COLUMBIA BUSINESS SCHOOL

Asian Corporate Finance and Business Strategy

# The Demise of a Banking Dinosaur: Long-Term Credit Bank

Peter Espig MBA ’03

## 1. Japanese Banks: The Year 1990

In 1990, Japanese banks are the envy of the world. Their steady ascent to the pinnacle of the world's largest banks and global market dominance was nothing short of spectacular. To put this into perspective, by market capitalization, Japanese banks occupied the top nine positions and accounted for twelve of the fifteen largest financial firms, as shown in **Exhibit 1**. Japanese banks followed Japanese corporations abroad, buying up foreign corporations, prime real estate and even renowned masterpieces of art.

Within Japan, perhaps the most prestigious of the banking giants, was Long-Term Credit Bank (LTCB). Its assets dwarfed those of Citibank and Bank of America, and it recently had expanded its foreign presence through the acquisitions of specialty firms such as Greenwich Capital. Long-Term Credit Bank was originally one-third owned by the Ministry of Finance (MoF) and its employees were graduates of Japan's elite universities. Moreover, the bank was not beholden to any one *keiretsu* (Japanese business group). Therefore, it was free to develop business with any Japanese corporation, and it had an extensive client base that transcended traditional *keiretsu* boundaries. The combination of impressive human capital, elite status and massive financial scale suggested that the firm could continue its aggressive expansion.

## 2. By 1998

The Japanese stock market peaked at nearly JPY 39,000 in 1989, and then began a steady decline. By 1992, it had fallen to nearly JPY 13,000. Real estate prices also peaked and commenced a downward spiral that saw property prices decline by 70% or more through 1998. This bursting of the asset "bubble" was problematic for all Japanese banks. From 1990 to 1998, the Japanese banking sector endured years of turmoil, several rounds of scandals, and mounting levels of nonperforming loans. The negative headlines began in 1993, with housing loan corporations (non-bank financial corporations that were subsidiaries of banks) reporting massive losses. Over the next three years, the government was forced to partially bail out the defunct lenders, but the bailout plan inflicted JPY 3,.5 trillion in loan losses on the parent banks and JPY 1.7 billion in losses on other lenders. This financial debacle was followed by the collapse of Tokyo Kyowa, the failure of Sanyo securities, and the collapse of Hokkaido Takushoku Bank, Yamaichi Securities, Tokuyo City Bank and Nippon Credit Bank (Monetary and Economic Department 2001). The MoF, sensing the severity of the situation, pumped $30 billion into the banking sector in an effort to stem the mounting non-performing loan (NPL) problem and limit systematic risk. Ironically, it was one of the most heavily favored organizations that failed under the weight of non-performing loans. Despite its MoF pedigree, quality staff (the crème-de-la-crème of Japanese universities), and huge asset size, LTCB was overcome by the inadequacy of its domestic operations and collapsed—shocking the nation.

## 3. Overview of Long-Term Credit Bank

Hayato Ikeda, Minister of Finance and later Japanese Prime Minister, created Long-Term Credit Bank in 1952, in response to several key circumstances affecting postwar Japan.

Huge demand for corporate lending emerged as Japan began to rebuild itself and expand capital intensive industries such as shipbuilding, electric power and steel manufacturing and, later, industrial manufacturing and petro-chemicals. The reserves of the existing commercial banks had become a casualty of the war, leaving banks incapable of supplying all of the capital to developing corporations that was needed to re-industrialize the country. The finances of the nation's central bank—the Bank of Japan (BoJ) itself—had been strained during the war, and it was all the BoJ could do to supply adequate liquidity to domestic banks. As commercial banks responded to corporate loan demand, regulators observed an increasing discrepancy in the national banking system between the maturities of banks' balance sheet assets versus liabilities. The majority of banks' assets were long-term loans, while the majority of liabilities were short-term demand deposits. Clearly, this was a problem that needed a prompt solution.

The Ministry of Finance, led by Ikeda, understood the need for high levels of both capital investment and banking sector liquidity to assure continued industrial development (Ishida 2001). As a consequence it reenacted a pre-war law, thus enabling specialty banking entities (which had been outlawed by the American occupation authorities) and, with the legal support provided by this reenacted law, created the Long-Term Credit Bank.

