

Attachment

Item	Verification of the appropriateness of self-assessment standards	Verification of the appropriateness of self-assessment results	Remarks
1. Credit classification method	<p>“Credit” refers to loans and credits similar to loans (loan equities, accrued interest, accrued amounts, suspense payments similar to loans, and per contras for acceptances and guarantees). Credits are classified according to the following method.</p> <p>In managing credit risk, insurance companies are also expected in principle to perform self-assessments for assets other than those listed above when there are credit risks associated therewith, and also for off-balance sheet assets. In these cases, the insurance company must clearly articulate the scope of assets subject to self-assessments.</p>	<p>Although insurance companies are expected in principle to perform self-assessments for off-balance sheet assets, they may not necessarily perform self-assessments in light of their size, etc. In such a case, verify that there are rational reasons for not performing self-assessments.</p>	
(1) Basic concepts	<p>In assessing credits, insurance companies shall in principle perform credit ratings and classify debtors according to these credit ratings. Having done this, they shall consider individually the contents of credit as use of funds and the status of the credit’s collateral, guarantees, etc. This shall form the basis for categorizing credits according to their unrecovery risk and loss of value risk.</p> <p>However, credits to government or local public entity and to banks temporarily owned by government and banks under government control are treated as not having unrecovery risk and loss of value risk and therefore debtor classifications are not required. They are treated as normal credits.</p>	<p>In assessing credits, insurance companies shall in principle perform credit ratings. But they may as well perform credit ratings in light of their size, etc. In such a case, verify that there are rational reasons for not performing credit ratings.</p> <p>In verifying credit classification methods, check that credit ratings are rational and consistent with debtor classifications (when credit ratings are employed), that debtor classifications are accurate, that the use of funds, etc. is considered individually, and that accurate adjustments are made for collateral, guarantees, etc. Verify also that classifications are accurate in light of self-assessment results.</p>	
(2) Credit ratings	<p>Credit ratings are a measure of the degree of credit risk associated with the debtor and shall be performed based on the financial position of the debtor, Ratings issued by ratings agencies, information from credit research institutions, etc. Credit ratings must be consistent with the debtor classifications described below.</p>	<p>For insurance companies performing credit ratings, verify that the credit rating is rational in light of the debtor’s financial position, the rating issued by ratings agencies, information from credit research institutions, etc., and that the insurance company maintains consistency between the concepts underlying its credit ratings and debtor classifications.</p> <p>When credit ratings are performed based on internal data in the possession of the insurance company under inspection, verify the reliability of the data and the sufficiency of the sample. Verify that the insurance company supplements this data with data from outside credit research institutions and the like in the event that internal data is inadequate.</p> <p>Verify that the insurance company reviews the credit rating regularly and whenever there is need as indicated by business conditions and forecasts relating to the debtor, reviews of the ratings issued by ratings agencies, and the evaluation given the debtor by the markets, etc. Verify also that internal audit division checks the accuracy of the credit rating.</p>	<p>Note: “Ratings agency” refers to an institution performing ratings in accordance with the “designation of ratings agencies and ratings pursuant to the provisions of Article 9-4-4:e of the Cabinet Office Ordinance on Disclosure of Corporate Information.”</p>

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(3) Debtor classifications	Debtors are to be classified as follows in light of conditions, etc. of the debtor as evidenced in principle by credit ratings. (Project finance credits do not need to follow these classifications.)	<p>In verifying debtor classifications, check that classifications are accurate in light of conditions, etc. of the debtor as evidenced in principle by credit ratings. Note that project finance credits may be classified according to the degree of unrecovery risk.</p> <p>Debtor classifications would require comprehensive judgement. Begin by considering capacity to repay as evidenced by the debtor's financial position, cash flow, and profitability, etc., factor in the nature of the business types and the forecast for business continuity and profitability, and then evaluate the debtor's capacity to repay the debt at maturity from cash flow, the appropriateness of its business improvement plans and the support provided by financial institutions, etc. (including insurance companies, and so throughout).</p> <p>Particularly for medium, small, and tiny enterprises, considers the company's technology skills, sales force and growth potential, remuneration to representatives, income and assets, guarantee status, guarantee ability, etc. of representatives to arrive at a comprehensive judgment of the company's business status.</p> <p>When factoring in the existence of a parent company for the debtor, it is not sufficient to determine the debtor classification merely on the basis of the parent company having a strong financial position. When factoring in support from the parent company, inspectors must fully check the parent company's track record in supporting subsidiaries and the potential for support in the future.</p> <p>If the debtor is using governmental financing ("institutional funds" hereinafter), for example, central or local public entity subsidizes for the interest payments on loans from private financial institutions, consider the debtor classification in terms of the nature of the institutional funds utilized in addition to the financial position of the debtor itself.</p>	<p>Note: "Project finance" refers, for example, to a non-recourse loan that is used to finance a specific project (business), with the funding for payments of interest and principal on the loan limited to the cash flow (profits) generated by the project. In this type of financing, the loan is secured only by the assets of the project. This definition applies throughout this document.</p> <p>Note: "Cash flow" refers to current profits adjusted for depreciation charges and other non-asset items, and so throughout.</p>
1) "Normal"	A "normal" debtor has strong results and no particular problems with its financial position.	Verify if these debtors are actually "normal" debtors.	
2) "Needs attention"	<p>A "needs attention" debtor has problems with lending conditions (i.e., reduction, exemption, or shelving of interest), has problems with fulfillment in status of exercise (i.e., fall into arrears in fact on principal or interest payments), has poor business or is unstable, has problems with its financial position, or otherwise requires need control and management.</p> <p>It is desirable that "needs attention" debtors are divided into "need control" debtors and other debtors.</p>	<p>Verify if these debtors are actually "Needs attention" debtors. If the insurance company divides "needs attention" debtors into "needs control" debtors and other debtors, verify that the classifications are appropriate.</p> <p>Check that "needs attention" debtors do not include debtors that would ordinarily be classified as "in danger of bankruptcy" in light of their financial position, etc., but have been classified as "needs attention" debtors merely because their parent company, etc. has a strong financial position.</p>	<p>Note: "Debtors needs control" are "needs attention" debtors for which all or part of their credits are "needs control" credits, and so throughout.</p>

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		<p>If debtors meet standard A and B below, check whether they are “needs attention” in light of the considerations to the left. Do not immediately classify them, as “needs attention”.</p> <p>A. Debtors that are in the red on starting business but have not diverged much from their initial business plans may be considered “normal”.</p> <p>“Debtors that are in the red on starting business but have not diverged much from their initial business plans” refers to debtors with rational initial business plans that are proceeding roughly according to plan when results and plans are compared, and that evince a high potential to achieve their plans. Specifically, these debtors will in principle target period before running into the black within about five years and will have at least 70% of the sales and profits targeted in their initial business plans.</p> <p>These standards are merely rule-of-thumb for determining the rationality and achievability of business plans. They should not be applied mechanically or uniformly when reviewing the debtor classification of enterprises that are in the red on starting business.</p> <p>Reviews of debtor classification entail a comprehensive judgment that takes into account the nature of the business type, the nature of the business, the size of the business, the ability to repay the loan in full from cash flow, the debtor’s technology skills, sales force, and growth potential, and other relevant factors. Inspectors should not immediately classify a debtor as “needs attention” merely because it does not formally meet these standards.</p> <p>B. The following kinds of debtors may be classified as “normal” even if they are in the red.</p> <p>These standards are merely rule-of-thumb for determining the rationality and achievability of business plans. They should not be applied mechanically or uniformly when reviewing the debtor classification of companies that are in the red on starting business.</p> <p>Reviews of debtor classification entail a comprehensive judgement that takes into account the nature of the business type, the reasons for the losses, the internal reserves of the company, and the forecast for the future. Inspectors should not immediately classify a debtor, as “needs attention” merely because it does not formally meet these standards.</p> <p>a) Losses are caused by transient factors such as losses on the sale of fixed asset, and the debtor is certain to running into the black in a short period of time.</p> <p>b) Debtor, as medium, small and tiny enterprise that is in the red, but there are deemed to be no particular problems with the ability to repay.</p>	

