

# Japanese Economy and Banks in Challenging Times

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# 1. Troubled Assets of Financial Institutions

- The estimated potential writedown rate is 10% in the U.S., 5% in Europe, and 2% in Japan.
- The realized writedown rate is 55% for U.S. banks, 30% for European banks, and 62% for Japanese banks.
- The potential balance sheet damage for Japanese banks is relatively mild.

Estimates of Financial Sector Potential Writedowns  
(2007-10) by Geographic Origin of Assets  
as of April 2009 (\$bn)

	Outstanding	Estimated Writedown Rate	Estimated Writedowns	
				Banks
Total	57,719	7.0%	4,054	2,810
U.S.	26,554	10.2%	2,712	1,604
Loans	13,507	7.9%	1,068	601
Securities	13,047	12.6%	1,644	1,002
Europe	23,807	5.0%	1,193	737
Loans	20,759	4.3%	888	551
Securities	3,048	10.0%	305	186
Japan	7,358	2.0%	149	129
Loans	6,569	2.0%	131	118
Securities	789	2.2%	17	11

Source : IMF

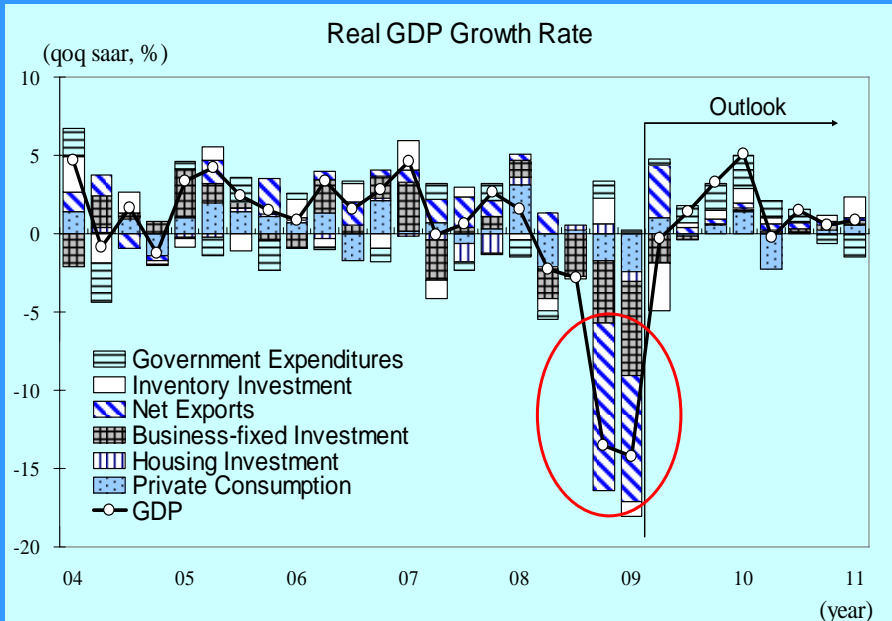
Realized Writedown Rate for Banks  
as of May 31 2009 (\$bn)

	Estimated Writedowns (A)	Realized Writedowns (B)	Realized Writedown Rate (B / A)
Total	2,810	1,052	37%
U.S. Banks	1,049	581	55%
European Banks	1,425	421	30%
Japanese Major Banks	82	50	62%