The MoF heavily supported the new quasi-government bank. It was one of only three domestic banks (the other two were the Industrial Bank of Japan and Nippon Credit Bank) given the right to issue long-term debt in the form of bearer bonds and debentures. Obviously, the longer-term maturity of its liabilities gave it a commanding advantage over domestic rivals in making long-term commercial loans (Monetary and Economic Department 2001). LTCB's notes were considered among the safest and most sought after debentures in the nation. Its status as a government-created (and government-backed) entity limited the risk faced by investors in its debt. Demand for these notes was also stimulated by favorable regulations. The bank's notes were allowed by Japan's financial regulators to serve as collateral and could be used by deposit taking banks to fulfill capital reserve requirements. The ability to issue these debentures—an ability limited by Japanese law to a handful of institutions—proved to be a lucrative enterprise that held limited risk. In addition, LTCB had the legal right to issue bearer bonds. These proved to be popular because of their "anonymous" nature. Because interest payments were made to the holder of the bonds and no registry was kept of the owners, investors were able to receive interest payments effectively tax-free. LTCB bearer bonds thus became a favorite tool of wealthy Japanese households looking to minimize their tax liability.

LTCB played a major role in the rapid development of Japan's economy through the 1970s. The bank continued to fund itself by issuing debentures that were eagerly purchased by other banks, corporations and individual investors and, in turn, lent the money to industrial enterprises, earning LTCB a healthy spread on the loans over its cost of capital. In essence the bank was extremely profitable as a two-function institution: issuing debentures and financing corporations. Several positions in upper management were occupied by former MoF officials in a custom known in Japan as *amakudari* (to descend from heaven).[1] While this process nurtured close ties with MoF and provided benefits to LTCB through close relationships with financial market regulators, it

[1] Konishi, Ryuji (former senior manager, LTCB). 2002. Interview by author. Tokyo, Japan. 17 October.

proved to be a hindrance later on during the "Big Bang"[2] era when LTCB's business model was under competitive pressure from deregulation.

### 4. The Emergence of Competition

LTCB (and its two counterpart long term credit banks: the Industrial Bank of Japan (IBJ) and the Nippon Credit Bank (NCB)) enjoyed for many years an exclusive niche as issuers of long-term debentures, which could be classified as reserves by Japanese deposit-taking banks. This allowed the increasing pool of Japanese savings to be directed from city and regional banks into LTCB debentures, which then funded long-term loans to Japanese industrial companies. Japan's annual real GDP growth averaged 9.2% from the mid-1950s through the early 1970s[3]. In the context of such rapid economic growth, Japanese companies borrowed heavily and invested aggressively in plant and equipment to expand output and improve production techniques and quality. In this period, LTCB functioned as part of a reasonably effective system for mobilizing and deploying capital in order to rebuild and strengthen Japanese industry.

This system might have continued indefinitely were it not for three factors that impinged upon LTCB's business model. The first was competition from the government itself. The Japanese government began to issue vastly expanded volumes of Japanese Government Bonds (JGBs) in the early 1970s to fund rapidly growing budget deficits. Thus, LTCB experienced competition on the funding side as JGBs began to crowd out LTCB's own debentures.[4] The practical effect of this phenomenon was to increase LTCB's cost of capital as the bank had to pay a premium over JGBs to procure investors. The second was diminished loan demand from Japan's industrial sector. Economic growth slowed dramatically in the 1970s—a reflection of the increasing maturity of the Japanese economy as well as the increased global economic uncertainty generated by oil shocks, foreign exchange fluctuations and inflation. As a consequence, the demand of Japanese companies for commercial loans was growing much more slowly. Moreover, demand for long-term loans to solid corporate borrowers could now be met through means other than LTCB loans. Japanese corporations were becoming increasingly sophisticated and, they began to look toward international capital markets to meet their corporate financing needs. This was facilitated by the third key factor that affected LTCB's business model, the internationalization of the yen and deregulation in the Japanese financial sector.

