

Guide to the Operations of Regional BANKS in Japan

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Money flows from Household Sector to Corporate Sector

Households
(Deposit)

Banks= Financial
Intermediation

Industrial
companies
(Lending)

Financial institution number

Business conditions	2015/ 6/ 30	2010/ 6/ 30	Increase and decrease
Mega- bank	5	6	- 1
Trust- bank	3	4	- 1
Regional I - bank	64	63	1
Regional II - bank	41	42	- 1
Net- bank	13	13	0
Shinkin- bank cooperative	267	272	- 5
Shinkumi- bank cooperative	154	159	- 5
Subtotal 1	547	559	- 12
Warker cooperative	13	13	0
Agricultural cooperative	679	719	- 40
Subtotal 2	692	732	- 40
Securities companies, etc.	252	301	- 49
Life insurance	42	47	- 5
Property and casualty insura	26	27	- 1
Total	1,559	1,666	- 107

The Japanese financial system

- The Japanese financial system is rather simple as it has only three categories.
- 1 . Mega-banks have their headquarters in Tokyo and their branches can be found all over the country and overseas.
- 2 . Regional banks are divided into regional banks I and secondary regional banks. They operate within the prefecture and their main offices are in the prefectural capital.
- 3 . There are also credit unions (cooperative financial institutions) formed by people of the same area or by people of the same occupation.

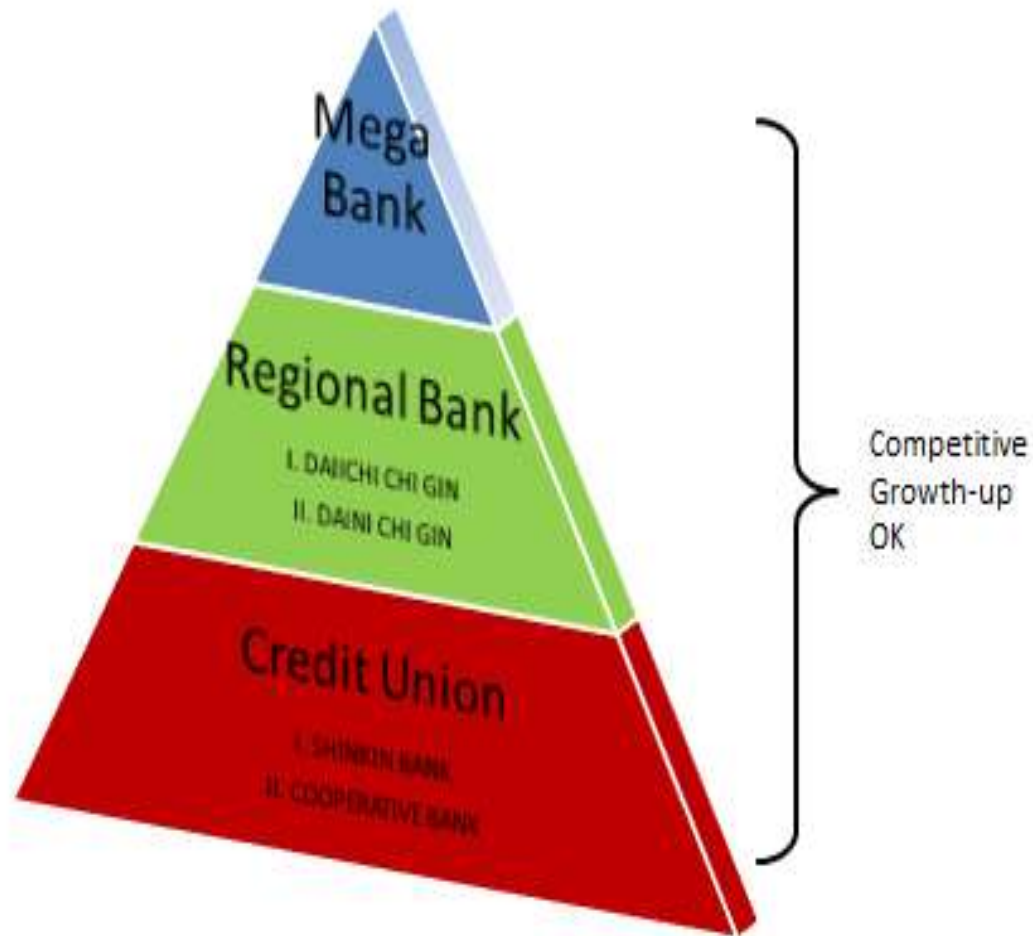
The Japanese financial system

- Regional banks operate mainly within the confines of the prefecture while credit unions, in the city.
- Also, many banks from both sectors were founded in prefectural capitals and in cities.
- Aside from the three types of banking institutions, there are also leasing companies and consumer finance groups.

The Japanese financial system has a long history.

- The financial sector was underdeveloped before the Banking Act was enacted in 1927.
- While it was in the process of development, the financial sector was under strong regulation by the government, before and after the Second World War.

Japanese banking system



JAPANESE BANKING SYSTEM

The Japanese financial system has a long history.

- After the period of high economic growth, the Japanese-style financial system that was highly regulated by the government, the main banks and convoy system, began to change.
- The financial system was liberalized in the spirit of competition and regulatory review.

Regional banks and Credit unions

- According to their operations, regional financial institutions were divided into regional banks and credit unions.
- According to the view of the credit union association, while credit unions and regional banks offer the same services, their difference lies in their management philosophies.

Regional banks and Credit unions

- Banks are stock holding companies. As such, the interest of shareholders are given priority. Also, their main clients are large corporations.
- In the case of credit unions, users and members are community people, working hand in hand to promote the regional economy.
- Also, main customers are SMEs and private individuals.

Regional banks and Credit unions

- Rather pursuing profits as the main objective, the profits of members. the community is given priority.
- Credit unions operate within the confines of certain areas and serve only the local residents.

Banking Act Chapter I General

Provisions

(Purpose) Article 1 (1)

The purpose of this Act is, in view of the public nature of the business of banks and for the purpose of maintaining its credibility, securing the protection of Depositors, etc. and facilitating smooth functioning of financial services, to ensure sound and appropriate operations of the business of banks, thereby contributing to the sound development of the national economy.

Shinkin Bank Act: Article 1 (Purpose)

The purpose of this law is to establish the shinkin bank system based on cooperative organization for the purpose of promoting increased savings and smooth financing for the general public, and taking into account the public nature of financial operations to provide proper supervision, to maintain trust, and to protect depositors.

Private Financial Institutions

- Commercial Banks
- Specialized Financial Institutions
- Others

Corporate tax rate	
Ordinary corporation	30%
Cooperative, etc.	22%

Characteristics of Shinkin Banks

① Regionality

They are regional because they serve a limited business territory.

② SME-centricity

They are SME-centric because they serve primarily small and medium-sized enterprises (SMEs) in their business territories.

③ Mutual-aid principle

They are mutual-aid organizations because they provide funding to members predicated on non-profit and mutual-aid principles.

