non-performing and restructured loans to total loans at the major banks in Japan is around 5.9 per cent,[7] the major banks have managed to reduce their officially declared non-performing loans by writing off bad loans and increasing loan loss provisions. The OECD estimates that, given the current level of profits, the major banks could completely write off non-performing loans in three years, without further reducing their capital base.[8]

The measures taken to reduce exposure to bad loans have led the banks to revalue some of their long-held equity at a profit, which, combined with the more recent declines in the stock market, reduced the banks' unrealized capital gains by over half in the year ending March 1995.[9] This affected the banks' capitalization and lowered their average capital ratios to 8.9 per cent in March 1995 from 9.7 per cent a year earlier.[10] However, one benefit is that the major banks' overall capital position is now much less dependent upon unrealized gains than in the 1980s.

Other types of JFIs include regional banks and credit cooperatives. Regional banks can be separated into Tier I, which are generally financially sound and account for approximately 17 per cent of total loans, and the much weaker and less well-managed Tier II regional banks, accounting for 7 per cent of total private institution loans. Credit cooperatives are mutual institutions which take deposits and lend mostly to their members. They account for only 3 per cent of total loans by Japanese financial institutions but have experienced some severe financial problems, resulting

[7]OECD, *OECD Economic Surveys: Japan,* November 1995, p. 44. The most easily comparable figure for Canada is net non-performing loans as a percentage of total loans and bankers acceptances for the Big Six Canadian banks. This ratio was 1.1 per cent in fiscal 1995 and only went as high as 3.1 per cent in 1992, following the recession and Canadian banks' problems with commercial real estate loans.

[8]However, the process of writing off bad loans has been extremely slow and many analysts believe this to be an overly optimistic scenario.

[9]OECD, *OECD Economic Surveys: Japan*, November 1995, p. 45.

[10]Minimum capitalization ratios were established by the Basle Supervisor's Committee to promote stability and quality control within the international financial system. The ratio of capital to risk-weighted credit exposure is set to be no less than 8 per cent. Capital consists of two types: core or "Tier 1" capital; and supplementary, or "Tier 2" capital. Tier 2 capital is generally poorer quality and can include the unrealized capital gains on bank equity holdings. Japanese banks have traditionally relied on unrealized gains as an important part of their capital bases but these depend upon the value of the stock market, which can be volatile. (For implications of bank equity holdings within the *keiretsu* system, see J. McCormack, *The Japanese Way: The Relationship Between Financial Institutions and Non-Financial Firms*, Department of Foreign Affairs Policy Staff Paper No. 94/16, July 1994).