### 5. Kokusai

The post-deregulation Japanese banking sector during the latter half of the 1970s is often referred to as the "Kokusai era" because of the ever-expanding activities that the Japanese government engaged in.[5] The government vastly increased the volume of JGB issuances and also began to diversify its base of debt purchasers by selling vast amounts in the European and American

[2] The Big Bang was a set of comprehensive reforms on Japan's financial markets launched in November 1996, under the administration of Prime Minister Ryutaro Hashimoto.

[3] Information obtained in B6501 Business and Financial Markets in East Asia (Professor Lee Branstetter Spring 2003)

[4] Hirao, Koji (former deputy president of LTCB). 2002. Interview by author. Tokyo, Japan. 18 October.

[5] In Japanese, "kokusai" is a homonym with two alternative meanings – one combines the characters for "country" and "debt," forming a compound with the meaning of government debt. The other combines the character for "country" with a different character, forming a compound that means "international." In this period, Japanese markets were being transformed by both an expanding volume of government debt issuance and a gradual internationalization of the marketplace.

markets. Because of this direct sale of government debt into foreign markets, LTCB, as well as IBJ and NCB, were hit with diminished purchases of their own bonds by foreign institutions, and also began to see major decreases in their foreign exchange business. The effects of deregulation had begun to dig deep into the bank's most profitable operations.

### 6. Deregulation

Prior to deregulation, the development and application of new financial products required MoF approval. Since the approval period was often lengthy, thereby allowing all other domestic players to submit applications during the course of the original application period, new product development was virtually non-existent. This was particularly noticeable at LTCB, which had developed world-class loan and derivative risk management systems at its overseas (London and New York) offices, but failed to have sufficient risk analysis capabilities in its main office. Indeed, when Naoaki Ishida (former head of LTCB's U.S. credit risk desk) was summoned to return from LTCB's New York operations to take over as head of Tokyo's Global Risk Management, he was "overwhelmed at the amount of risk exposure that we had taken in Thailand and Indonesia."[6] Under regulation, the majority of LTCB "risk analysis" came under the guise of MoF loan recommendations. Domestic commercial loan rates were stringently MoF monitored so that loan rates were identical across different banks; the loan spread of Libor[7] for an AAA corporation was set at Libor + 90bps while the most risky loans were given a rate of Libor + 190bps. In the entire LTCB domestic loan portfolio, there was not one spread greater than Libor +190bps—which clearly limited the ability of banks to price risk into their loans. Because all banks maintained nearly identical deposit rates and loan rates, there were virtually no distinguishing characteristics among the domestic players in the commercial lending market in terms of quality, price or product innovation. In such an environment, it is hardly surprising that lending was relationship-based and that these "relationships" were almost the only margin of differentiation available to banks.

Financial deregulation in Japan expanded significantly due to the Yen/Dollar Accord negotiated between the Japanese MoF and the U.S. Treasury in 1985, which opened up the Euro-yen market. Japanese corporations now had greater access to international capital markets. Moreover, foreign firms were given freer rein to compete in the Japanese financial sector. Several foreign securities companies gained seats in the Tokyo Stock Exchange and foreign banks were allowed to establish Japanese trust bank subsidiaries to compete in asset-management and financing businesses. Foreign investment and commercial banks began offering Euro-bond financing to Japanese corporations. The appeal to Japanese firms was: (i) *amount:* large volumes of cash ($150-$500 million) could be raised efficiently for a single borrower, (ii) *speed:* foreign securities firms offered "bought" deals in which issues were launched quickly on the basis of shelf-

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[6] Ishida, Naoaki. 2002. Interview by author. Tokyo, Japan. 18 October. Ishida related the following story: "During a general managers meeting pertaining to bank restructuring, I brought up the concern of a statistically expected decline in asset value, at which time a prominent domestic manager replied that he did not foresee this occurrence, but if it happened, we would be in grave trouble. The international division in 1998 was still competitive, whereas it was the domestic operation that was faltering. I felt as if there was a great wall between the domestic and international operations. In fact, I was never shown any information on domestic exposure, and knew little more than the information distributed at shareholders' meetings. In April 1998, I was shocked when a BoJ examiner hinted of LTCB's true condition, but also informed me that he was unable to provide any figures, and that I would have to seek the truth on my own. By July, I had still been unable to receive the necessary data, but was told that the domestic and international divisions appeared to be two completely different operations. After receiving little more information than rumors, I felt it fitting to resign from the bank."

