Recent Developments in the Reorganization of Shinkin Banks

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With no let-up in the difficult conditions facing Japanese banks, a debate is going on about whether the shinkin banks[1] and other regional financial institutions should merge in order to become more efficient, profitable and financially sound.

This report focuses on the shinkin banks and looks at some of the recent developments surrounding this issue.

1. Background to the Debate

The debate about whether Japan's shinkin banks and other regional financial institutions should merge has been heating up. There are a number of reasons for this.

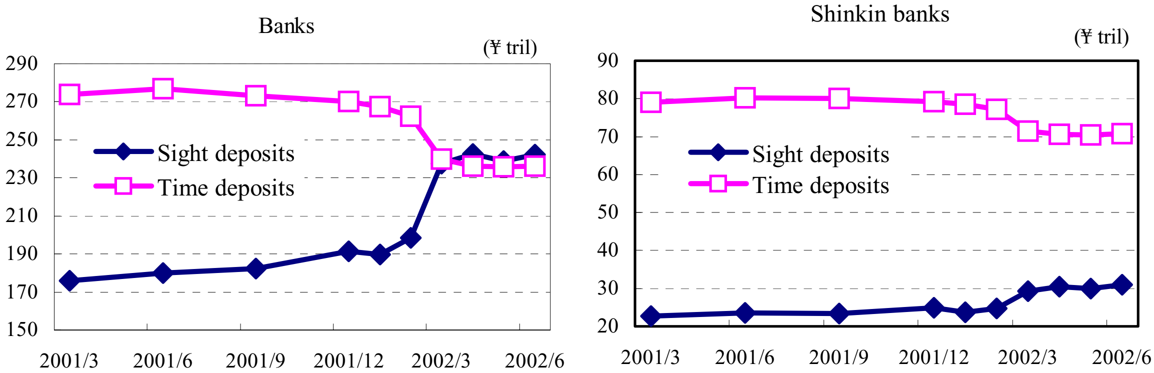
First, with no let-up in the difficult conditions facing Japanese banks (especially the failure of their assets to appreciate in value) and with only limited success in trying to make them financially more sound, the remaining guarantee on bank deposits was due to be lifted in April 2003.

The charts in Figure 1 show the outstanding balances of sight and time deposits at Japanese banks and shinkin banks in the period before and since the lifting of the blanket guarantee on all deposits other than transaction deposits in April 2002.[2] The charts show that in the brief period from the end of calendar 2001 to the end of fiscal 2001 there was a massive shift out of time deposits into sight deposits. A detailed breakdown of the deposits held by city, regional, second-tier regional and shinkin banks at the end of September 2001 and the end of March 2002 (see Figure 2) shows (1) that at all four types of bank a sharp drop in time deposit balances of more than ¥10 million (the maximum amount still guaranteed since April 2002) was

1 "Shinkin banks" are credit unions specializing in servicing the needs of small businesses.
2 "Transaction deposits" can be used to settle accounts and therefore generally pay either no or only a comparatively low rate of interest.

accompanied by a sharp increase in sight deposit balances of more than ¥10 million and (2) that city and regional banks experienced an inflow of total deposits (inflows of ¥18 trillion to city and ¥3 trillion to regional banks, and outflows of ¥1 trillion from second-tier regional and ¥2.7 trillion from shinkin banks).[3]

Figure 1 Outstanding Balances of Sight and Time Deposits at Japanese Banks and Shinkin Banks



Notes: 1) The figures are end-of-period total balances for corporations, individuals and local governments. Moneys deposited by banks and central government organizations are not included.
2) The figures for "banks" are the totals for city banks, regional banks, second-tier regional banks, trust banks (banking accounts only), and long-term credit banks.

Source: NRI, from Kin'yu Keizai Tokei Geppo [Monthly Bulletin of Financial and Economic Statistics] data.

Figure 2 Breakdown of the Deposits Held by City, Regional, Second-Tier Regional and Shinkin Banks

	City banks				Regional Banks			
	Total deposits Less than ¥10 million		Total deposits ¥10 million or more		Total deposits Less than ¥10 million		Total deposits ¥10 million or more	
	Sight deposits	Time deposits	Sight deposits	Time deposits	Sight deposits	Time deposits	Sight deposits	Time deposits
2001.9	381,617	429,629	628,124	543,427	375,202	659,256	280,841	443,570
2002.3	418,491	421,362	905,193	421,205	408,318	647,115	413,734	320,403
Difference	36874	△ 8267	277069	△ 122222	33116	△ 12141	132893	△ 123167
Change(%)	9.7	△ 1.9	44.1	△ 22.5	8.8	△ 1.8	47.3	△ 27.8
Net-inflow				183454				30701
	Second-tier regional banks				Shinkin banks			
	Total deposits Less than ¥10 million		Total deposits ¥10 million or more		Total deposits Less than ¥10 million		Total deposits ¥10 million or more	
	Sight deposits	Time deposits	Sight deposits	Time deposits	Sight deposits	Time deposits	Sight deposits	Time deposits
2001.9	96,563	246,625	63,916	159,019	164,924	566,083	71,467	245,559
2002.3	104,937	238,984	103,967	107,857	178,645	550,377	119,191	172,970
Difference	8374	△ 7641	40051	△ 51162	13721	△ 15706	47724	△ 72589
Change(%)	8.7	△ 3.1	62.7	△ 32.2	8.3	△ 2.8	66.8	△ 29.6
Net-inflow				△ 10378				△ 26850

Source: NRI, from Bank of Japan data.