Regionality

Shinkin banks engage in business activities only within the boundaries of the business territories stated in their articles of incorporation. This means that shinkin banks are tied in with their regions in undissolvable partnerships.

SME-centricity

Shinkin banks are positioned as institutions specializing in the funding of small and medium-sized enterprises (SMEs). This is the reason why shinkin bank membership is restricted to individual members and to businesses that have not more than 300 employees or businesses with a capital of 900 million yen or less. Shinkin bank membership restrictions have been gradually relaxed in step with Japan's growing economy to serve the needs of SMEs.

Shinkin Banks

Mutual-aid principle

Shinkin banks are membership-based financial institutions committed to non-profit and mutual aid principles, whose loan customers are, as a rule, members. Shinkin banks attach importance to close relations with their local customers, to whom they provide differentiated services that reach beyond funding assistance.

Three Shinkin Bank Visions

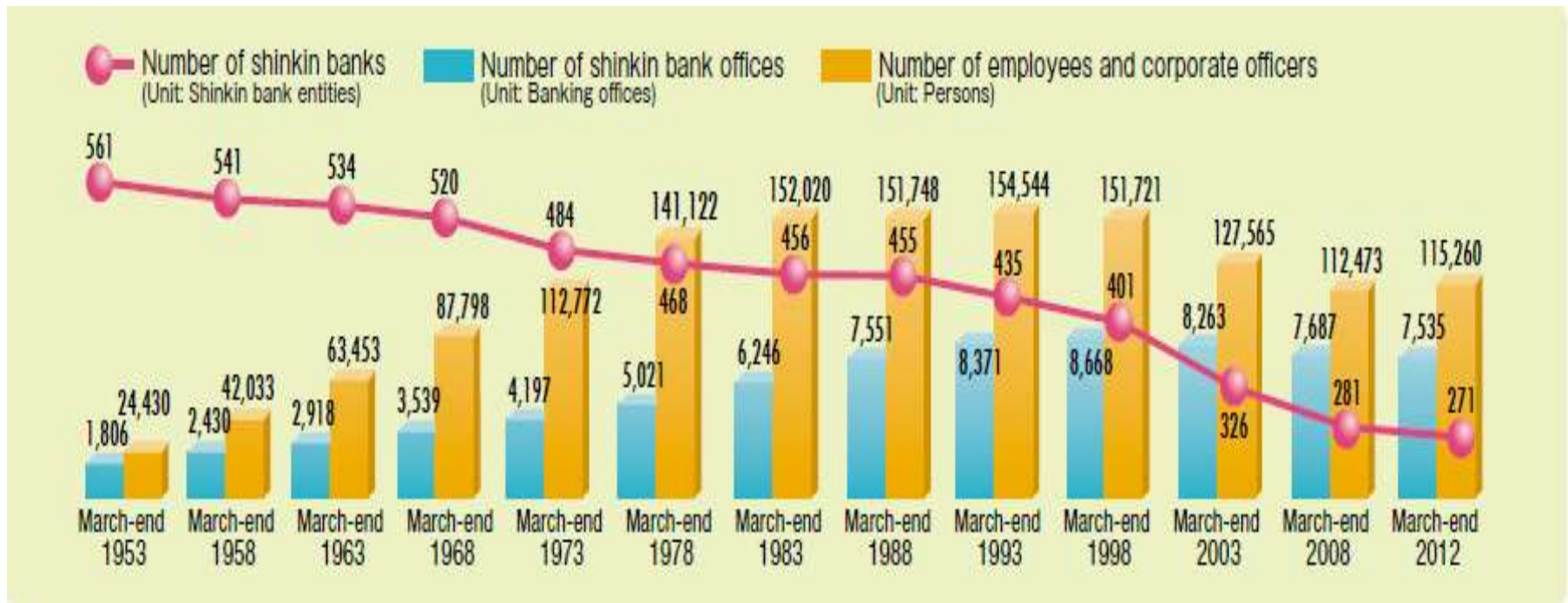
Contribution
to the prosperity
of local
communities

Sound
development
of small and
medium-sized
enterprises
(SMEs)

**Shinkin
Banks**

Realization of
fruitful lives
of the people

Number of shinkin banks, shinkin bank offices, employees, and corporate officers



The Main Differences Between “Shinkin Banks,” and “Commercial Banks”

Category	Shinkin Banks	Commercial Banks
Legal Foundation	Shinkin Bank Act	Banking Act
Purpose for Establishment	To promote increased savings and smooth financing for the general public	To promote smooth financing for the general public
Organization	Non-profit cooperative organization financed by its members	For-profit joint stock corporations

The Main Differences Between “Shinkin Banks,” and “Commercial Banks”

Category	Shinkin Banks	Commercial Banks
Membership Qualifications (Regional)	<p>(1) Those who have an address or location in the region</p> <p>(2) Those who have a business office in the region</p> <p>(3) Those who work in the region</p> <p>(4) Executive officers of companies that have a business office in the region</p> <p>(In the case of businesses) Businesses with no more than 300 employees or with less than 900 million yen in capital</p>	None

The Main Differences Between “Shinkin Banks,” and “Commercial Banks”

Category	Shinkin Banks	Commercial Banks
Scope of Operations (Deposits, Lending)	(1) No restrictions on deposits (2) As a rule, lending is limited to members, but can be extended to non-members with certain restrictions (alumni lending available).	No limitations