[7] Libor (London Interbank Offered Rate) A common measurement for international base interest rates.

registration statements and generated guaranteed amounts and prices, and (iii) *flexibility*: issues launched in Eurodollars were easily swapped into fixed or floating dollar or yen liabilities to match the Japanese corporations' currency in-flows.[8]

Deregulation effectively dictated that interest rates could no longer remain fixed, since the Eurobond market bonds offered different yields on the basis of the credit worthiness of the borrower. Healthy Japanese borrowers flocked to the bond markets to enjoy lower cost financing. In effect, LTCB (and its counterparts) were being disintermediated as good borrowers went directly to the bond markets and avoided more expensive long-term loans in the domestic market. Another consequence of deregulation was the degree of product innovation. Foreign financial institutions introduced primary and secondary market innovations that were tailored to Japanese issuers and investors. Techniques such as interest rate and currency swaps were followed by a cascade of derivatives, asset-backed strategies and risk-management techniques that outpaced both the Japanese banks' and MoF's adaptive ability.

Deregulation had spawned a rash of new competition, both foreign and domestic, which severely hampered the prospects for LTCB.

## 7. A New Business Model

**"To Change From Law Design Led Institution**
**To Excellent Player In Deregulated Market"**[9]

Realizing in the mid-1980s that the original business model of Long-Term Credit Bank was becoming obsolete under current market trends and deregulatory pressure, the Board of LTCB under then-president Mizukami developed this new credo with hopes that a strategic re-focus would carry the firm into the future. The new strategy looked to expand LTCB's investment banking activities and capital market skills so as to avoid reliance on traditional commercial lending. Priority also was given to the development of an upscale retail banking business, since LTCB enjoyed numerous relationships with wealthy individual investors who were regular purchasers of LTCB's bearer bonds. In an effort to build the management skills necessary to branch out into these new areas, promising employees were sent abroad to attend management programs at American or European business schools.

One such promising candidate was Ryuji Konishi, who attended the Advanced Management Program at Harvard Business School. Konishi had a reputation as a demanding, but exceptionally bright individual. He was frequently agitating for change within LTCB and challenging his counterparts to think beyond the old ways of doing business. Despite his maverick style, Konishi's competence as a financier was widely acknowledged. Not long after returning from Harvard, he was promoted to Manager of LTCB's Treasury and Securities Division. Another example of this attempt to build skills among younger managers was the case of Naoaki Ishida. As a young banker Ishida was sent to Manufacturers Hanover Trust in New York to do credit training. He became well versed in American credit practices and earned a reputation as a specialist in credit risk assessment.

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[8] Fallon, Robert E. (former head of JP Morgan Global Financial Services). 2002. Interview by author. New York, NY. November.

[9] Koji Hirao pointed attention to this slogan, which encapsulated LTCB's strategy. Author Interview with Hirao, 2002.

After assignment at LTCB's New York office, where he gained the respect of colleagues and competitors for his grasp of cash flow lending, leveraged finance and structured credit deals, Ishida returned to Tokyo in the mid-90s and was soon promoted to General Manager of the International Credit Division.[10]

In addition to using education and experience abroad to enhance skills, LTCB also sought to acquire expertise in financial products such as M&A advisory activities and fixed-income and derivative trading through joint venture alliances or acquisitions. One such acquisition was Greenwich Capital in 1989. Greenwich Capital was a boutique firm that specialized in fixed-income securities and capital market products. Aside from being a solid contributor to LTCB's earnings, Greenwich Capital provided a window into the expanding world of global fixed-income and derivatives trading along with sophisticated techniques for risk management. Moreover, it provided a wealth of opportunities to train young LTCB bankers. However, while LTCB was expanding its capital market expertise, the demand for commercial loans began expanding again.