3 For further details on personal financial assets, see Kaori Zeniya, "The Impact of the Lifting of the Blanket Guarantee on Bank Deposits on Personal Financial Assets in Japan," Capital Research Journal, Autumn 2002.

It now appears that the lifting of the guarantee on transaction deposits, which do not pay any interest, will now be postponed until April 2005. Although it is very difficult to judge whether the huge balances of ordinary savings deposits that built up at the end of fiscal 2001 will remain in these accounts until March 2005, it is still possible that this money will be reinvested in time deposits with some of the financially stronger banks—albeit at a more leisurely pace and on a smaller scale than if the remaining guarantee were lifted, as previously planned, in April 2003.

Another point to bear in mind is the fact that the shinkin banks urgently need to become more efficient and profitable. Competition with the city and regional banks can be expected to continue to increase, and, although the shinkin banks (as a whole) have a higher lending margin and a higher return on investment, they also have a higher expense ratio and lower overall profit margin (see Figures 3 and 4). Also, the fact that the conditions for small businesses operating in regional towns are generally difficult and some shinkin banks are finding that their local client base is shrinking means that an increasing number of them may consider merging as a way of trying to become more efficient and widening their client base.

Yet another factor that has been mentioned is that, by merging and becoming bigger, shinkin banks would more likely to be covered by Article 102 of the Deposit Insurance Law if they should fail, as eligibility for depositor protection depends on whether the failure of a bank poses a serious financial threat to the local economy.

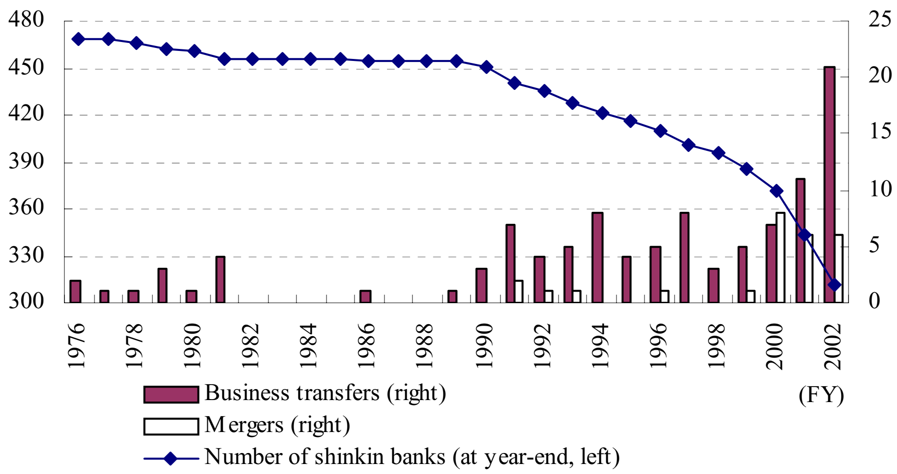
Figure 3 Expense Ratios of Different Types of Bank

	City banks		Regional banks		Second-tier regional banks		Shinkin banks	
	Fiscal 2001	Fiscal 2000	Fiscal 2001	Fiscal 2000	Fiscal 2001	Fiscal 2000	Fiscal 2001	Fiscal 2000
Cost-of-capital ratio	1.04%	1.24%	1.50%	1.64%	1.72%	1.87%	1.79%	1.97%
Expense ratio	1.02%	1.06%	1.34%	1.38%	1.54%	1.59%	1.56%	1.62%
Return on investment	1.53%	1.68%	1.92%	2.09%	2.22%	2.33%	2.10%	2.34%
Lending margin	1.81%	1.95%	2.23%	2.33%	2.62%	2.67%	2.75%	2.87%
Overall profit margin	0.49%	0.44%	0.42%	0.45%	0.50%	0.46%	0.31%	0.37%

Note: The figures for city banks are for domestic yen transactions.
Source: NRI, from Analysis of Financial Statements, Japanese Bankers Association and Analysis of Financial Statements, Kinyu Tosho Konsarutantosha.