Membership Qualifications

Anyone who

lives,

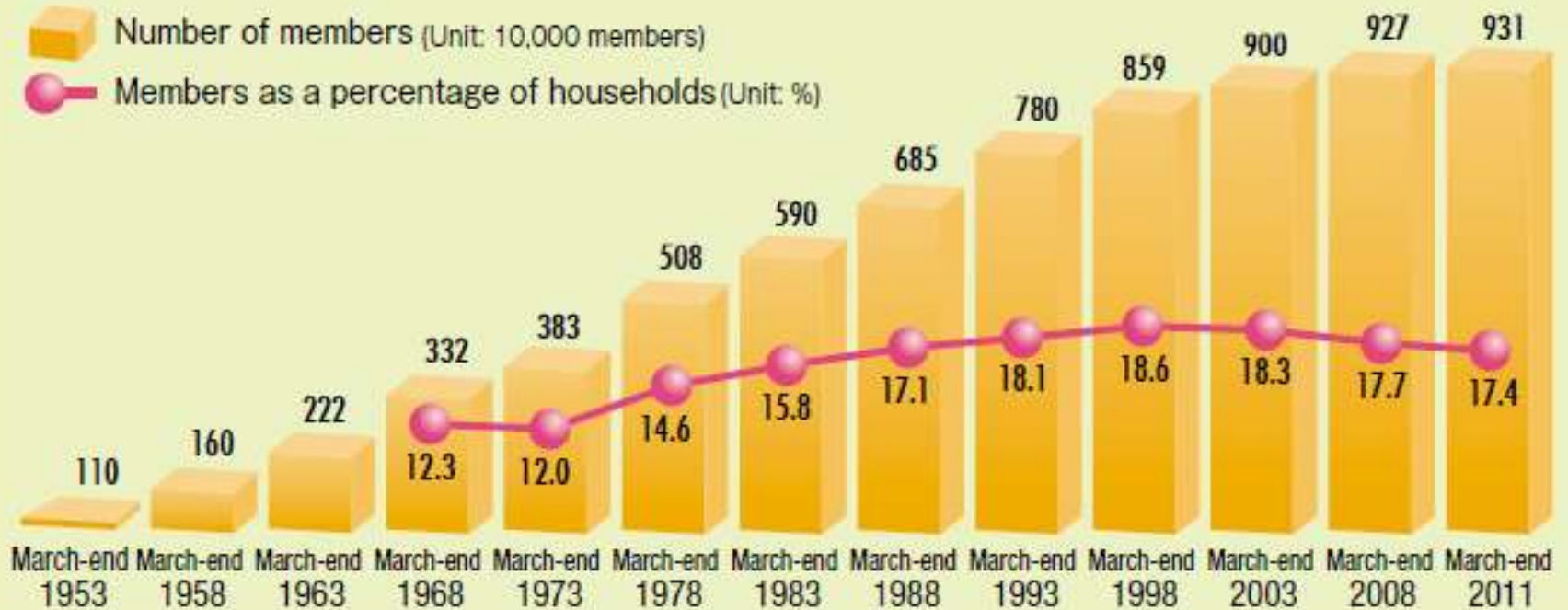
works, or

has an office[※]

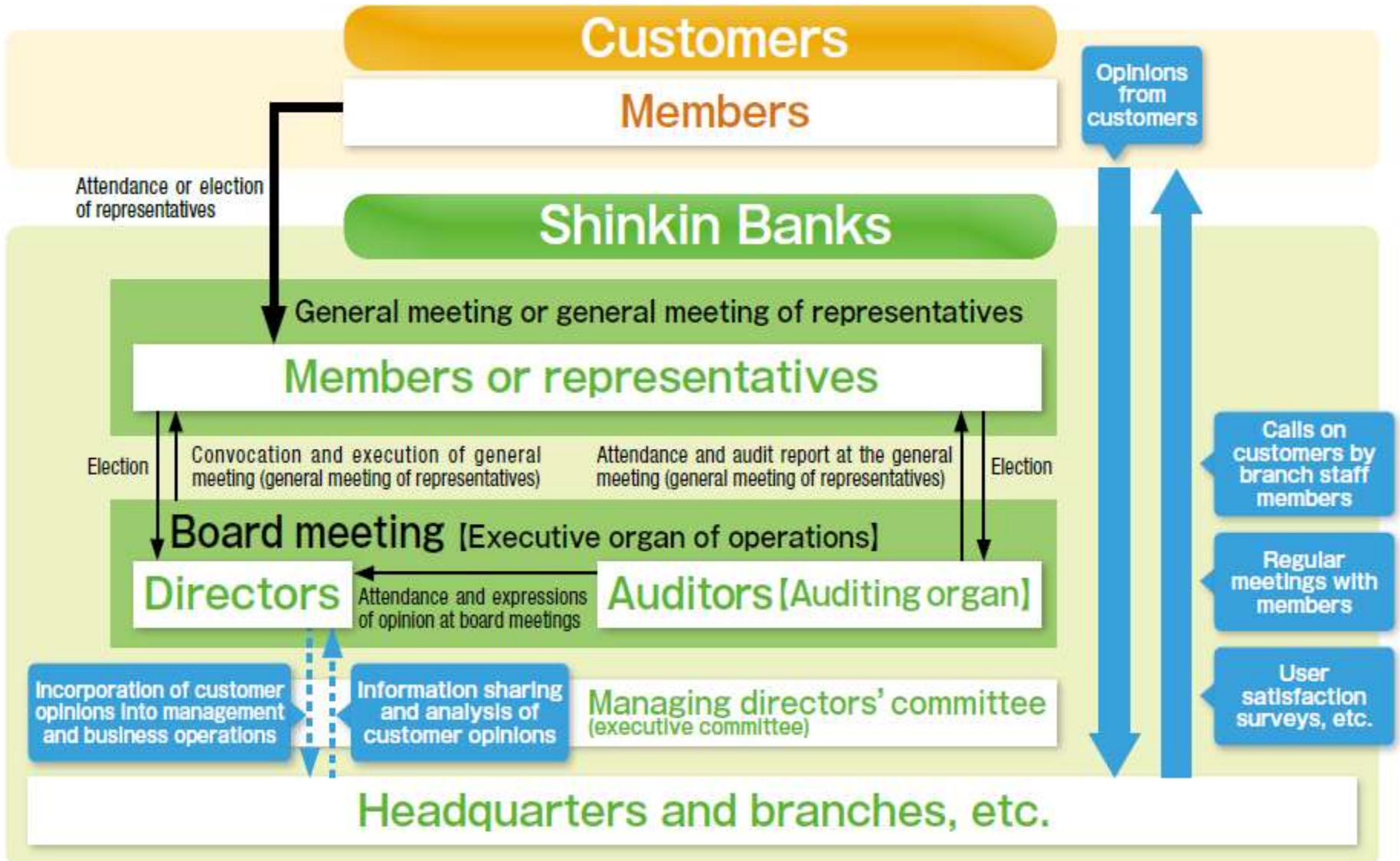
within a shinkin bank's
area of operation

※Note: Private businesses that have over 300 full-time employees, or incorporated businesses that have over 300 full-time employees and whose capital exceeds 900 million yen, are not qualified to be a membership.

