off-site monitoring and on-site inspections of financial institutions, but rather to provide a summary of part of the FSA’ activities in the banking sector and other deposit-taking financial sectors.

This report focuses on the seven areas briefly summarized below. For further details, please visit the FSA’s website, where the full report is available at https://www.fsa.go.jp/news/r8/ginkou/20260731/01.pdf. The original version of this report is available in Japanese. Readers should consult the original version in case of any doubt.

(1) Trends in deposits after Japan’s policy interest rate was raised

Financial institutions' balance sheets expanded over the years amid monetary easing by the central bank. Their deposit balances also remained on an upward trend, although the pace of increase has moderated. As Japan transitioned from an economy with negative interest rates to one with positive interest rates, stable funding sources, including deposits, have become increasingly important for financial institutions. In addition, amid rising interest rates, the pass-through of changes in the policy rate to deposit and lending rates can affect the earnings structure and balance sheets of financial institutions. Accordingly, deposit taking financial institutions need to pay greater attention to integrated asset-liability management (ALM) covering deposits, loans, and securities holdings.

(2) Trends in real estate-related loans amid rising real estate in recent years

With respect to lending to the real estate sector, continued attention should be paid to the impact of the currently strong real estate market and changes in the economic and financial environment on the safety and soundness of financial institutions and the stability of the financial system. With respect to housing loans, the average amount of newly-issued loans has been increasing, and ultra-long-term mortgages and pair-loan arrangements, under which each spouse takes out a separate mortgage loan for the same property, have become more widely available to retail customers. Financial institutions are expected to ensure that borrowers fully understand the risks, such as future increases in repayment burdens and risks associated with longer loan terms, by providing appropriate explanations tailored to borrowers' circumstances and levels of financial literacy. In addition, it is important that financial institutions conduct appropriate loan screening and maintain robust risk management for housing loans, taking into account not only potential credit losses to the institutions themselves but also the potential impact of larger and longer-term loans on borrowers.

(3) Securities investment at deposit-taking financial institutions

As interest rates have risen, financial institutions, particularly regional financial institutions, have seen their unrealized losses expand. As uncertainty in domestic and overseas economies and financial markets increases, it is becoming even more important for the FSA to carefully monitor its impact on the financial soundness of financial institutions and on the robustness of their risk management frameworks for securities investments. At each regional financial institution, the board and senior management need to demonstrate leadership in monitoring and controlling unrealized losses on their securities investments, by establishing acceptable loss limits commensurate with their financial capacity and ensuring losses remain within those limits. In addition, financial institutions need to recognize the risks that, by holding bonds classified as held to maturity, they may lose flexibility in securities investment and, as a result, may forgo long-term profit opportunities and face constraints in executing agile action plans. From an ALM perspective, financial institutions need to thoroughly assess whether they have secured a stable and sticky deposit base.

(4) Loans to and investment in overseas funds on which major banks place a focus in recent years

In recent years, Japanese financial institutions have been expanding their financing and investment activities involving overseas investment funds. We observed that major banks and other financial institutions have strengthened their risk management frameworks to a certain extent, but that further efforts are needed to enhance stress testing that takes interconnections into account, develop data infrastructure for overseas fund businesses, and establish effective controls at the headquarters in Japan over those businesses on a global basis. The FSA will closely monitor the risk management frameworks for credit exposures to overseas fund businesses, focusing on the following aspects: group -wide risk assessment on a global basis under the leadership of the Japanese headquarters; the development of data necessary for risk management at the sponsor level and for understanding the underlying assets of funds; and stress testing that reflects interconnectedness with non-bank financial institutions (NBFIs) and potential channels for the transmission of risks from NBFIs.

(5) The FSA's off-site and on-site supervision of governance and internal controls at deposit-taking financial institutions

Strengthening internal audit functions to enhance governance and internal controls at financial institutions requires a long-term commitment and may not produce immediate results. Financial institutions should also continually review their existing governance frameworks and functions in response to changes in the business environment. The FSA will maintain dialogue with financial institutions and encourage them to strengthen internal audit by sharing best practices, concerns, and challenges. As part of its initiatives to improve operational efficiency and reduce the burden on regional financial institutions, the FSA will advance its efforts to promote shared internal audit functions among them. In addition, in response to cases of fraudulent lending and serious legal violations identified at cooperative financial institutions in recent years, the FSA will assess the effectiveness of their governance functions through surveys and other means, and will monitor more closely progress in strengthening governance at those institutions.

(6) Implementation of Basel III in Japan

Japan began implementing Basel III at the end of March 2023 for banks that choose to apply it. At the end of March 2025, Basel III became applicable to all deposit-taking financial institutions.

The FSA monitors banks' calculations of capital adequacy ratios for risk categories such as credit risk, market risk, and operational risk, and assesses applications from banks seeking approval to use internal models.

In fiscal year 2025, the FSA approved applications from four banking groups (six banks) to use internal models for credit risk, and from 15 banking groups (22 banks) to use internal models for operational risk.

(7) The FSA's initiatives on data analysis and the use of new technologies

Enhancing the FSA's data analytics capabilities is one of the FSA's key priorities. The FSA launched various initiatives to strengthen its data infrastructures and enhance its analytical capabilities. One of the key output is the FSA Analytical Notes (available on the FSA's website at:https://www.fsa.go.jp/en/about/fsaanalyticalnotes/index.html). Going forward, the FSA will, to the extent possible, integrate insights gained from data analysis into its supervisory activities in order to assess risk factors that may affect financial stability. At the same time, the FSA will actively explore innovative ways to enhance its data analytics capabilities and supervisory practices, including by leveraging broader data resources and AI.