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		Note, if debtors are not a) or b), inspectors should think of corresponding to “needs attention” as left and not directly judge.	
3) “In danger of bankruptcy”	<p>An “in danger of bankruptcy” debtor is not bankrupt now but is facing business difficulties and has failed to make adequate progress on its business improvement plan, etc. so that there is a large possibility of it falling into bankruptcy in the future (this includes debtors that are receiving support from financial institutions, etc.).</p> <p>Specifically, an “in danger of bankruptcy” debtor is continuing in business now but is already in de facto bankruptcy, with its business results markedly depressed and its loan in arrears so that there are serious concerns about final repayment of principal and interest. In other words, these are debtors with a high likelihood of generating losses for the insurance company and a large potential to go bankrupt in the future.</p>	<p>Verify that these debtors are actually “in danger of bankruptcy” debtors.</p> <p>However, when a debtor has formulated a business improvement plan, etc. predicated on support from financial institutions, etc. and all of the conditions below are met, the business improvement plan may be deemed rational and possessed of a high potential for achievement, and therefore the debtor may be classified as a “needs attention” debtor.</p> <p>These standards are merely rule-of-thumb for determining the rationality and achievability of business plans. They should not be applied mechanically or uniformly when thinking of the debtor classification of companies that have formulated business improvement plan, etc.</p> <p>Thinking of debtor classification entails a comprehensive judgement that takes into account the nature of the business type, the forecast for business continuity and profitability, the ability to repay the loan in full from cash flow, the appropriateness of the business improvement plan, etc., and the availability of support from financial institutions, etc. Inspectors should not immediately classify a debtor as “in danger of bankruptcy” merely because it does not formally meet these conditions.</p> <p>In particular, medium, small and tiny enterprises may not always formulate business improvement plans, etc., and in these cases, inspectors should consider the company’s technology skills, sales force and growth potential, remuneration to representatives, income and assets, guarantee status, and guarantee ability of representatives, to arrive at a comprehensive judgment of the company’s business status. Do not immediately classify a debtor as “in danger of bankruptcy” merely because it has not formulated a business improvement plan, etc.</p> <p>Additionally, when a debtor is using institutional funds to formulate a business improvement plan, etc. and the business improvement plan, etc. has been screened by the central or prefectural government, inspectors should take into account the involvement of the central or prefectural government and its appropriateness in light of conditions of the debtor.</p>	

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		<p>A. The period for the business improvement plan, etc. should in principle be no more than about five years and the plan should have a high potential for achievement.</p> <p>However, this may include business improvement plans, etc. with periods of between five and ten years if, after the plan is formulated, progress in its achievement has been almost according to plan (at least 80% of the sales and current profit targets), and the debtor is deemed likely to continue to achieve the plan in the future.</p> <p>B. The plan will in principle enable the debtor to be classified as “normal” when this plan is finished.</p> <p>However, it is acceptable for the debtor to be classified as “needs attention” after the completion of the plan, provided that after completion of the plan it will not require rebuilding support from financial institutions and will be able to continue in business on its own.</p> <p>C. There are documents or other confirmations attesting that all financial institutions, etc. with which the debtor does business (including the insurance company under inspection) have completed formal internal procedures for providing support as called for in the business improvement plan, etc. and that an agreement on support has been reached.</p> <p>However, in cases in which it is possible to rebuild the company with support only from the insurance company under inspection, or in cases in which it is possible to rebuild the company with support from only some of the financial institutions, etc. with which the debtor does business (including the insurance company under inspection), it is sufficient for there to be documentary or other confirmations that the financial institutions, etc. involved have completed formal internal procedures and reached an agreement on support as called for in the business improvement plan, etc.</p> <p>D. Support from financial institutions, etc. must be limited to reductions or exemptions of interest, maintenance of financing balances and the like and may not include the debt forgiveness, donation of money, or other donation for funds to the debtor.</p> <p>However, this shall include cases in which the institution has already provided funds to the debtor (debt forgiveness, donation of money) but is not expected to do so after the initiation of the business improvement plan, etc., and cases in which plans require the provision of cash to the debtor (debt forgiveness, donation of money) but full reserves have already been allocated for the losses forecast from this support and there are no forecasts for further losses in the future.</p> <p>Note that when the debtor is making use of institutional funds, supply for interest and the like made by prefectural</p>	

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		governments with subsidies from the central government as provided for in institutional funds programs are not included in debt forgiveness, etc.	
4) “De facto bankrupt”	<p>An “de facto bankrupt” debtor is not yet legally and formally bankrupt, but is in serious business difficulties from which it is considered impossible to rebuild. In other words, the debtor is just about bankrupt.</p> <p>Specifically, this refers to debtors who are still formally in business but whose financial position includes huge doubtful assets or excessive borrowings compared to the debtor’s ability to repay. The debtor has effectively been high excess of debt for a considerable period of time and has no hope of business improving; or, the debtor has taken large losses from natural disasters, accidents, rapid changes in business conditions and the like, has no hope of rebuilding, and has in effect been in arrears for a prolonged period of time in its payments of principal and interest.</p>	<p>Verify that these debtors are just about “de facto bankrupt” debtors.</p> <p>If the debtor is not legally or formally bankrupt but has voluntarily gone out of business or otherwise effectively ceased operations, verify that it has been classified as “effective bankrupt”.</p> <p>A. Among “debtors who have formulated a business improvement plan, etc. predicated on support from financial institutions, etc.,” those who are far behind in the achievement of their business improvement plan, etc. and have no hope of a rapid recovery in their results in the future and no forecast for the completion of their business improvement plan, etc., or those for which some correspondent financial institutions have not agreed to provide support based on the business improvement plan, etc. should, if there is a certain likelihood of bankruptcy in the future, be deemed “falling into in serious business difficulties with no hopes of rebuilding,” and therefore may be classified as “de facto bankrupt”.</p> <p>B. “Actually been in arrears for a prolonged period of time” shall be interpreted in principle as actual arrears of six months or longer that are not deemed transient arrears.</p>	
5) “Bankrupt”	A “bankrupt” debtor is legally and formally bankruptcy. This would include bankruptcy, liquidation, winding up, readjustment, composition, and deposition by suspicion of business in clearing house.	Verify that these debtors have been classified as “bankrupt”. The borrower who are declared the “specific reconciliation” in law is judged not-“bankrupt” not with this declaration but his business,	
(4) Adjustment with collateral	<p>Categorize assets secured with collateral as follows. If the asset is secured with fine collateral, the estimated disposal value of which covers the value of the asset, it is “non-classified”; if it is secured with ordinary collateral, the estimated disposal value of which covers the value of the asset, it is Category II.</p> <p>Use the following to calculate appraised collateral value and estimated disposal value.</p>	Verify that assets secured with collateral have been categorized, and that the appraisal value and estimated disposal value are rational, as left.	
1) Fine collateral	Government bonds and other equities of high creditworthiness, insurance, etc. with returns at maturity (insurance and mutual-aid policies with returns at maturity, deposits, savings, premiums, money trusts with guaranteed principal, and so throughout), commercial bills of certain settlement, and similar things.	<p>Verify that the products listed to the left are categorized as “fine collateral.”</p> <p>A. “Government bonds and other equities of high creditworthiness” refers to the bond, the equities and the foreign equities as listed below when these things are deemed to be safe and have no particular problems.</p> <p>Bonds)</p> <p>a) Government bond, bond of local public entity</p> <p>b) Government guaranteed bond(public companies)</p>	Note: “Government bonds and other equities of high creditworthiness,” “insurance, etc. with returns at maturity,” and “commercial bills of certain settlement” shall not be deemed fine collateral if there are any

