Glossary

ABL
Abbreviation for Asset Based Lending
Lending having movable assets as collateral such as accounts receivable and/or inventory.

Calculation of credit risk-weighted assets under Article 145 of the Notification
Method used for calculating the credit risk-weighted assets for the fund exposure, etc. There is a method of making the total credit risk-weighted asset of individual underlying asset of funds, etc. as the relevant exposure of the credit risk-weighted asset; or a method of applying the risk weight determined based on the formation of underlying assets to the relevant exposure.

Capital adequacy ratio notification (“the Notification”)
Administrative action or written ordinance by which the Financial Services Agency officially informs Japanese banks of regulations regarding capital adequacy ratio based on the Basel Agreement.

CCF
Abbreviation for Credit Conversion Factor
Ratio required for converting commitments and off-balance sheet items such as guarantees into on-balance sheet credit exposure equivalents.

CCP-related exposure
Exposure to a central counterparty (CCP) that interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer and thereby ensuring the future performance of open contracts.

CDS
Abbreviation for Credit Default Swap
Derivative transactions which transfer the credit risk.

Credit Risk Mitigation (CRM) techniques
Techniques for reducing credit risk by guarantees, collateral and purchase of credit derivatives, etc.

Credit risk-weighted assets
Total assets (lending exposures, including credit equivalent amount of off-balance sheet transactions, etc.) which is re-evaluated according to the level of credit risk.

CVA
Abbreviation for Credit Valuation Adjustment
Adjustment to a derivative price to reflect counterparty credit in the valuation of a derivative transaction.

EL
Abbreviation for Expected Loss
Average loss expected to occur over the coming one year.

Full BA-CVA
An approach for calculating CVA risk equivalent amounts. EAD of a derivative transaction, the remaining maturity, the counterparty’s industry and credit rating are used as input variables and the formula specified by the authorities is used for calculation. Hedging effects of BA-CVA eligible hedging transactions are recognized.

High-quality liquid assets (HQLA)
Liquid assets that can be converted easily and immediately into cash to meet liquidity needs in a specified stress scenario for the subsequent 30 calendar days.

Internal models approach
An approach for calculating market risk equivalent amount using models unique to each bank.

LGD
Abbreviation for Loss Given Default
Percentage of loss assumed in the event of default by obligor; ratio of uncollectible amount of the exposure owned in the event of default.

Liquidity Ratio Notification
Administrative action and written ordinance for official notification to the general public of regulations concerning the LCR and NSFR of financial institutions in Japan which are decided by the Japanese Financial Services Agency based on the Basel Agreement.

Market risk equivalent amount
Pursuant to the Basel Capital Accord, the required capital amount imposed on the market-related risk calculated for the risk categories mainly in the trading book: interest rates, credit spreads, equities, foreign exchanges, and commodities.

Market-based approach
A method of calculating the risk assets of equity exposures, etc., by using the simple risk weight method or internal model method. We use the simple risk weight method for calculation of risk assets.

Net cash outflows
Net cash flows calculated as total expected cash outflows minus total expected cash inflows in a specified stress scenario for the subsequent 30 calendar days.

Object finance
Of credit provided for purchasing ships or aircraft, a type of finance for which the only source of repayments is profits generated from said tangible assets; and said tangible assets serve as collateral, and there is an appreciable extent of control over said tangible assets and profits generated from said tangible assets.

Operational risk equivalent amount
Operational risk capital requirements under the Basel Capital Accord.

Originator
The term “originator” is used in the case that we are directly or indirectly involved in the formation of underlying assets for securitisation transactions when we have securitisation exposure; or in cases of providing the back-up line for ABCP issued by the securitisation conduit for the purpose of obtaining exposure from the third party, or providing ABL to the securitisation conduit (as sponsor).

PD
Abbreviation for Probability of Default
Probability of becoming default by obligor during one year.

Phased rollout
Under the Basel Capital Accord, it is a transition made by certain group companies planning to apply the Internal Ratings-Based Approach after the implementation of such methods on a consolidated basis.