Number of members



Operations of the shinkin bank organization



Comparison of deposit growth rates by type of financial institution

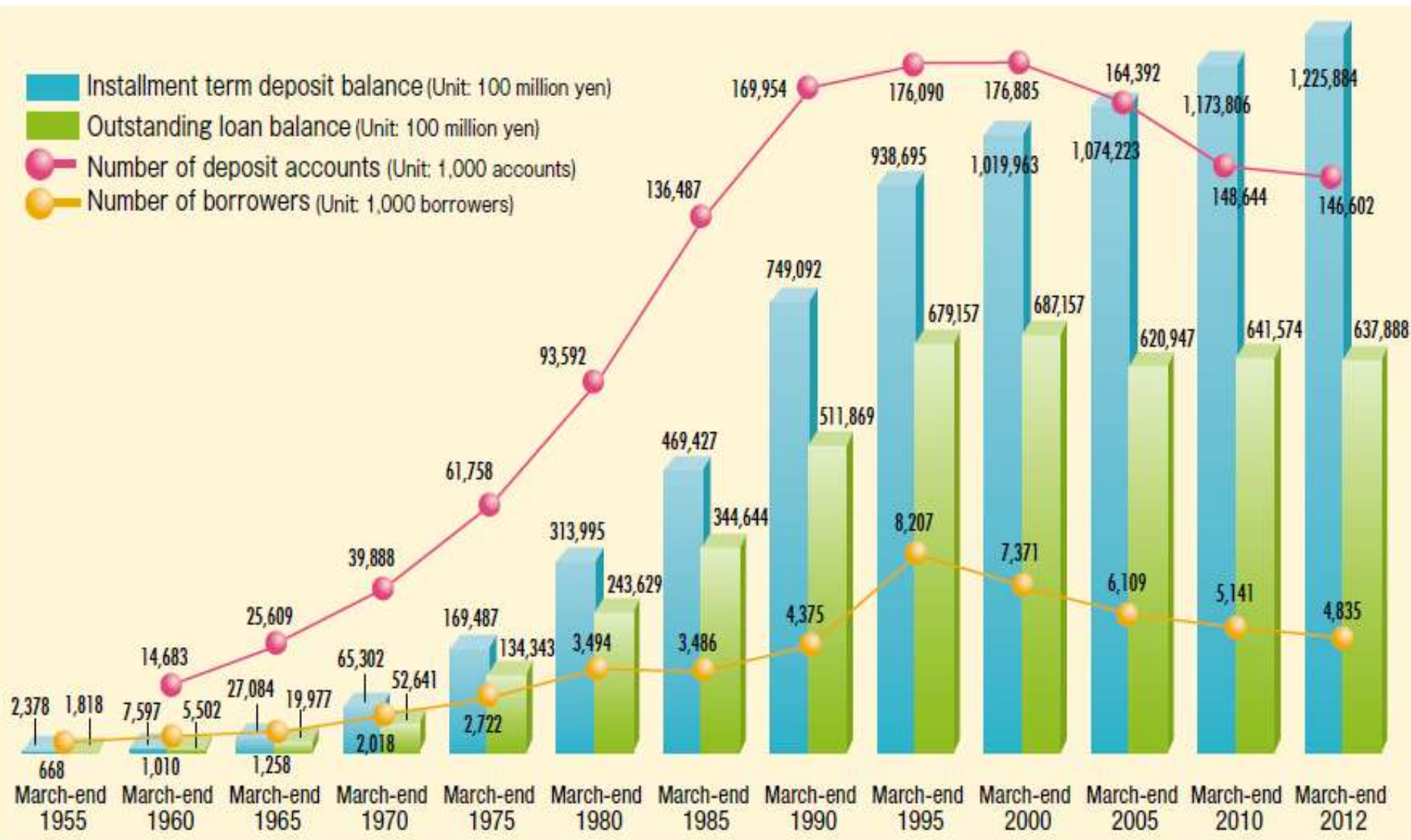
(From March-end 1954 to March-end 2012)



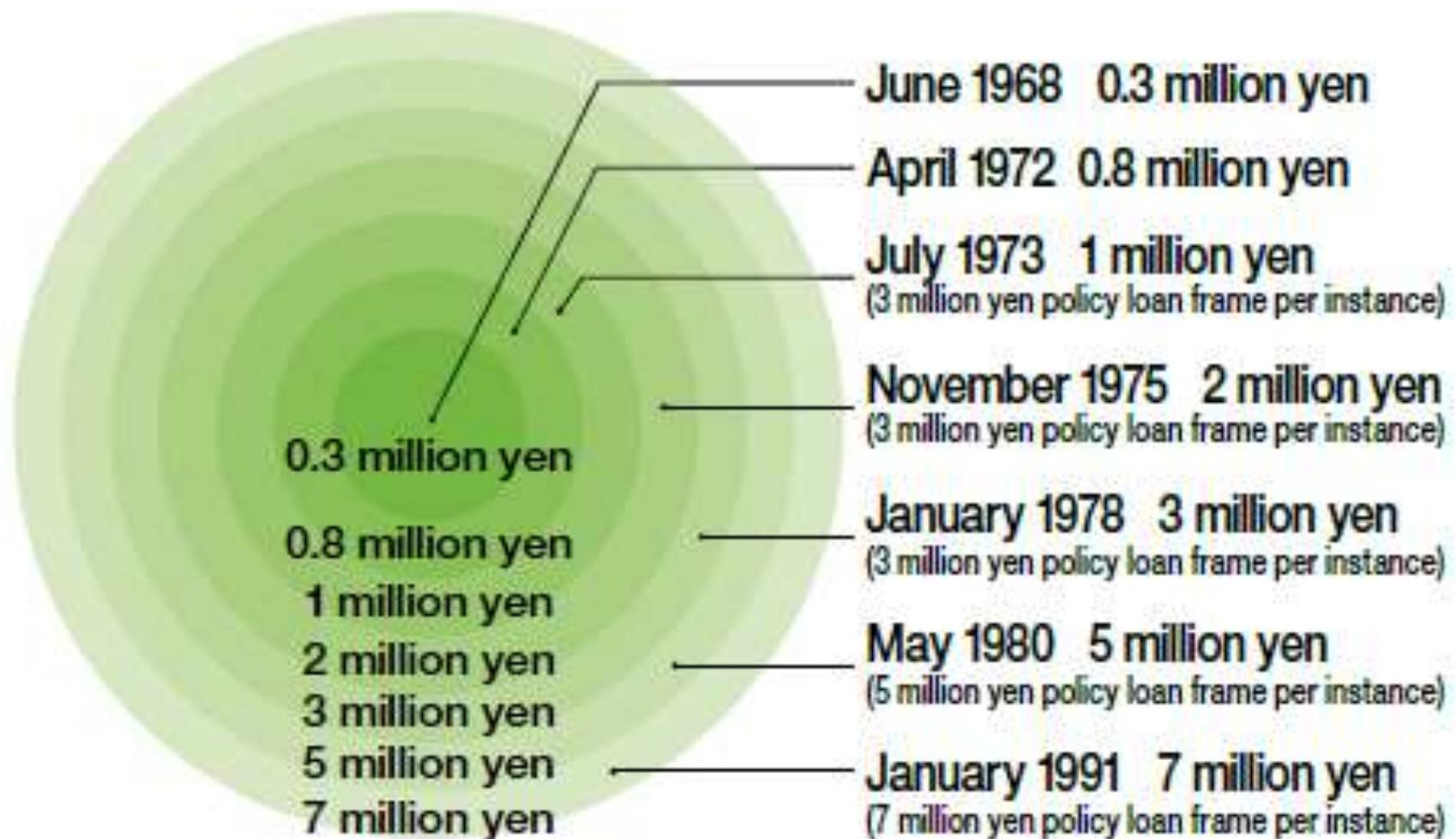
About the Deposit Insurance System

Types of deposits		Scope of protection
Deposits protected by the deposit insurance system	Deposits held for payments	Current account deposits and non-interest earning ordinary deposits
	General deposits	Interest-earning ordinary deposits, term deposits, and installment term deposits
Deposits protected by the deposit insurance system		Foreign denominated deposits, negotiable certificates of deposit, and bearer certificates of deposit
		Full-amount protection
		For every financial institution, deposit insurance protection per customer covers 10 million yen in principal including interest.
		Exclusions from protection

