Regional Bank Temporarily Nationalized

Photo: THE YOMIURI SHIMBUN

Higano Yoshiaki (center), former president of Ashikaga Bank, speaking at a press conference

The government on Nov. 29, 2003, decided to acquire all the shares of Ashikaga Bank, one of the largest regional financial institutions, based in Utsunomiya, Tochigi Prefecture, and put it under temporary state control. The decision was made at a meeting of the government's Financial System Management Council held at the prime minister's official residence. Ashikaga Bank had a negative net worth of ¥102.3 billion as of Sept. 30, 2003, and took measures to declare itself insolvent, prompting the government to apply Article 102 of the Deposit Insurance Law to a regional bank for the first time.

Ashikaga Bank's capital adequacy ratio stood at -3.72%, far below the 4% threshold required for banks operating domestically, mainly because an auditing firm did not allow the bank to count as capital its deferred-tax assets – intangible assets resulting from accounting rules that allow the losses from taxable non-performing loan (NPL) write-offs to be set off against future taxable income – when it closed its books for the first half of fiscal 2003. The regional lender decided it could not rehabilitate itself and informed the Financial Services Agency it had become insolvent.

The government decided to place the insolvent regional bank under temporary state control in order to dispel the uncertainties surrounding regional financial institutions since it is set to impose a cap of ¥10 million per bank per depositor for ordinary deposits, checking accounts and other types of liquid bank savings starting in April 2005. The government apparently believed it necessary to take a bold step before the introduction of the cap.

Financial Services Minister Takenaka Heizo set strict numerical targets for write-offs of NPLs by major banks and urged them to implement drastic managerial reforms, while refraining from imposing such targets on regional banks, taking account of the battered state of regional economies. He is now pursuing a policy of having regional banks bolster their capital bases in enhanced cooperation with small and medium-sized businesses.

The government is making preparations to set up a system under which public funds will be injected into unhealthy banks in a preemptive way in a bid to strengthen their capital bases.

The government's injection of public funds into the Resona Group in May 2003 invited criticism from the opposition parties that shareholders were not forced to take responsibility for the collapse of the bank, thus causing a "moral hazard" on the part of the banking group. Bearing in mind such criticism, the government forced Ashikaga Bank to clarify its responsibility for its financial plight. Following the government's step, Ashikaga Bank's outstanding shares will become worthless.

Ashikaga Bank reported assets of ¥5,103.2 billion as of March 31, 2003. The bank, which has about 100 branch offices in Tochigi, Gumma and Ibaraki prefectures, has been designated as the principal financial institution by the Tochigi prefectural government and all city, town and village governments in the prefecture.

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