### 8. The Bubble

> "The thing about being in an economic bubble is that, unfortunately, you never know that you're in one until it's over." [11]

As stock market and asset prices continued to rise in Japan during the decade of the 1980s, banks began to see loan demand intensify. But the borrowers were not the blue chip industrial companies, who had migrated to the capital markets for their financing needs. Instead, they were construction firms seeking to expand into real estate development, retail chains looking to expand their physical presence and corporations seeking to finance such nontraditional projects as golf courses. This new class of large-scale borrowers included highly levered speculators like Minoru Isutani, who purchased Pebble Beach Golf Company for $800 million and Harunori Takahashi, who flew around the Pacific in a chartered jet buying up resort hotels in Australia, Fiji and Tahiti as well as Beverly Hills and New York. Domestically, real estate loans were also in great demand as the ever-expanding middle class's appetite for housing loans increased. As the real estate purchasing frenzy intensified, banks scrambled to supply loans that seemed to carry low risk because the underling asset was land. Consumers and corporations scrambled for mortgage loans while the prices of Japanese property skyrocketed. In fact, Japanese real estate prices in the leading cities became so over-valued that the value of the land on which the Japanese Emperor's palace is situated became worth more on paper than the entire state of California.

The business of lending was LTCB's traditional strength and, to the delight of upper management, it had miraculously returned. The change in business model that younger board members viewed as a necessity for survival was ignored as the bank began issuing record levels of real estate loans. The loans were backed with collateral mortgages on property. Unlike the treasury and capital markets division or the international division of the bank, the domestic loan division gave little consideration to cash flow—i.e. the ability of the underlying property investments to generate sufficient cash to repay interest and principal. Because property in Japan had appreciated steadily for many years, banks were content to lend against collateral. Moreover, as the value of the

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[10] Author interview with Fallon, 2002.
[11] Author interview with Konishi, 2002.

collateral appreciated, the banks enjoyed greater collateral coverage. Some loans even allowed interest to be capitalized as principal since the property values were increasing at a greater rate that interest was accumulating. Of course, no asset price bubble endures forever. In 1989, the Tokyo Stock Exchange (TSE) Nikkei Index peaked at JPY 38,915, plunging by August 1992 to JPY 14,309—a 63% decline. Japan was on the verge of entering a decade of asset deflation.

Virtually no one foresaw this in the early 1990s. The senior managers of LTCB were certainly not alone in thinking that the asset deflation of these years would be a temporary phenomenon. Few bankers in Japan felt a need to call in collateral or liquidate real estate as non-performing loans began to increase. The MoF was also complicit in this covert attempt to hide the extent of emerging loan losses from the market, in the hopes that an economic recovery would limit the actual amount lost. The idea was that the rising tide of economic growth would come and lift all the boats—this faith reinforced a "wait and see" attitude that the banks would be able to earn their way out of the problem. In hindsight, of course, it is clear that the MoF's failure to mandate that banks aggressively liquidate their NPLs through write-offs or sales of collateral only exacerbated the situation. Banks were in a vicious cycle as their capital was eroding (due to mounting NPLs) faster that they could generate earnings (through good loans) to replenish their capital. LTCB's deteriorating net income position in the 1990s is illustrated in **Exhibit 2**.

### 9. A Last Effort:

As the magnitude of LTCB's predicament became more apparent, the bank turned to its internationalists in an effort to revive its profitability. The internationally well-respected Katsunobu Onogi, who had worked in London during the development of the Euro market, was installed as president. Koji Hirao (former deputy president of LTCB), who had recently returned from New York as head of the Americas Division, including Greenwich Capital, was appointed as a deputy president. Immediately, Onogi set about trying to evaluate the magnitude of LTCB's problematic loan exposure. He noticed, for example, in many instances that if loan interest was forgiven, the loan was considered restructured and, thus, re-established as performing while in reality no interest or principal payment was forthcoming. Within the bank, Naoaki Ishida was highly critical of this practice.[12] Ishida's criticism was not alone as other senior managers, such as the outspoken Ryuji Konishi, began expressing discontent. Soon, Konishi would also leave the firm.[13]