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		<p>c) Specific bond d) Financial bond e) Bond issued by the company that issued "BBB"(rated by rating institution" bond f) Business bond issued by the company that issued the business bond listed on stock exchange, and selected to brand of quotation of over-the-counter Equities) B. Note that for "insurance and mutual-aid policies with returns at maturity," the estimated disposal value is the receivable money for cancel on "base date " C. "Commercial bills of certain settlement" refers to bills from issues with no problems in their financial position or cash flow of bill drawers, when those bills are certain to be settled on the date of maturation. However, accommodation bills issued to provide financial support (i.e., cash flow, etc.) with no basis in actual commercial transactions are excluded.</p>	<p>doubtful to recovery by disposal of collateral.</p> <p>Note: "International institutions established under treaties to which Japan is a signatory" refers to the International Bank for Reconstruction and Development (IBRI), the International Finance Corporation (IFC), the Inter-American Development Bank (IDB), the European Bank for Reconstruction and Development (EBRI), the African Development Bank (AfDB), and the Asian Development Bank (ADB).</p>
2) Ordinary collateral	Collateral other than "fine collateral" that is disposable from an objective perspective. For example, real estate collateral, factory mortgage collateral	<p>Verify if the products listed to the left are categorized as "ordinary collateral." Real estate collateral, etc. shall in principle not be handled as ordinary collateral if mortgage registration has been reserved. However, it may be handled as ordinary collateral if there are rational reasons for reserving registration, if all of the required documents for registration have been collected, and if immediate registration is possible. Even in these cases it is appropriate to register without fail in order to counter the claims of third parties, and it is necessary that the setting of mortgage rights for the real estate collateral be appropriately managed.</p>	
3) Appraised collateral value	An appraisal value (market value) calculated by objective and rational method.	<p>Verify that appraised collateral values are calculated by objective and rational method. A. For debtors categorized as "in danger of bankruptcy", "de facto bankrupt", and "bankrupt", reviews of the appraisal value of real estate securing assets (re-appraisal, or adjustments to market, and so throughout) must be made at least once per year and it would be desirable that they be made once per half-year, because the individual allowance for debt must be calculated each accounting term. Reviews of appraisal values should be based on the most recent official</p>	

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		<p>land prices, standard land prices, prices of land fronting major roads for inheritance tax, or the like available on "base date" or "provisional base date".</p> <p>For debtors categorized as "needs attention", it would also be desirable that the appraisal value of real estate securing assets be reviewed once per year.</p> <p>It is desirable that real estate value is appraised by qualified real estate appraisers for properties above a certain threshold value.</p> <p>It is desirable that appraisals of rental office buildings and the like utilize the "income approach" in addition to "recent sales" and "official land prices" and the like.</p> <p>B. If there are changes in the method by which collateral is appraised (for example, a change in the standard from official land prices to prices of land fronting major roads for inheritance tax), verify that there are rational reasons for the change.</p>	
4) Disposable amounts	A value based on the appraisal value in 3) above considered certain to be recovered were the collateral disposal of. This must take full account of the nature of the property as a credit keeping. If the appraisal value is of sufficiently high precision, the appraisal value and estimated disposal value may be equal.	<p>Verify that the estimated disposal value is calculated in an objective and rational method based on the appraisal value of the collateral.</p> <p>A. Verify that the multipliers used to calculate the estimated disposal value are rational.</p> <p>Estimated disposal values may be deemed appropriate if they are below the values arrived at when the appraisal value is multiplied by the multipliers shown below.</p> <p>Real estate collateral Land: 70% of appraisal value Building: 70% of appraisal value Equities collateral Government bonds: 95% of appraisal value Government-guaranteed bonds: 90% of appraisal value Listed equities: 70% of appraisal value Other bonds: 85% of appraisal value</p> <p>B. If the appraisal value is used as the estimated disposal value, verify that there is rational value for considering the appraisal value to be of high precision. For example, if a considerable number of collateral have actually been disposed, and comparisons of disposal prices and estimated disposal value document that disposal prices are higher than estimated disposal value, and this assertion can be confirmed, it may be deemed "rational basis."</p> <p>C. If there is a recent appraisal value from a real estate appraiser or if there is a minimum sale price set by a court, the appraisal value may be deemed to be of sufficient precision that this price is used as the estimated disposal value.</p>	Note: "Other bonds" refers to local public entity bonds (both public and private placed bond), public corporation bonds without government guarantees, bank debentures, industrial bonds issued by corporations listed on the stock exchanges, and beneficiary certificate of investment trust.

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		<p>Note that for prices other than appraisal values from real estate appraisers and minimum sale prices set by courts, the appraisal value may be used as the estimated disposal value as long as there is rational basis for considering the appraisal value to be of high precision.</p>	
(5) Adjustment with guarantees	<p>Categorize assets kept with guarantees as follows. Asset kept with "fine guarantees" shall be deemed "non-classified." Asset kept with ordinary guarantees, etc. shall be deemed Category II.</p>	<p>Guarantees from general business corporation shall not be deemed guarantees if there are procedural inadequacies, for example, if the board of directors of the company has not completed approval procedures for the guarantee.</p> <p>Guarantees, etc. made with the intention of reducing credit risks for solvency margin purposes, guarantees, etc. made with the intention of reducing doubtful assets on the final settlement date, and the like shall not be deemed to secure the asset unless the term of the guarantee, etc. exceeds the period from "base date" to the final settlement date of the next accounting term.</p>	
1) Fine guarantees	<p>A. Guarantees of extremely high certainty of fulfillment, for example, guarantees from public credit guarantee institutions, guarantees from financial institutions, guarantees from guarantee institutions established jointly by a number of financial institutions, guarantees from guarantee institutions established jointly by a number of local public entity and financial institutions, indemnity agreement from local public entities. However, even these guarantees shall not be deemed "superior guarantees" if conditions at the guarantee institutions, procedural inadequacies, and similar factors raise doubts about subrogation, or if the company does not intend the call of duty</p>	<p>Verify that the guarantees described to the left have been categorized as "superior guarantees".</p> <p>A. "Public credit guarantee institutions" refers to institutions that are established by law and allowed to provide guarantee services, such as the Credit Guarantee Association, etc.</p> <p>Note that there are some types of guarantees from public credit guarantee institutions that do not guarantee the full value of the credit.</p> <p>If any of the following apply, a guarantee is to be deemed to satisfy the "conditions at the guarantee institutions, etc., procedural inadequacies, and similar factors raise doubts about subrogation, or if the company does not intend to seek fulfillment of the guarantee" clause and therefore the guarantee is not to be deemed a "superior guarantee."</p> <p>a) The company has not claimed subrogation from the guarantee institutions, etc. because of poor business conditions, etc. at the guarantee institution, or the company has claimed subrogation but has not received it for these reasons. (This excludes the public credit guarantee institutions in "A." above.)</p> <p>b) The insurance company receiving the guarantee has refused to accept subrogation from the guarantee institutions because it has forgotten or delayed subrogation procedures or had other inadequacies in guarantee fulfillment procedures.</p> <p>c) The insurance company receiving the guarantee has no intention of seeking fulfillment of the guarantee for other reasons.</p>	