Installment term deposit balance, outstanding loan balance, number of deposit accounts, number of borrowers



Per-person limit amount for small-amount loans to non-members



ATM Network

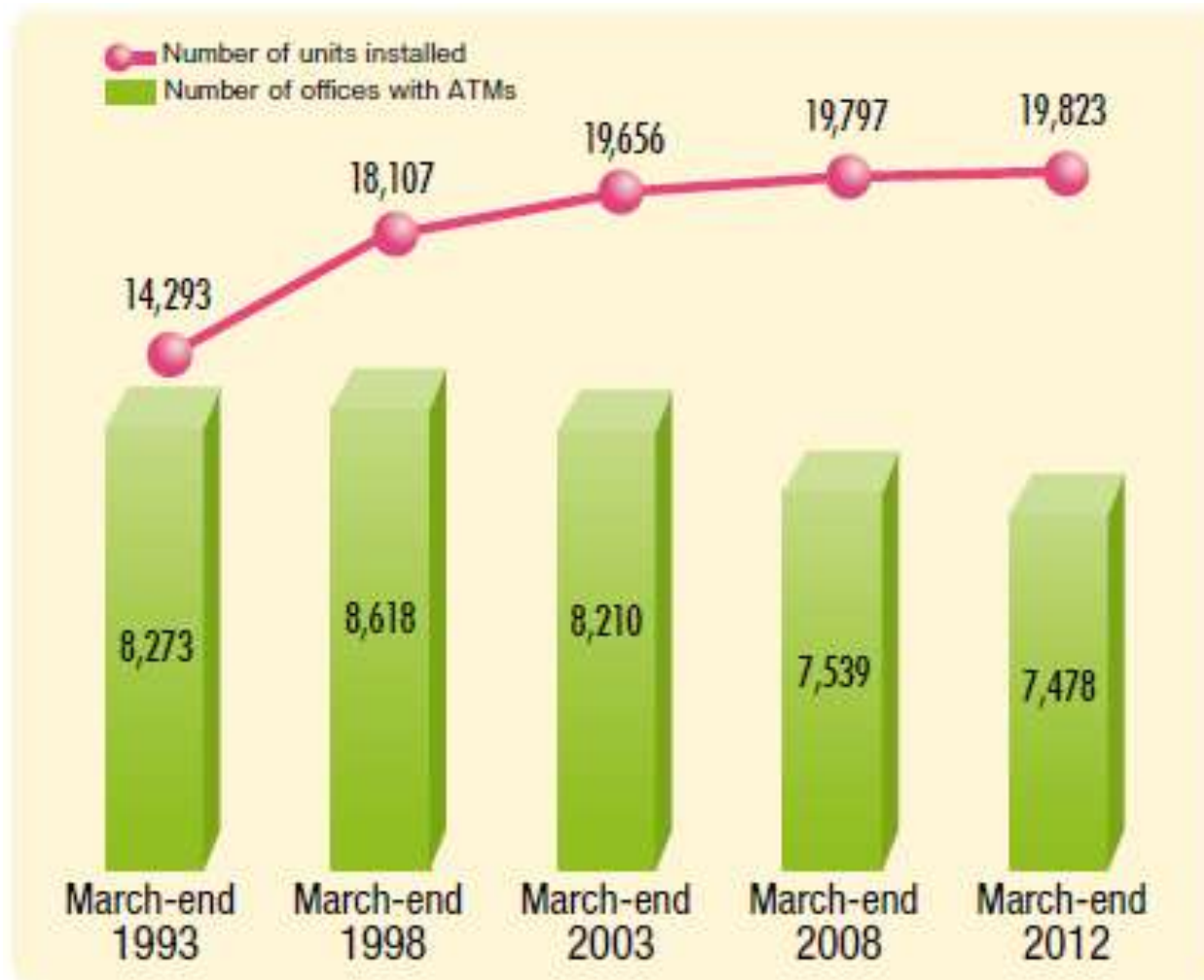
Shinkin Zero Net Service

Card holders of the shinkin bank cash card are able to make deposits, withdrawals, and account balance queries at shinkin bank ATMs all over Japan.

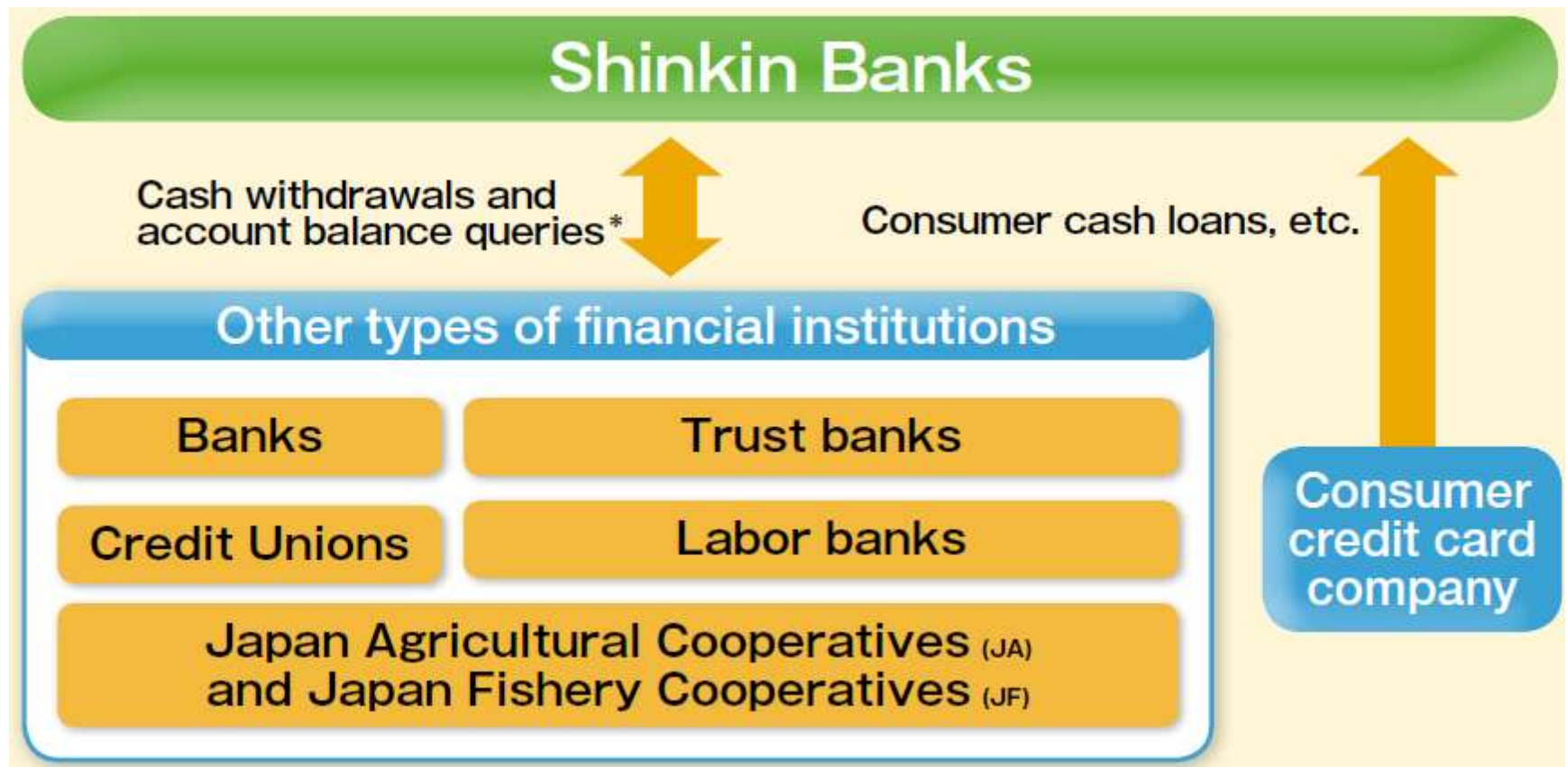
Moreover, with the Shinkin Zero Net Service, deposits and withdrawals at shinkin bank ATMs throughout Japan can be made free of charge during set hours.