Project finance
Of credit provided for specified businesses such as electric power plants and transportation infrastructure, a type of finance for which the only source of repayments is profits generated from said businesses and tangible assets of said businesses serve as collateral, and there is an appreciable extent of control over said tangible assets and profits generated from said tangible assets.

Qualifying Revolving Retail Exposures (QRRE)
Exposure which may fluctuate up to the upper limit set forth by an agreement according to the individual’s voluntary decision, such as card loan and credit card, etc., and the upper limit of the exposure without any collateral is 10 million yen or less.

Reduced BA-CVA
An approach for calculating CVA risk equivalent amounts. EAD of a derivative transaction, the remaining maturity, the counterparty’s industry and credit rating are used as input variables and the formula specified by the authorities is used for calculation.

Resecuritisation transaction
Of securitisation transactions, it is a transaction with securitisation exposure for some or all of the underlying assets. However, this excludes cases such as when all of the underlying assets are securitization exposures and the bank is able to demonstrate that the cash flows to and from the bank could be replicated in all circumstances and conditions by an exposure to the securitization of a pool of assets that contains no securitization exposures, etc.

Risk capital
The amount of capital required to cover the theoretical maximum potential loss arising from risks of business operations. It differs from the minimum regulatory capital requirements, and it is being used in the risk management framework voluntarily developed by financial institutions for the purpose of internal management.

Risk weight
Indicator which indicates the extent of credit risk determined by the types of assets (claims) owned. Risk weight becomes higher for assets with high risk of default.

SA-CCR
An approach for calculating credit equivalent amounts (exposure amounts) of transactions of derivative instruments, etc. Under SA-CCR, exposure amount is calculated by multiplying 1.4 by the sum of the replacement cost calculated by mark-to-market valuation of a transaction and the amount of future exposure obtained by multiplying the notional principal by a multiplier according to instrument types and the remaining term.

Securitisation transaction
A transaction which stratifies the credit risk for the underlying assets into more than two exposures of senior/subordinated structure and has the quality of transferring part or all of the exposure to the third party.

Servicer risk
The risk of becoming unable to claim the receivables, in cases of which the bankruptcy of the supplier/servicer occurs prior to collecting receivables, in securitisation and purchased claims transactions.

Simple risk weight method
One of the market-based approaches for calculating the risk-weighted asset amount for the equity exposure, etc. by multiplying the listed shares and unlisted shares with risk weights of 300% and 400%, respectively.

Slotting criteria
For risk-weighted asset calculation under the Internal Ratings-Based (IRB) Approach, it is a method of mapping the credit rating to the risk-weight in 5 levels set forth by the Financial Services Agency for Specialised Lending.

Small-sized consolidated subsidiaries
Consolidated subsidiaries that have an extremely small impact on the level of the consolidated LCR.

Specialized Lending (SL)
General term used for project finance, object finance, commodity finance and lending for commercial real estate.

Standardised method
A method of calculating market risk equivalent amount using the formula determined by the Financial Services Agency.

The Internal Ratings-Based (IRB) Approach
An approach for calculating the risk asset by applying PD (Probability of Default) estimated internally by a financial institution which conducts sophisticated risk management. There are two methods to calculate exposures to corporate clients, etc.: the Advanced Internal Ratings-Based (AIRB) Approach and the Foundation Internal Ratings-Based (FIRB) Approach. The former uses self-estimated LGD and EAD values, while the latter uses LGD and EAD values designated by the authorities.

The Standardised Approach (SA)
An approach for calculating risk-weighted assets by multiplying credit equivalent amounts by the risk-weight designated by the authorities for each obligor classification (corporates, financial institution, sovereign, retail, etc.).

Standardised approach
A method for calculating operational risk equivalent amounts by multiplying the amount of the Business Indicator Component (BIC) by the Internal Loss Multiplier (ILM).

Underlying assets
General term used for assets which serve as the source of payments for principal and interest for securitisation exposures, etc.

VaR
Abbreviation for Value at Risk
The maximum loss that can be expected to occur with a certain degree of probability when holding a financial asset portfolio for a given amount of time.