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	<p>B. Guarantees from general business corporations will be deemed superior guarantees if the guarantor is a dividend-paying exchange-listed or over-the-counter-traded company, has sufficient resources to provide guarantees, and has signed a formal guarantee contract.</p> <p>C. "Housing loan insurance" and the like from the Housing Loan Corporation and other public insurance companies, and "housing loan insurance" and similar policies from private insurance companies.</p>	<p>B. Guarantees from general business corporations that are non-dividend-paying exchange-listed or over-the-counter-traded companies may be deemed superior guarantees if the lack of dividend payment is for transient reasons and the business conditions and financial position, etc. of the company indicate that it is certain to resume dividends the next accounting period, and the company has sufficient resources to provide guarantees and has signed a formal guarantee contract.</p> <p>C. Examples of public insurance other than that from the Housing Loan Corporation would include "export bill insurance" and "overseas investment insurance" provided under the international trade insurance system.</p>	
2) Ordinary guarantees	<p>Guarantees other than superior guarantees. For example, guarantees from general business corporations (other than those in "1) in B." above) and individuals that have sufficient guarantee resources</p>	<p>Verify that the guarantees described to the left are categorized as ordinary guarantees.</p>	
3) Guarantee reservation and back letter of supervision		<p>When a general business corporation in a guarantee reservation and/or back letter of supervision notes guarantee reserves, etc. for the debtor in the financial statements of the guaranteeing company as a debt guarantee or a action like guarantee, or when it is clear that the nature of the action would legally be deemed of equivalent effect to a guarantee, it may be treated as a formal guarantee provided that documents and other materials attest that formal internal procedures have been followed at the company in question and that the company in question has sufficient resources to provide guarantees.</p>	
(6) Credits non-classified	<p>The following credits are non-classified.</p> <ol style="list-style-type: none"> 1) Credits that are deemed certain of recovery within a short period of time from specific repayment sources and credits deemed to be normal working capital. 2) Credits secured with government bonds and other securities of high creditworthiness or with insurances with returns at maturity, up to the amount of the estimated disposal value. 	<p>Verify that the credits described to the left have been treated as credits non-classified.</p> <ol style="list-style-type: none"> 1) "Credits that are deemed certain of recovery within a short period of time from specific repayment sources" refers to cases in which it is verifiable from relevant documents that loaned funds will be collected within about one month. 2) Working capital for debtor classifications "in danger of bankruptcy," "de facto bankrupt," and "bankrupt" shall not be treated as normal working capital for self-assessment purposes. Note that working capital for "needs attention" debtors may not be treated as normal working capital for all "needs attention" debtors in self-assessments. Treatment will depend on individual judgments of conditions at the debtor. Working capital for "in danger of bankruptcy" debtors shall be treated according to the degree of unrecovery risk when repayment funds from specific repayment sources are deposited to deposit accounts with the company and recovery is considered possible. Generally, the following formula should be used for 	<p>Note: "Specific repayment sources" refers to the monies from capital increases, bond issues, sale of real estate, agency commission contracts and the like when deposit is certain within a short period of time, or to borrowings, etc. from other financial institutions that are certain to be allocated to repayment, provided that the certainty of deposit can be verified from the capital increase or bond issue prospectus, the sales contract, the agency</p>

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	<p>3) Credits with superior guarantees and insurance and mutual-aid credits of certain payment.</p> <p>4) Credits held against corporation of government subscription.</p> <p>5) Loans with insurance clause</p>	<p>calculating formula normal working capital for companies in distributing, retailing, and manufacturing, but calculations do not recognize the unrecoverable amount of accounts receivable and/or bills receivable or loans against doubtful inventories as normal working capital, so an amount equivalent to this will need to be deducted prior to calculation.</p> <p>Normal working capital = Sales credits [accounts receivable + bills receivable (excluding discount bills)] + Inventory assets (ordinary inventory goods excluding doubtful inventories) – Purchasing liabilities [accounts payable + bills payable (excluding bills payable for facilities)]</p> <p>If more than one financial institution is lending working capital, multiply by the lending share of the insurance company under inspection.</p> <p>3) When the use of funds from credits with superior guarantees is designated as “working capital,” and the total of this working capital and other working capital exceeds the normal working capital, the amount of the credit not subject to categorization shall not exceed the amount of the normal working capital.</p> <p>4) Do not treat credits against debtors to which a corporation of government subscription has provided investments or loans or against debtors in which a local public entity has provided investments or loans as “non-classified.” Verify that they have in principle been categorized in the same manner as credits against ordinary industrial companies.</p> <p>Specifically, when there is rational value that support from the government-invested company or support from the local public entity is certain, study the debtor category with reference to the nature of support. Verify that the institution does not merely deem a credit “non-classified” because a government-invested company or local public entity is providing investment or loans.</p> <p>5) Even if loans are with insurance clause, verify that the portion that exceeds the surrender value of the loan in question is not treated as “non-classified.”</p>	<p>commission, fund transfer requests, or other documents.</p> <p>Note: “Normal working capital” refers to working capital deemed to be perennially necessary in order to conduct normal business.</p>
(7) Credit categorization standards	<p>Categorize credits according to the debtor classification. It is acceptable, however, to categorize project finance credits according to the degree of unrecovery risk without regard to debtor classification.</p> <p>It is also acceptable to categorize home loans and other standardized loans to individuals according to simplified standard, for example, arrears status.</p>	<p>Verify that credits are categorized accurately according to debtor classification as adjusted for collateral and guarantees, and whether there are any normal credits. For project finance credits that are not categorized according to debtor classification, verify that categorization has been done according to the degree of risk of unrecover.</p> <p>When categorization is according to simplified standards, verify the rationality of the standards and the application of the standards.</p>	

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<p>1) "Normal" credits</p> <p>2) "Needs attention" credits</p>	<p>Credits to normal debtors are non-classified.</p> <p>Credits to "needs attention" debtors are in principle assigned to Category II when they meet the requirements listed in A through D below for the portion in excess of the estimated disposal value for fine collateral or in excess of the guarantee for superior guarantees, etc.</p> <p>A. Funds to assume losses or defaulted credits, funds to cover or undertake the obligations of poorly-performing affiliates, etc.</p> <p>Note: Credits to debtors with losses carried over and doubtful asset, etc. shall in principle be categorized in this category when they are deemed to have been used to cover losses carried over, etc. regardless of the name under which they were loaned. In calculating the categorized amount, if it is unclear which credits will be used to cover losses carried over, etc., it is permissible, as exceptional treatment, to calculate a credit amount commensurate with the coverage of losses carried over, etc. taking account of the amount of the debtor's losses carried over and doubtful assets, etc. and the company's share of loan to the debtor.</p> <p>B. Credits for which there has been substantial mitigation of lending terms (reductions, exemptions or shelvings of interest, debt moratorium of principal, etc.), credits with extremely long repayment contracts, or credits with other lending condition problems.</p>	<p>Verify that credits to normal debtors are non-classified.</p> <p>Verify that the credits described to the left have been categorized as "needs attention" credits.</p> <p>Below are the interpretations to be used for the categorized credits to the left.</p> <p>A. Calculate the company's shared loans as commensurate to carried over losses, etc. and the company's share of loan as follows: Company's shared credits as commensurate to carried over losses, etc. = Amount of carried over losses, etc. x Company's share of loan Company's share of loan = Total amount of loan/ Total borrowings of the debtor (excluding discount bills)</p> <p>B. "Credits for which there has been substantial mitigation of lending conditions" refers to credits for which the debtor's business conditions, etc. have deteriorated to the point that it is difficult to make contracted reimbursement and the institutions has provided reductions, exemptions or shelvings of interest or debt moratorium of principal as a support measure for the debtor, or credits for equipment funds that should be repaid from revenues but are allowed lump-sum repayment on maturity without a rational reason therefore.</p> <p>"Credits with extremely long repayment contracts" refer to loans of equipment funds that have repayment periods longer than the useful life of the equipment in question, or to loans that judging from the use to which funds are put, etc. should be repaid within a certain period but have a repayment period in excess of the normal repayment period because of problems with the debtor's earnings ability, financial position or the like.</p>	