In his final speech as managing director, Konishi opened by reciting a famous Chinese proverb—"A man can tell the truth when he is about to die." He went on to address what he believed were the important points relating to the bank's imminent demise (Daily Yomiuri 2001). The first point related to the fact that the bank's business model had become obsolete in the current Japanese economic environment. The second point focused on a lack of discipline at both the upper and lower levels of the bank. This, he viewed, was extremely vital to a firm that was noted for loose administrative practices, which included expensive gift giving to selected clients and politicians. Referring to yet another Chinese proverb, Konishi stated, "If the top is not correct, then the bottom will be the same." Finally, he referred to his firm as one rooted in a homogenous culture that severely hindered its ability to evolve at the required rate in order to remain

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[12] Author interview with Ishida, 2002.
[13] Author interview with Konishi, 2002.

competitive in the current international banking environment. Indeed, the firm maintained an atmosphere similar to one of a Japanese government agency—a sharp contrast to the American-style investment banking influences sweeping the industry at the time.

### 10. Swiss Bank Corporation (SBC)

In an attempt to buy time and resurrect the strategic plan from the mid 1980s that sought to refocus LTCB's business model, Onogi appealed to a friend from his London days, ViHario Volpi. At that time, Volpi was residing in Japan as the Japan head of Swiss Banking Corporation. Together they drafted a plan for LTCB and SBC to interlock shareholdings, an investment banking joint venture and access to SBC's investment management and private banking expertise. An announcement was made with great anticipation and fanfare in the media. SBC talked glowingly of LTCB's cadre of over 200 employees with MBA degrees, a huge corporate client base that cut across different *keiretsu* groups and acknowledged capital markets skills. But there was no commitment by SBC to inject capital into LTCB. The interlocking shareholdings were to be accomplished by each partner acquiring shares in the other directly from the market. Onogi did not have the leverage to demand financial support from SBC as a "quid pro quo" to give SBC access to LTCB's client base. As SBC proceeded in due diligence, it was shocked by the amount of LTCB's NPLs, which continued to be revised upwards. It was apparent that LTCB was on the verge of insolvency. Its stock price began to plummet as foreign banks pulled back their LTCB dollar inter-bank lines. In addition, swap counterparties refused to do derivative trades with LTCB without collateral. Even SBC became wary—the hoped-for alliances never were consummated. SBC pulled back from formal discussions with LTCB in September 1997. In November, the merger of SBC and Union Bank of Switzerland was announced, and the planned cross-shareholding with LTCB evaporated.

### 11. Demise

The collapse of the SBC alliance put further pressure on LTCB, as did several other significant economic and environmental factors. Perhaps foremost were the bankruptcies of Hokkaido Takushoku Bank and Sanyo Securities Company in November 1997. This came at a time of deepening financial crisis in Asia. Japanese banks found that they were forced to pay a premium for funds in the dollar inter-bank markets, as global financial markets began to suspect that more Japanese banks were on the verge of failure. The MoF, convinced that a systemic collapse of several Japanese banks was possible, announced a JPY 9.3 trillion ($75 billion) re-capitalization plan by year-end. However, capital, in the form of preferred shares, would not be forthcoming until the following year.

By mid-1998 the situation became critical. South Korea was in crisis, and had called upon IMF support in late 1997 as it risked defaulting on its loan obligations. In Japan, the stock market continued its sharp decline and by the end of the first quarter in 1998, it was fluctuating around JPY 16,000. The stock market eventually declined to JPY 14,194 by year-end. This further eroded the capital position of any Japanese bank that included the market value of its stock portfolios as part of its capital reserves. But the overwhelming problem facing LTCB was the sheer magnitude of the NPLs. What had been acknowledged in 1993 as JPY 2.4 trillion ($19.35 billion) of NPLs on

LTCB's books had, by 1998, ballooned to JPY 5 trillion ($40.32 billion).[14] It was an insurmountable burden and for all intents and purposes, LTCB was insolvent. It soon became apparent to the MoF and LTCB itself that the bank was in danger of defaulting on its inter-day obligations. Consequently, with little fanfare, the Financial Resolution Corporation (FRC)[15] stepped-in and assumed control. Thus began a ritual of finger pointing as government bureaucrats, politicians and the media, anxious to assign blame, tried to comprehend how and why one of Japan's most respected financial institutions had failed.