Number of banking offices equipped with ATMs and number of ATM units installed

(Unit: Offices, ATMs)



Main ATM cooperative arrangements between shinkin banks and other types of financial institutions



The National Association of Shinkin Banks (Zenshinkyō)



The National Association of Shinkin Banks (Zenshinkyo)

Activities of the National Association of Shinkin Banks include surveys and research concerning the operations and financial functions of shinkin banks, as well as negotiations with related government agencies, PR activities, and staff training activities.

Central Organization and Institutions

Shinkin Central Bank

The National Association of Shinkin Banks (Zenshinkyo)

└ The National Association of Shinkin Banks Research Institute

Regional Associations

The Hokkaido Association of Shinkin Banks

The Tohoku Association of Shinkin Banks

Associations of Shinkin Banks in Tohoku area including Aomori, Akita, Yamagata, Iwate, Miyagi, and Fukushima

The Kanto Association of Shinkin Banks

Associations of Shinkin Banks in Kanto area including Gunma, Tochigi, Ibaraki, Saitama, Chiba, Kanagawa, Niigata, Yamanashi, and Nagano

The Tokyo Association of Shinkin Banks

The Hokuriku Association of Shinkin Banks

Associations of Shinkin Banks in Hokuriku area including Toyama, Ishikawa, and Fukui

The Tokai Association of Shinkin Banks

Associations of Shinkin Banks in Tokai area including Shizuoka, Gifu, Aichi, and Mie

The Kinki Association of Shinkin Banks

Associations of Shinkin Banks in Kinki area including Shiga, Kyoto, Osaka, Nara, Wakayama, and Hyogo

The Chugoku Association of Shinkin Banks

Associations of Shinkin Banks in Chugoku area including Tottori, Shimane, Okayama, Hiroshima, and Yamaguchi

The Shikoku Association of Shinkin Banks

Associations of Shinkin Banks in Shikoku area including Tokushima, Kagawa, Ehime, and Kochi

The Northern Kyushu Association of Shinkin Banks

Associations of Shinkin Banks in Northern Kyushu area including Fukuoka, Saga, and Nagasaki

The Southern Kyushu Association of Shinkin Banks

Associations of Shinkin Banks in Southern Kyushu area including Kumamoto, Oita, Miyazaki, and Kagoshima

<System related operations>

The Shinkin Banks Information System Center Co., Ltd.

Hokkaido Shinkin Bank Joint Administration Centers Association

Tohoku Shinkin Bank Joint Administration Centers

Tokyo Shinkin Bank Joint Administration Centers Association

Tokai Shinkin Bank Joint Administration Centers

Osaka Shinkin Bank Joint Administration Centers Association

Chugoku Shinkin Bank Joint Administration Centers

Kyushu Shinkin Bank Joint Administration Centers

The Shinkin Kyodo System Management Organization

The National Association of Shinkin Banks (Zenshinkyo)

As the representative institution of the interests of shinkin banks, the National Association of Shinkin Banks conducts surveys and research surrounding the theory and reality of shinkin banks' business operations and engages in proposals and lobbying activities directed at relevant government agencies and other institutions.

The National Association of Shinkin Banks (Zenshinkyo)

Moreover, the National Association of Shinkin Banks implements measures to help optimize shinkin banks' internal control and strengthen management structures and such other measures to concentrate shinkin banks' knowledge and aggregate power, and for the furtherance thereof engages in various kinds of operations.

Related Financial Institutions.

Finance operation

Finance Related Operations

Shinkin Guarantee Fund

Shinkin Trust Bank, Ltd.

Shinkin Asset Management
Co., Ltd.

Shinkin Guarantee Co., Ltd

Shinkin Capital Co., Ltd.

Securities operation

Securities Operations

Shinkin Securities Co., Ltd.

Shinkin International Ltd.

Shinkin Central Bank

- The Shinkin Central Bank is an association-type
- financial institution established based on the Shinkin Bank Law.
- Serving as the central bank of its nationwide
- shinkin bank members, it fulfills the functions as the financial institution at the core of shinkin banks as well as that of an individual financial institution.

Management Analysis System

This system conducts objective management analysis of shinkin banks based on documents submitted by shinkin banks that are related to their operations and assets, etc.

Management Advisory System

Under this system, based on field surveys conducted by the Shinkin Central Bank, management advisory and specific management improvement measures are provided to shinkin banks that have accepted management consulting and recommendations.

Capital Reinforcement System

This system is designed to support shinkin banks in raising capital by providing shinkin banks with subordinated debt or by underwriting preferred stock issued by shinkin banks.

Central Organizations and Institutions of the Shinkin Bank Industry

The National Association of Shinkin Banks and the Shinkin Central Bank as the central organizations and institutions of the shinkin bank industry work in mutual cooperation to support shinkin banks' sound development and the attainment of shinkin banks' social mission.

Shinkin Central Bank

As the central bank for shinkin banks, this institution supplements the business functions of shinkin banks through centralized exchange and cash settlement and various kinds of business support, and in this way works to maintain and enhance the credit standing of the shinkin bank industry.

Shinkin Central Bank

As an independent financial institution, the Shinkin Central Bank fulfills three functions, namely, the function of a financial institutions providing comprehensive financial through deposit operations, lending operations, and debt issuance operations, the function as a prominent institutional investor in Japan, and the function as a financial institution contributing to the local community.

Local Community-Based Financial Services

Shinkin banks are financial institutions that cater to small and medium-sized enterprises (SMEs). As such, they provide services consistent with businesses' life cycle from startup to early-stage support and financing during the growth phase.

Local Community-Based Financial Services

At the basis of these activities are shinkin banks' connective powers and the principle of mutual aid.