Item	Verification of the appropriateness of self-assessment standards	Verification of the appropriateness of self-assessment results	Remarks
	<p>C. Credits with problems in fulfillment (principal repayment or interest payment effectively in arrears) or credits deemed to have a high potential for repayment problems in the future.</p> <p>D. Credits for which the financial position, etc. of the debtor indicates a greater than normal unrecovery risk.</p>	<p>Additionally, when a debtor is using institutional funds, inspectors should make a comprehensive judgement taking account of the nature of the institutional funds and the factors leading to the loan of institutional funds to determine whether there has been a substantial mitigation of lending conditions or whether there is an extremely long repayment contract. They should not immediately judge institutional funds to be credits for which there has been substantial mitigation of lending terms or credits with extremely long repayment contracts.</p>	
<p>3) "In danger of bankruptcy" credits</p>	<p>All credits to "in danger of bankruptcy" debtors in excess of the estimated disposal value of fine collateral and the amount protected with superior guarantees, etc. shall be categorized. The estimated disposal value from ordinary collateral, the amount deemed recoverable from ordinary guarantees, and the amount deemed recoverable from liquidation dividends in the event of bankruptcy shall be assigned to Category II. The remainder shall be assigned to Category III.</p> <p>If the appraisal value of ordinary collateral is of sufficiently high precision, an amount equivalent to the appraisal value of the collateral may be assigned to Category II</p>	<p>Verify that credits to "in danger of bankruptcy" debtors have been categorized as described to the left.</p> <p>Refer to the following for interpretations of "recoverable amounts."</p> <p>A. "Amount deemed recoverable from guarantees" refers to an amount deemed to be certain of collection in light of the assets and guarantee resources of the guarantor. If the assets and guarantee resources of the guarantor have not been confirmed or if recovery under the guarantee is uncertain, the credit shall be considered not to be protected by the guarantee and this portion shall be assigned to Category III. Verify that this has been done.</p> <p>B. "Amount deemed recoverable from liquidation dividends" refers to an amount deemed to be certain of recovery when it is possible to accurately measure the assets of the debtor (for example, the insurance company under inspection has a clear grasp of the collateral provided by the debtor to other lenders) and create a liquidation balance sheet for the debtor, assuming the estimated liquidation dividend, etc. is rational.</p> <p>If an "amount deemed recoverable from liquidation dividends" is categorized as Category II, verify that the estimated liquidation dividend, etc. is rational.</p>	
<p>4) "De facto bankrupt" and "bankrupt" credits</p>	<p>All credits to "de facto bankrupt" and "bankrupt" debtors in excess of the estimated disposal value of fine collateral and the amount protected with superior guarantees, etc. shall be categorized. The estimated disposal value from ordinary collateral, the amount deemed recoverable from ordinary guarantees, and the amount deemed recoverable from liquidation dividends in the event of bankruptcy shall be assigned to Category II. The difference between the appraisal values and estimated disposal values of the collateral and ordinary collateral shall be assigned to Category III. The remainder shall be assigned to Category IV, no hope of recovery.</p>	<p>Verify that credits to "de facto bankrupt" and "bankrupt" debtors have been categorized as described to the left.</p> <p>Credits to "de facto bankrupt" and "bankrupt" debtors should, to the extent possible, be categorized as Category II for the portion deemed recoverable from collateral, etc., with the amount deemed unrecoverable assigned to Category IV. Note that nothing should be assigned to Category III except "the difference between the appraised values and estimated disposal values of fine collateral and ordinary collateral."</p> <p>Refer to the following for interpretations of "recoverable</p>	

Item	Verification of the appropriateness of self-assessment standards	Verification of the appropriateness of self-assessment results	Remarks
	<p>If the appraisal value of ordinary collateral is of sufficiently high precision, an amount equivalent to the appraisal value appraisal value of collateral may be assigned to Category II. The amount of any uncertainty of recovery from guarantees shall be assigned to Category IV, though it may be reassigned to Category II at the point which recovery under the guarantee is deemed possible.</p>	<p>amounts.” as described to the left.</p> <p>A. “Amount deemed recoverable from guarantees” refers to an amount deemed to be certain of recovery in light of the assets and guarantee resources of the guarantor. If the assets and guarantee resources of the guarantor have not been confirmed or if recovery under the guarantee is uncertain, the credit shall be considered not to be protected by the guarantee and this portion shall be assigned to Category IV. Verify that this has been done.</p> <p>B. For “de facto bankrupt” credits, the amount deemed recoverable from liquidation dividends” refers to an amount deemed to be certain of recovery when it is possible to accurately measure the assets of the debtor (for example, the insurance company under inspection has a clear grasp of the collateral provided by the debtor to other lenders) and create a liquidation balance sheet for the debtor, assuming the estimated liquidation dividend, etc. is rational.</p> <p>For “bankrupt” credits, the “amount deemed recoverable from liquidation dividends” refers to 1) the expected amount of repayment within five years from the date a notification of liquidation dividend, etc. is received from a liquidator, etc. should such notice be received; 2) an amount deemed to be certain of recovery when it is possible to accurately measure the assets of the debtor (for example, the insurance company under inspection has a clear grasp of the offered collateral by the debtor to other lenders) and create a liquidation balance sheet for the debtor, assuming the estimated liquidation dividend, etc. is rational.</p> <p>If the amount deemed recoverable from liquidation dividends, etc. is assigned to Category II, verify that the estimate of the liquidation dividend, etc. is rational.</p> <p>C. Verify that categorization has in principle been made as follows for debtors that have been the subject of filing a declaration for readjustment under the Corporate Readjustment Law, etc., filing a declaration for revival under the Civil Revival Law, etc., filing a declaration for bankruptcy under the Bankruptcy Law, filing a declaration for winding up or special liquidation under the Commercial Code, or other similar action.</p>	

