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Off-balance-sheet credit risk of the top 20 Japanese banks

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Abstract

The study of off-balance-sheet (OBS) credit risk across the top 20 Japanese banks indicated that financial derivatives were heavily used by the top four banks and that loan commitments are the largest source of credit risk among traditional OBS instruments. The notional amounts of derivative contracts make up 92 per cent of total OBS activities. There is a wide difference across the banks in the use of derivative leverage. As compared to the US and European banks, Japanese banks use fewer OBS instruments as a percentage of their assets. This implies that Japanese banks are more conservative and risk averse in general than their US or European counterparts, especially given the bad financial condition of the banks and Japan.

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