Above all, there is the community network driven by local and personal connections as well as face-to-face liaison activities.

Business Matching

In order to assist customers in their business development, many shinkin banks engage in business matching operations where suppliers, buyers, and counterparties for cooperative arrangements are introduced to customers.

Shinkin banks will continue through the introduction of business partners to help customers achieve sustainable business operations.

Number of contract closures from business matching (Unit: contracts)



Business negotiations at a business fair



A lively business fair with exhibits by client companies



Funding Support for Business Start-Ups and New Operations

To aid customers' business development and invigorate the local economy, shinkin banks provide active support for new business start-ups and new business initiatives related to customers' growing businesses.

Business Reorganization and Succession Support

Amid demographic aging and shrinking, regional economies are faced with a weakening business basis and other serious issues.

Shinkin banks help resolve the economic and social issues affecting local communities by providing wide-ranging business reorganization and succession support to encourage the sustained invigoration of regional economies.

Track Record of Funding Support for Business Start-Ups and New Operations



Outline of Business Reorganization and Succession Support

Application of SME Reconstruction Support Committee

Formulation of reorganization plans designed by financial institutions

Application of debt / debt swaps

Formation, capitalization, and application of business reconstruction funds

M&A support

Individual
consultation with a
corporate customer



Invigorating the Local Economy

Shinkin banks constitute regional financial institutions partnering with the communities that form the basis of local life and business.

To serve the sound development of local SMEs and the furtherance of local communities, shinkin banks engage in various efforts to invigorate regional economies.

Activities Serving Society

As regional financial institutions, further to providing financial service operations, shinkin banks engage in local civic activities in areas such as social welfare, support of the arts and culture, preservation of historical sites and traditional culture, traffic safety, education support, environmental protection, and a diversity of volunteer activities, as well as disaster rescue activities, and in so doing contribute across a wide range to the development of local communities.

New products being created by local high school students and businesses as part of an entrepreneur contest organized by a shinkin bank



Tree-planting ceremony held with local residents



Offering cooperative working spaces at shinkin bank branches



Etiquette classes at a local junior high school



Cafe that serves as a gathering place where entrepreneurs and other businesspeople can exchange information



Employee blood donation drive



Shinkin Bank Social Contribution Award

The Shinkin Bank Social Award was established in 1997 as a manifestation of the shinkin bank industry in order to highlight shinkin banks' commitment to serve their local communities, solidify the trust and confidence of customers and local communities, and raise shinkin banks' profile in the regions.



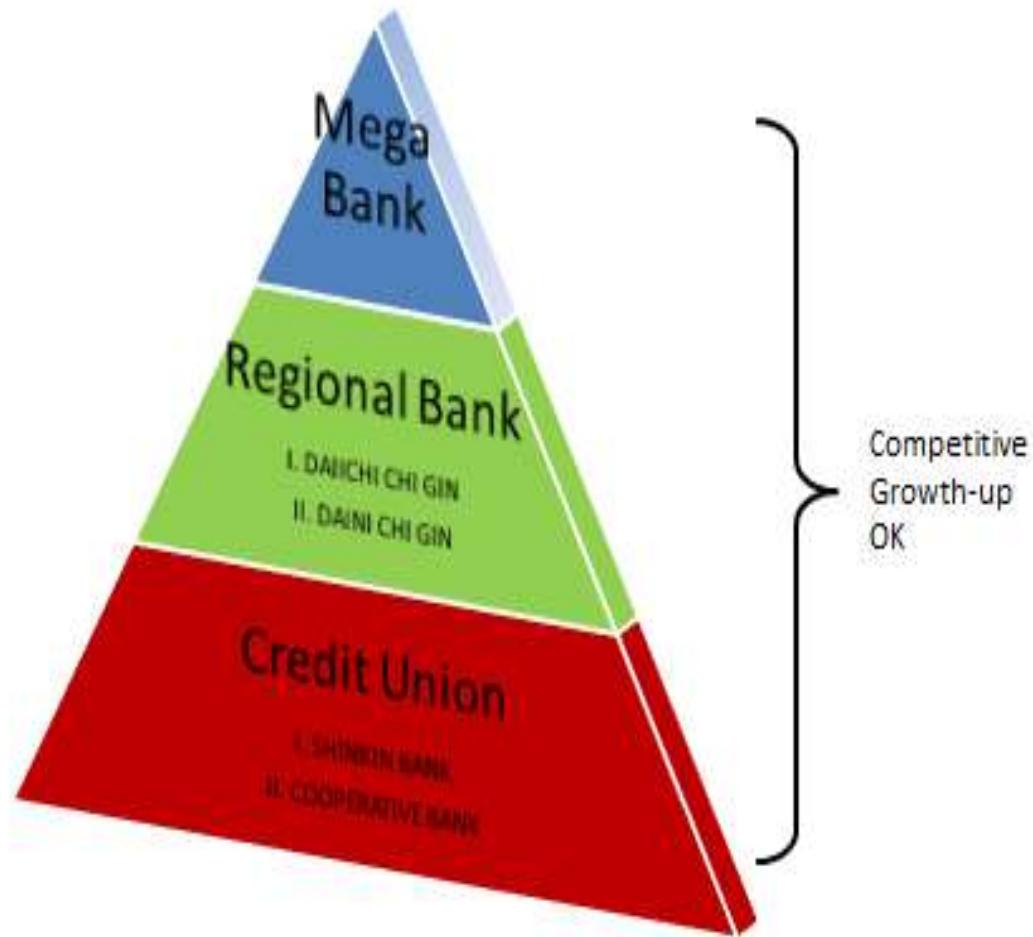
Shinkin Bank Social Contribution Award

To date, the prize has been awarded 15 times to commend activities contributing to local communities such as the promotion of the local economy, social welfare, support of the arts and culture, preservation of historical sites and traditional culture, traffic safety, education support, environmental protection, and a diversity of volunteer activities, as well as disaster rescue activities.