Item	Verification of the appropriateness of self-assessment standards	Verification of the appropriateness of self-assessment results	Remarks
		<p>a) Are collateral rights in readjustment principally assigned to Category II?</p> <p>b) Among ordinary readjustment credits, is the amount deemed recoverable within five years of the approval of the readjustment plan assigned to Category II and any amount deemed to require in excess of five years assigned to Category IV?</p> <p>c) Are renounced credits assigned to Category IV?</p> <p>If progress is generally according to plan (for example, the debtor has achieved in general 80% of the sales, etc. and current profits targeted in the readjustment plan, etc.) after a certain period of time has elapsed from the formulation of the readjustment plan, etc. and the debtor classification and category are reviewed, verify that categorization and classification are according to the degree of unrecovery risk.</p>	
(8) Credits to foreign governments, etc.	<p>In light of the special nature of credits to foreign governments, central banks, government-affiliated institutions and government-sponsored enterprises, these credits are to be categorized according to objective facts and not according to the standard in (7) above. For example, in cases like the following, consideration should be given to categorizing credits according to the degree of unrecovery risk in light of political or economic conditions in the country in question.</p> <ol style="list-style-type: none"> 1) Payment of principal and interest is one month or more in arrears. 2) Contracts have been signed within five years of the scheduled maturity to defer loan repayments, provide flat-rate more-lending from major creditor banks, or take other similar measures ("deferral of debt repayment, etc." hereinafter). 3) A request has been received for deferral of debt repayment, etc. and a month or more has elapsed without a contract being signed. 4) The facts described in 1)-3) above are considered likely to occur in the near future. 	<p>Inspectors should verify that credits to foreign governments, etc. are categorized according to unrecovery risk as indicated by the country's financial conditions, economic conditions, and foreign exchange balances. At the very least, they should verify that the credits described to the left have been categorized.</p>	
(9) Credits to foreign private companies and to Japanese affiliated enterprises	<p>Categorize credits to foreign private companies and Japanese affiliated enterprises according to the standard found in (7) above.</p> <p>However, when arrears, etc. are clearly the result of the country's foreign exchange balance, categorize according to the standard in (8) above.</p> <p>Note that self-assessments should take account of the nature of business dealings in the country, its markets, and the status of collateral.</p>	<p>Verify that credits to private companies and Japanese affiliated enterprises in countries the government of which has been categorized according to (8) above are categorized according to (7) above, and categorization according to (8) above has been considered.</p> <p>Verify that the insurance company understands the nature of business dealings in the country, its markets, and the status of collateral.</p>	

Item	Verification of the appropriateness of self-assessment standards	Verification of the appropriateness of self-assessment results	Remarks
(10) Interest receivable similar to loans		<p>For interest receivable that is similar to loans, verify that the insurance company is in principle not posting those for “in danger of bankruptcy,” “de facto bankrupt,” and “bankrupt” debtors as assets. Verify in particular that it is not posting uncollected interest from “de facto bankrupt” and “bankrupt” as assets.</p> <p>However, when the insurance company posts unrecovered interest as assets in light of the potential to recover this interest because of protection measures, etc., verify that this unrecovered interest is categorized according to the degree of unrecovery risk.</p> <p>When unrecovered interest from “in danger of bankruptcy” debtors is posted as assets, check that the insurance company is not posting unrecovered interest as assets when it should not be in order to exclude the loan for which there is unrecovered interest from disclosure as a managed credit.</p>	
(11) Relationship with credit categories under the Insurance Business Law	<p>Below is the relationship between the credit categories set forth in the Insurance Business Law Enforcement Regulations Article 59-2, paragraph 1-5-3 and the debtor classifications, etc. in this inspection manual.</p>	<p>Verify that classification is made according to the debtor classification, etc. as determined based on the financial position and business performance, etc. of the debtor pursuant to the standard set forth in Article 59-2, paragraph 1-5-3 of the Insurance Business Law Enforcement Regulations.</p> <p>Article 317:1:2 and Article 321:1:2 of the Insurance Business Law provide for penalties should the results of category classifications not be open to public inspection in accordance with the provision of Insurance Business Law Article 111, Paragraph 1 or should the result of category classifications be falsified.</p> <p>Therefore, if the results of category classifications based on the Insurance Business Law Enforcement Regulations Article 59-2, paragraph 1-5-3 are found to be inaccurate, inspectors endeavors to fully and accurately determine the cause (caused by the appropriateness of self-assessment standards or by the way in which self-assessments are conducted, or by other factors) and the future improvement to be made by the insurance company under inspection.</p>	
1) “Normal credits	<p>”normal” credits are “credits with no problems in terms of the financial position or business performance of the debtor; all credits non-classified as “need control”, “in danger of”, “bankrupt or readjustment” credits.” They are credits to state or local public organizations, credits to banks temporarily owned by government and banks under government control, and all credits to “normal” or “needs attention” debtors, except those that require need control.</p>	<p>Verify that the credits described to the left have been categorized as “normal” credits.</p>	
2) “Need control” credits	<p>”Need control” credits are credits to “needs attention” debtors that are “loan that is three months or more in arrears (payments of principal or interest are three months or more in arrears from the day after the contracted payment date) or that is with relaxed lending</p>	<p>Verify that the credits described to the left have been categorized as “need control” credits. In doing this, refer to the definition of “credits with relaxed lending conditions” for risk-managed credits as set forth in Article 59:2:1:5:b(4) of the</p>	

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	<p>conditions (loan for which there have been modifications to contractual conditions, such as reductions, exemptions or shelvings of interest or debt moratorium of principal, in order to give advantageous concessions to debtors for the purpose of aiding their rebuilding and support).” Manage “need control” credits separately from other “needs attention” credits.</p>	<p>Insurance Business Law Enforcement Regulations and the notes on credits with relaxed lending conditions in “the Guidelines (insurance companies)”.</p> <p>Verify that the insurance company categorizes credits that are not formally in arrears but are in fact three or more months behind as “need control” credits.</p> <p>Note: To verify whether credits are actually in arrears, check request for decision and trace funds provided to the debtor, looking for loans disbursed near the repayment date used as funds to repay principal and interest.</p>	
3) “in danger of” credits	<p>“in danger of” credits are “credits with a high likelihood that the principal will not be collected and interest not received according to the contract because the financial position and business performance of the debtor have worsened, although the debtor is not yet bankrupt.” In other words, these are credits to “in danger of bankruptcy” debtors.</p>	<p>Verify that the credits described to the left have been categorized as “in danger of” credits.</p>	
4) “Bankrupt or readjustment” or similar credits	<p>”Bankrupt or readjustment” or similar credits are “credits to debtors that have fallen into bankruptcy, corporate readjustment, or similar credits.” These are credits to “de facto bankrupt” debtors and “bankrupt” debtors.</p>	<p>Verify that the credits described to the left have been categorized as “bankrupt or readjustment”.</p>	
12) Credits to consolidated subsidiaries		<p>Verify that credits to consolidate subsidiaries (including affiliated “non-banks”) have been categorized as follows.</p> <p>1) Credits to consolidated subsidiaries of the insurance company under inspection</p> <p>Credits to consolidated subsidiaries should in principle be assessed according to the self-assessment methods of the insurance company under inspection and assigned a debtor classification according to an accurate measurement of the financial position, etc. of the consolidated subsidiary.</p> <p>However, in cases in which it is difficult to assess the consolidated subsidiaries according to the self-assessment methods of the insurance company under inspection because of the industry of the subsidiary or the laws of the country in which it is located, debtor classification shall be made according to asset assessment results made with methods similar to the self-assessment methods of the insurance company under inspection.</p> <p>2) Credits to consolidated subsidiaries of other financial institutions</p> <p>Categorize according to the same methods as credits for general business corporations.</p>	
2. Securities classification method (1) Basic concepts	<p>When assessing securities, categorize them in terms of their marketability and safety. Judgments of safety are in principle made with the same concepts as</p>	<p>Verify that securities are categorized accurately in terms of marketability and safety.</p>	