[14] Author interview with Hirao, 2002.

[15] The FRC is a government funded organization utilized in bailing out and operating insolvent Japanese corporations

**Exhibit 1**

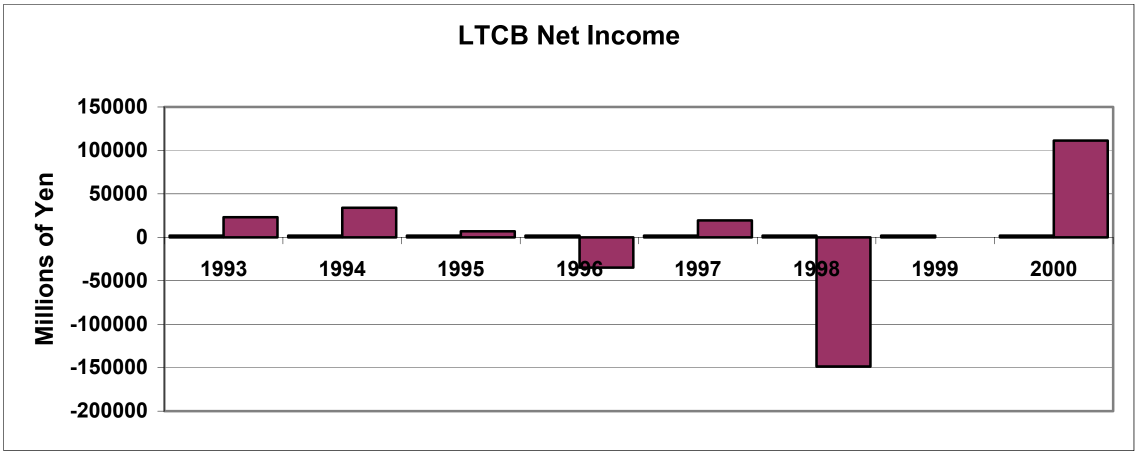
## World's Largest Financial Institutions

**(Measure By Market Capitalization In $bn)**

| | 1990 | | | 2001 | |
|---|---|---|---|---|---|
| 1 | The Industrial Bank Of Japan | 57.1 | 1 | Citigroup | 259.7 |
| 2 | Fuji Bank | 52 | 2 | American International Group | 204 |
| 3 | Mitsui Taiyo Kobe Bank | 46.3 | 3 | HSBC Holdings | 109.7 |
| 4 | Sumitomo Bank | 46 | 4 | Berkshire Hathaway | 102 |
| 5 | Dai-ichi Kangyo Bank | 44.8 | 5 | Bank of America | 99 |
| 6 | Mitsubishi Bank | 44 | 6 | Fannie Mae | 79.5 |
| 7 | Sanwa Bank | 41.2 | 7 | Wells Fargo | 73.7 |
| 8 | Nomura Securities | 25.5 | 8 | JP Morgan Chase | 71.7 |
| 9 | Long-Term Credit Bank | 24.8 | 9 | Royal Bank of Scotland | 69.4 |
| 10 | Allianz | 24.6 | 10 | UBS | 67.1 |
| 11 | Tokai Bank | 21.3 | 11 | Allianz | 62.9 |
| 12 | Mitsubishi Trust & Banking | 17.2 | 12 | Morgan Stanley Dean Witter | 61.4 |
| 13 | Deutshe Bank | 16.4 | 13 | Lloyds TBS | 60.3 |
| 14 | American International Group | 16.3 | 14 | Barklays | 55.2 |
| 15 | Bank of Tokyo | 12.9 | 15 | Credit Suisse | 51.3 |

**Source: Morgan Stanley Capital International**

Exhibit 2




* Note that the loss in 1999 was JPY 1,010,172 million

Source: Long-Term Credit Bank Annual Reports, 1993-2000

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