Shinkin Bank Social Contribution Award

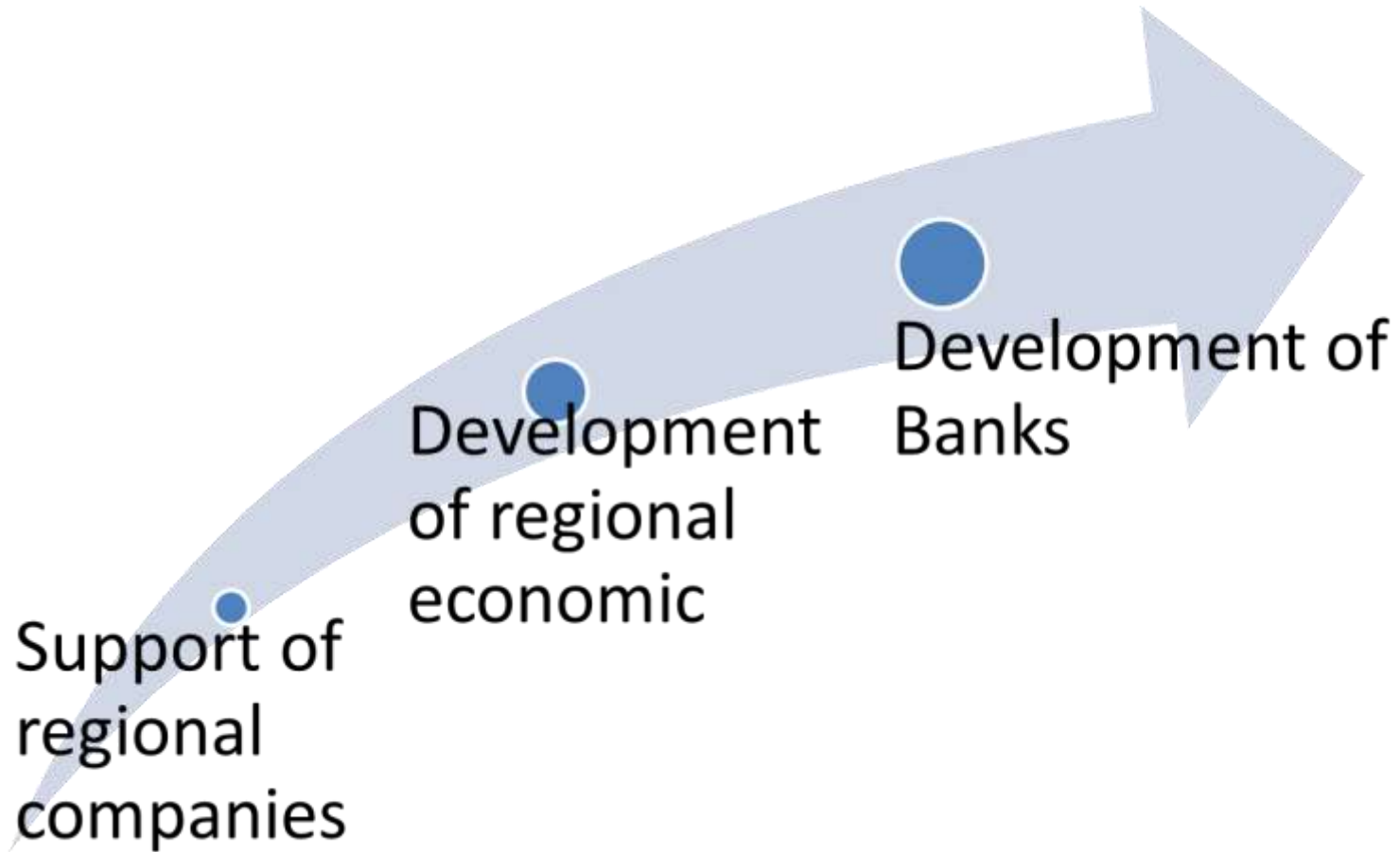
The 15th Shinkin Bank Social Award (awarded in June 2012) attracted 479 applications from 150 shinkin banks and 2 related institutions.

Japanese banking system

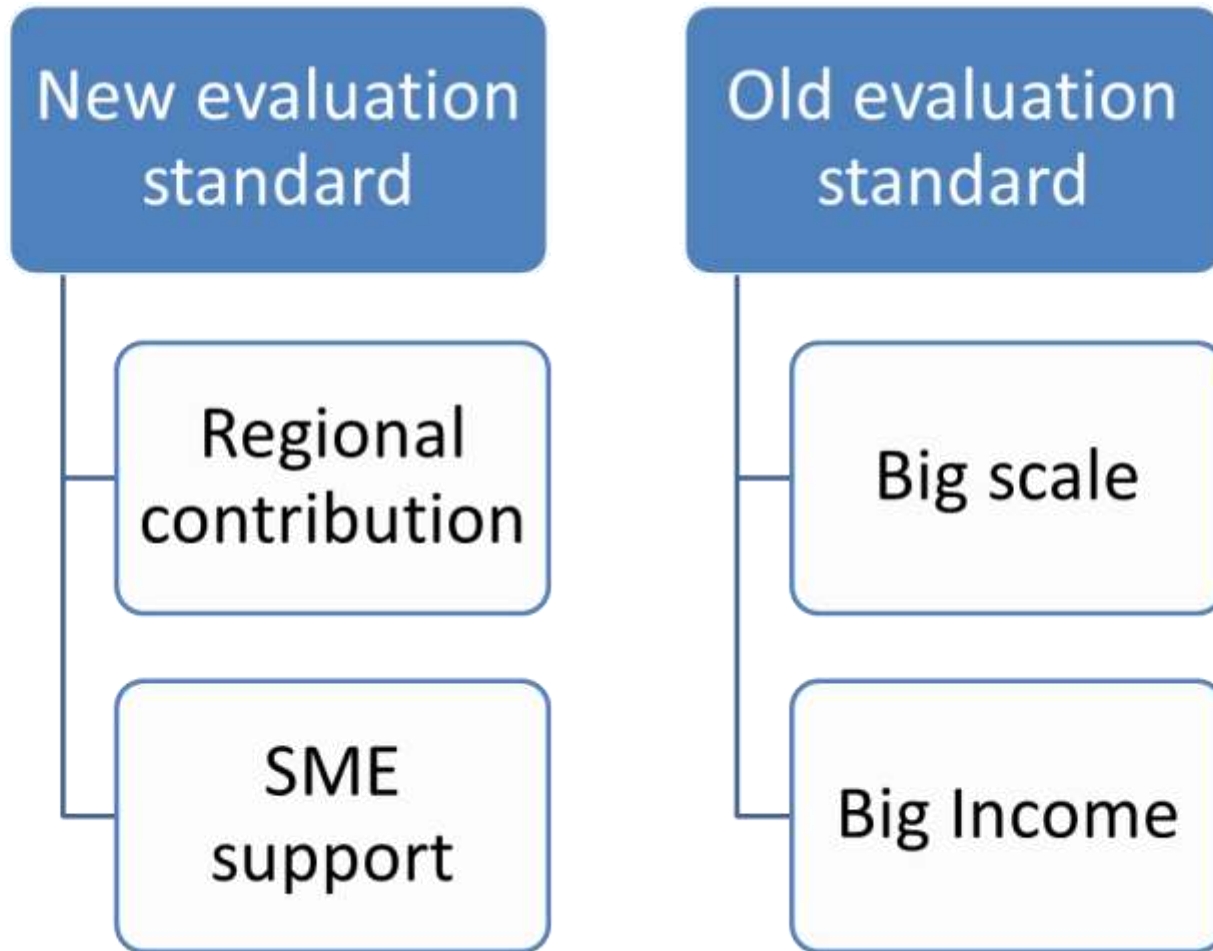


JAPANESE BANKING SYSTEM

Goal of Bank



Bank evaluation



Thank you for your attention.

Kiyotsugu Yoshihara