Item	Verification of the appropriateness of self-assessment standards	Verification of the appropriateness of self-assessment results	Remarks
	used for credits and will depend on the financial position, etc. of the issuer of the security. However, it is acceptable to use simplified standard for the issuer's financial position, etc. when classifying securities.		
(2) Bonds		Verify that bonds are classified as described to the left. For judgments of safety in particular, verify that categorizations are made with the same concepts as used for credits based on the financial position, etc. of the issuer.	
1) Bonds without classification	<p>the following bonds are without classification.</p> <p>A. Government bonds, local public entity bonds</p> <p>B. Government-guaranteed bonds (public corporations bonds.)</p> <p>C. Special bonds (bonds (without government-guaranteed bonds) issued by juridical person in public law (pubic corporations) and corporation of government subscription).</p> <p>D. Bank debentures</p> <p>E. All bonds from issuing companies that have been rate BBB (triple B) or better in their most recent rating by a ratings agency.</p> <p>F. All industrial bonds issued by companies issuing listed brand on the stock exchange; all bonds selected for over-the-counter price quotations.</p> <p>However, the bonds described in E and F shall be classified if a study of the financial position of the issuer or the nature of the industrial bond based on the same concepts as for credits indicates problems with safety.</p>	Verify that no bonds from issuers with any other than a "normal" debtor classification are treated as without classification.	
2) Bond classification method	<p>A. Study the financial position of the issuers of all bonds except those listed in A-F in 1) above using the same concepts as for credits. If the study reveals no particular problems with safety, or if there is a superior guarantee from a financial institution, etc., treat the bond as "non-classified".</p> <p>B. The book value of bonds described in the proviso to 1) above and bonds other than as described in A above is assigned to Category II; the estimated loss for bonds likely to generate losses is assigned to Category IV.</p> <p>Note that private offering bonds are categorized according to the degree of risk of loss of value using the same method as for credits.</p> <p>If the institution does not have credits against the issuer of the bond, it may categorize the bond according to simplified standard.</p>	<p>Verify that the estimated loss has been assigned to Category IV for bonds issued by parties with debtor classifications of "de facto bankrupt" or "bankrupt".</p> <p>Verify that private offering bonds are categorized using the same methods as credits.</p>	
(3) Equities	The following equities are without classified.	Verify that equities are categorized as described to the left. For the safety standard in particular, verify that the insurance company has studied the financial position of the issuer of the equity using in principle the same concepts as for credits.	
1) Equities without classification	<p>A. Equities listed on stock exchange, over-the-counter-registered equities, and unlisted equities issued by exchange-listed companies.</p> <p>B. Equities issued by companies in which the government has invested (excluding liquidation companies).</p>	Verify that no equities from issuers with any other than a "normal" debtor classification are treated as non-classified.	

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	<p>C. Equities from issuing companies the bonds of which have been rated BBB (triple B) or better in their most recent rating by a ratings agency.</p> <p>However, the equities described above shall be classified if a study of the financial position of the issuer based on the same concepts as for credits indicates problems with safety.</p>		
2) Equity classification method	<p>A. Study the financial position of the issuers of all equities except those listed in A-C in 1) above using the same concepts as for credits. If the study reveals no particular problems with safety, treat the equity as non-classified.</p> <p>B. Categorize the equities described in the proviso to 1) above and equities other than as described in A above according to the degree of risk of loss of value using in principle the same concepts as for credits. However, the book value of categorized equities listed on stock exchange and over-the-counter-registered equities that are categorized should be assigned to Category II. In cases in which the asset position of the issuer has significantly worsened, assign to Category IV an amount equivalent to the reduction in book value when decreases in the net assets of the issuer mandate reductions in the book value of the equity, except when the asset position is deemed likely to recovery in a reasonable period of time.</p> <p>If then insurance company does not have credits against the issuer of the equity, it may categorize the equity according to simplified standard.</p>	<p>A. Verify that equities issued by parties with debtor classifications of “in danger of bankruptcy” (excluding equities listed on stock exchange and over-the-counter-registered equities) are in principle assigned to Category III.</p> <p>B. Verify that equities issued by parties with debtor classifications of “de facto bankrupt” or “bankrupt” are in principle assigned to Category IV.</p> <p>C. If the insurance company holds equities subject to classification as part of a securities investment trust or specified money in trust, etc. in order to avoid classification, verify that the equity is categorized according to the degree of risk of loss of value.</p> <p>D. If the insurance company uses the cost method to appraise equities listed on stock exchange, verify that its standards for forced write-down under the Commercial Code are rational. Specifically, verify that at the very least, the insurance company assigns an amount equivalent to the difference between the market value and the book value of the equity to Category IV when the market value of a listed equity has lost 50% or more against the book value. However, it shall be acceptable to deem an equity as having no possibility of price recovery if its price has not been above 50% of book value at least one in the past year.</p> <p>Verify that the same method is used to categorize over-the-counter-registered equities when the cost method is used for appraisal purposes.</p>	
(4) Foreign securities		Verify that foreign securities are categorized as described to the left.	

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1) Foreign securities without classified	<p>The following foreign securities are without classified.</p> <p>A. All equities issued by companies listed on foreign or domestic exchanges and all bonds issued by companies issuing listed bonds.</p> <p>B. Bonds selected for over-the-counter price quotations on either foreign or domestic markets.</p> <p>C. Bonds issued by international institutions established under treaties to which Japan is a signatory, bonds issued by governments or similar institutions (state governments, etc.) or local public entity.</p> <p>D. Equities and bonds issued by financial institutions licensed by governments of countries with which Japan has relations.</p> <p>E. All bonds from issuing companies that have been rated BBB (triple B) or better in their most recent rating by a rating agency, and all equities issued by companies issuing its bonds.</p> <p>However, the foreign securities described above shall be categorized if a study of the asset or financial position of the issuer based on the same concepts as for credits indicates problems with safety.</p>	<p>Verify that no foreign securities from issuers with any other than a “normal” debtor classification are treated as without classified.</p>	<p>Note: “International institutions established under treaties to which Japan is a signatory” refers to the International Bank for Reconstruction and Development (IBRI), the International Finance Corporation (IFC), the Inter-American Development Bank (IDB), the European Bank for Reconstruction and Development (EBRI), the African Development Bank (AfDB), and the Asian Development Bank (ADB).</p>
2) Foreign securities classification method	<p>A. Study the asset and financial position of the issuers of all foreign securities except those listed in A-f in 1) above using the same concepts as for credits. If the study reveals no particular problems with safety, or if there is a superior guarantee from a financial institution, etc. (including a financial institution licensed by the government of a country with which Japan has relations), treat the foreign securities as “non-classified”.</p> <p>B. The book value of foreign securities described in the proviso of 1) above and bonds other than as described in A above is in principle assigned to Category II; the estimated loss for foreign securities likely to generate losses is assigned to Category IV.</p> <p>However, that foreign equities and private offering bonds are categorized according to the degree of risk of loss of value using the same method as for credits when deemed appropriate to do so.</p> <p>If the insurance company does not have credits against the issuer of the foreign securities, it may categorize the foreign securities according to simplified standard.</p>	<p>Verify that whether foreign equities categorize with the same method, if foreign equities are deemed to categorize with the method as bonds and equities.</p>	
(5) Other securities	<p>Categorize other securities in a manner similar to 1) to 4) above. Beneficiary certificates for loan trusts are non-classified.</p> <p>Categorize beneficiary certificates for securities investment trusts according to the degree of risk of loss of value.</p>	<p>Verify that beneficiary certificates of investment trust for which there are quoted base prices or the like are categorized according to the degree of risk of loss of value.</p>	
3. Method of categorization for other assets	<p>Categorize assets other than credits and securities as follows.</p> <p>Use the same methods as for credits when performing categorization for self-assessments of assets and off-balance-sheet products with</p>	<p>Verify that assets other than credits and securities are categorized as described to the left.</p> <p>Verify that asset and off-balance asset with credit risks other</p>	