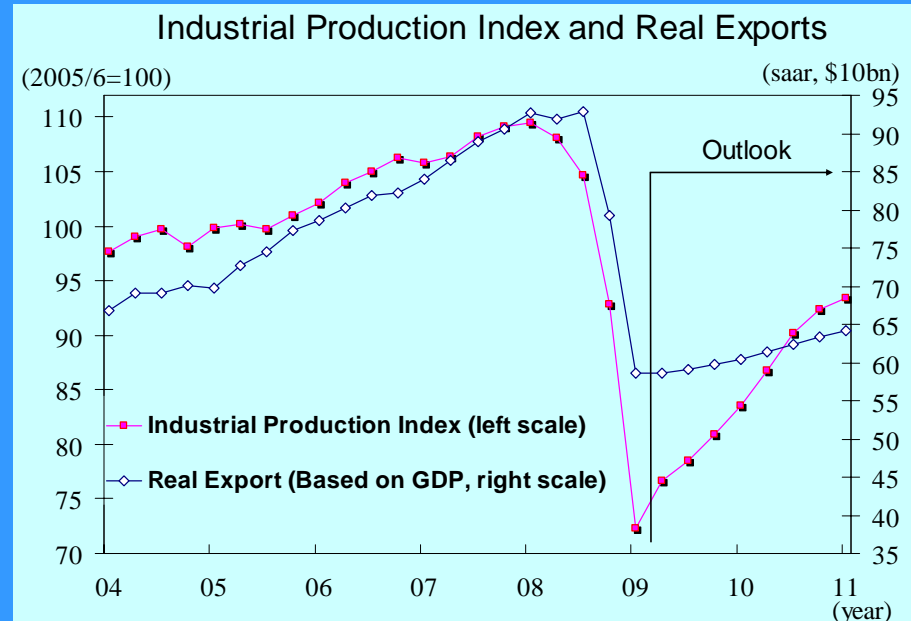
Source : Compiled by BTMU Based on IMF and Bloomberg Data

## 2. The Cause of Economic Stagnation in Japan

- Japanese economy is highly dependent on foreign demand; the driving force of domestic demand is weak.
- Steep decline in exports sent corporate sales plummeting.
- Main cause of stagnation in Japan is not excessive corporate or household debt, but declining demand and deteriorating business environment.



Source : Compiled by BTMU Based on Cabinet Office of Japan



Source : Compiled by BTMU Based on Cabinet Office and Ministry of Economy, Trade and Industry of Japan

### 3. Performance of the Major Banks in Japan

- The Japanese major banks--the Big 3--fell into the red in the fiscal year ending March 2009, with a net loss of \$12bn.
- The major factors:
  - ✓ Provision for credit losses - \$19bn
  - ✓ Losses from strategic equity portfolio - \$12bn
  - ✓ Legacy asset-related losses - \$ 4bn
- The impact of legacy asset-related losses is relatively small.

Major Losses of the Big 3 Japanese and the Big 3 U.S. Banks  
(2Q/08~1Q09, \$bn)

	Provision for Credit Losses	Losses from strategic equity portfolio	Legacy Asset-Related Losses	Net losses
U.S. Big 3	-98	-	-76	-9
Japan Big 3	-19	-12	-4	-12

\* Legacy asset related losses include those related to LBO, monoline, CMBS, ARS, and does not include provision for doubtful accounts.

Source : Financial reports and conference calls of companies

## 4. Actions of the Japanese Banks and Government

### ➤ Capital Increases through Independent Efforts

- ✓ Since July 2008, the Japanese Big 3 banks have raised \$33bn in capital through private financings.
- ✓ Of the above, \$19bn was raised by issuing common shares.

### ➤ The Safety Net Introduced by the Government

- ✓ The Bank of Japan is buying up shares held by financial institutions.
- ✓ The Financial Services Agency has reexamined and expanded the framework for injecting public funds into financial institutions.  
(Some regional banks have already received public funds or are considering to apply for them.)

# 5. The Outlook for Japan's Economy and Business Opportunities for Japanese Banks

## ➤ The Outlook for Japan's Economy

- ✓ Japan's economy will bottom out in the early fall and be on the road to recovery heading into 2010.
- ✓ Japanese banks will ride the wave of economic recovery.

## ➤ Risk Factors

- ✓ Protracted global recession, turmoil in world money markets, etc.

## ➤ Business Opportunities for Japanese Banks

- ✓ Take advantage of ample deposits (MUFG alone has deposits that exceed loans by \$289bn) and relatively sound financial standing.
- ✓ Provide comprehensive financial support to corporate customers expanding globally.