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(i.e., assets other than credits and securities)	credit risks other than credits and securities. Particularly attention to liquidation techniques that move credits off the balance sheet but do not fully shift credit risks onto third parties so that the insurance company under inspection still holds all or a part of the credit risk. Categorize these assets with the same methods as used for the underlying assets in the credit liquidation and categorize according to the degree of risk of loss of value for the credit risk portion held by the insurance company under inspection.	than credits and securities are categorized using the same methods as credits. In particular, when the insurance company under inspection holds all or a part of the credit risks for credit liquidation that take credits off the balance sheet, verify that the risk portion held by the insurance company has been categorized according to the degree of risk of loss of value.	
(1) Suspense payments	Categorize all suspense payments other than those that are similar to loans (suspense payments related to claims or loans resulting from subrogation based on acceptance and guarantees) according to the unrecovery risk and the degree of risk of loss of value.	Verify that all suspense payments other than those that are similar to loans are categorized according to unrecovery risk and degree of risk of loss of value.	
(2) Chattels and real estate		Verify that chattels and real estate have been categorized as described to the left.	
1) Chattels and real estate for business purposes	Categorize owned chattels and real estate not used for business purposes as Category II. However, in cases in which the estimated disposal value of the owned chattel or real estate is significantly below the book value and there is little likelihood of it recovering in a reasonable period of time, and when there is deemed to be a need to reduce the book value to correspond to the decrease in estimated disposal value, assign the estimated disposal value to Category II and the difference between the estimated disposal value and the book value to Category IV.	Verify that chattels and real estate not used for business purposes are categorized as described to the left. At the very least, when the estimated disposal value of the chattels and real estate is substantially below the book value (as a rule of thumb, the estimated disposal value is at least 50% below the book value) and when there is deemed to be little likelihood of the estimated disposal value recovering, verify that the difference between the book value and the estimated disposal value is assigned to Category IV.	
2) Real estate held for investment purposes	Categorize real estate held for a certain period of time for investment purposes but not actually in use or for which there is no use plan as Category II. However, in cases in which the real estate is scheduled for sale and its estimated disposal value of is significantly below the book value and there is little likelihood of it recovering in a reasonable period of time, and when there is deemed to be a need to reduce the book value to correspond to the decrease in estimated disposal value, assign the estimated disposal value to Category II and the difference between the estimated disposal value and the book value to Category IV.	Verify that real estate held for a certain period of time for investment purposes but not actually in use or for which there is no use plan is categorized. At the very least, when the real estate is scheduled for sale and its estimated disposal value is significantly below the book value (as a rule of thumb, the estimated disposal value is at least 50% below the book value) and when there is deemed to be little likelihood of the estimated disposal value recovering, verify that the difference between the book value and the estimated disposal value is assigned to Category IV. Note that real estate scheduled for sale is not limited to that for which sale has been decided by the company. It also includes real estate for which sale is objectively recognized. Specifically, real estate whose buyer or selling price is not fixed as of "base date" but for which sales negotiations have started with a real estate agent, etc. is treated as scheduled for sale.	Note: "Certain period" means about two years. "Not actually in use" means there is no rent income. However, real estate for which the original project plan is suspended and which is used as a parking lot, etc. as a temporary measure is treated as "not actually in use," even if it generates rent income. Real estate whose plan is specific or highly likely to be implemented but its budget appropriation cannot be confirmed by, for example, by internal documents, etc. is treated as "there is no use plan."
(3) Golf club memberships	Assign to Category II except for those held for welfare purposes. However, when there are deemed to be problems in the financial	Verify that golf club memberships are categorized as described to the left.	

Item	Verification of the appropriateness of self-assessment standards	Verification of the appropriateness of self-assessment results	Remarks
	<p>position of the issuer of the membership, assign a debtor classification using the same concepts as for credits regardless of the purpose for which the membership is held. Assign those classified as “needs attention” of “in danger of bankruptcy” to Category II; those classified as “de facto bankrupt” of “bankrupt” for which the facilities can still be used as Category II; and those for which the facilities cannot be used as Category IV.</p> <p>When golf club memberships are held not as “other assets” but as securities accounts, use appropriate securities methods for their categorization.</p> <p>If the insurance company does not have credits against the issuer of the membership, it may use simplified standard in categorization.</p>	<p>When memberships are held on securities accounts, verify that they are categorized as described to the left.</p>	
(4) Premiums in arrears	<p>It is acceptable to categorize credits whose settlement date has elapsed on “base date ”for self-assessments according to simplified standard, for example, for arrears status.</p>	<p>When credits are categorized using simplified standard, verify that the standard and the credits are rational.</p>	
(5) Credits of agency	<p>Categorize credits of agency in accordance with the classification standards for premiums in arrears.</p> <p>When there are deemed to be problems such as bankruptcy of the agent, assign a debtor classification based on the financial position, etc of the agent in question, using the same concepts as for credits.</p>	<p>Verify that credits of agency are categorized in accordance with the classification standards for premiums in arrears.</p> <p>When there are deemed to be problems such as bankruptcy of the agency, verify that credits of agency are categorized taking into account the financial position, etc. of the agency in question.</p>	
(6) Credits of foreign agency	<p>Perform categorization on the basis of the condition of assets whose operations are consigned to foreign agents and the financial positions of individual business connections.</p>	<p>Verify that credits of foreign agency are categorized on the basis of the condition of assets whose operations are consigned to foreign agencies and the financial positions of individual business connections.</p>	
(7) Credit of co-insurance, re-insurance	<p>Perform categorization on the basis of the financial positions of the credit of co-insurers and re-insurers.</p>	<p>Verify credit of coinsurance and reinsurance are categorized on the basis of the financial positions of co-insurers and re-insurers</p>	
(8) Credit of foreign reinsurance	<p>Perform categorization of accounts receivable such as insurance premiums generated in reinsurance transaction with foreign insurance companies on the basis of the financial positions, etc. of the consignment companies.</p>	<p>Verify that accounts receivable such as insurance premiums generated in reinsurance transaction with foreign insurance companies are categorized on the basis of the financial positions, etc. of the consignment companies.</p>	
(9) Credit of proxy service	<p>Perform categorization of accounts receivable generated in proxy services for other insurance companies on the basis of the financial positions, etc. of the consignment companies.</p>	<p>Verify that accounts receivable generated in proxy services for other insurance companies are categorized on the basis of the financial positions, etc. of the consignment companies.</p>	
(10) Other assets	<p>Categorize assets other than those above according to their unrecovery risk and degree of risk of loss of value in light of the nature of the asset.</p>	<p>Verify that other assets are categorized as described to the left.</p> <p>A. For purchased monetary credits issued by general business corporations that are deemed to be long-term credits because of continuing purchases at set amounts, verify that the purchasing credit is categorized using the same methods as for credits.</p> <p>B. When the insurance company under inspection uses trust</p>	

Item	Verification of the appropriateness of self-assessment standards	Verification of the appropriateness of self-assessment results	Remarks
		<p>schemes to liquidate credits, and the insurance company under inspection holds beneficiary certificates in the loan credit trust scheme, verify that these loan credit trust beneficiary certificates are categorized using the same methods as credits.</p> <p>C. Since the right of indemnity and remainders recorded as reserves have a credit risk, although they are not in the asset account, verify that they are properly accounted for according to the degree of unrecovery risk or risk of loss of value.</p>	