Finally, it is sometimes claimed that Japan is overbanked and that this has led to overcompetition that, in turn, has undermined the banks' financial stability. In fact, it is a moot question whether Japan is any more overbanked than the United States, for example, although the situation varies from one region to another. Therefore those who argue, without due consideration to local differences, that Japanese banks should merge simply in order to cut numbers should perhaps reconsider whether that would be sensible.[4]

Figure 5 Shinkin Banks and Number of Restructurings



Notes: 1) The data for fiscal 2002 include prospective data as well as four mergers planned for fiscal 2003.
2) "Business transfers" includes restructurings other than mergers (e.g., liquidations).

Source: NRI, from Analysis of Financial Statements, Kin'yu Tosho Konsarutantosha.

2. How Shinkin Banks Have Dealt with Failures in Their Ranks

There were very few mergers by shinkin banks in the 1980s; but in the course of the 1990s the number of mergers increased significantly. As a result, the number of shinkin banks fell from 454 as of the end of fiscal 1989 to 343 as of the end of fiscal 2001 (see Figure 5).

There are several reasons why mergers between shinkin banks increased in the 1990s: in addition to the economic slowdown that followed the boom of the 1980s, the shinkin banks faced difficult trading conditions as deposit interest rates were deregulated[5] and competition with city and other banks increased, especially in urban areas. In response, many of the stronger shinkin banks looked for merger partners in order to improve their profitability. An even more important reason, however, was probably the surge in mergers designed to rescue the growing number of shinkin banks that found themselves in financial difficulty.

4 See Yasuyuki Fujita, "A Blueprint for the Future of Japan's Financial System," Capital Research Journal, Autumn 2002.

5 Interest rates on time deposits were deregulated in June 1993 and those on all remaining types of deposits (other than checking accounts) in October 1994.

1) System of mutual assistance

Traditionally, the shinkin banks have tended to deal with failures in their own ranks: rather than wait until the liquidator has to be sent in, the stronger members have sought to rescue their weaker brethren by merging with them. Similarly, they have been loath to follow the example of other financial institutions and rely on financial assistance from the Deposit Insurance Corporation (DIC) should one of their members find itself in difficulty, preferring to use the safety net provided by their own system of mutual assistance. Therefore, apart from the case of Toyo Shinkin Bank, which found itself in difficulty following a scandal and was obliged to merge with Sanwa Bank in 1992, and Kamaishi Shinkin Bank, which found itself in difficulty as a result of a weak local economy and had to be wound up, shinkin banks have refrained from using funds from the DIC to rescue weaker brethren from collapse (see Figure 6).

The shinkin banks' own system of mutual assistance, which was abolished at the end of March 2002, obliged them to make provision so that, in the event of one of their number finding itself in difficulty, they could arrange a merger to rescue it. More specifically, each shinkin bank would deposit a proportion of its deposits[6] with the umbrella organization, Zenshinren Bank (now Shinkin Central Bank), which would then deposit the same money at lower rate with the original institution. The differential rate of interest on that amount would then constitute that institution's contribution to the mutual assistance fund, which included a contribution from Zenshinren Bank as well as each shinkin bank.[7]

However, with so many bank failures, there were growing calls for the shinkin banks to use the Deposit Insurance Scheme, with its greater resources and which they were already contributing to, on the grounds that the banks' own mutual assistance scheme would not be able to cope with a major failure. In 1996 the differential between the rate at which the banks deposited their contributions to their own mutual assistance scheme with Zenshinren Bank and the rate at which it redeposited them with the banks was widened in order to enable the scheme to cope better with a major failure. However, the burden of contributing to both schemes simultaneously drew howls of complaint, especially from the banks with the largest deposit balances and

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6 Until the end of fiscal 1995 each shinkin bank had to contribute a flat rate of 0.25% of its outstanding balances as of the end of the previous fiscal year. From fiscal 1996, however, a system was adopted whereby each shinkin bank paid an equal share of the cost of insuring 10% of the banks' total deposits and savings plans and a pro rata share (based on the balance of their own deposits and savings plans) of that of insuring the remaining 90%.

7 The shinkin banks and Shinkin Central Bank each contributed a fixed proportion of the necessary funds. Until the end of August 1998, shinkin banks in areas where other shinkin banks had gone out of business had to make a separate contribution.

therefore the heaviest burden.[8] As a result, since January 2000 any rescue operations have relied on funds from the DIC, while between April 1999 and March 2002, when it was abolished, the mutual assistance scheme was only used to protect equity stakes.[9]

2) Financial assistance from the Deposit Insurance Corporation

Financial assistance from the DIC is used, for example, to purchase nonperforming loans from banks that have failed or to make monetary gifts to banks that are carrying out a rescue to ensure that the merger goes smoothly. Mergers aimed at rescuing shinkin banks that have failed and whose deposits are covered by a blanket guarantee generally take one of the following forms: (1) if the nonperforming loans are sold to the Resolution and Collection Corporation (RCC), financial assistance from the DIC will be used to take an equity stake in the bank equivalent to the loss incurred; (2) if the bank is still insolvent, financial assistance from the DIC will be used; and (3) if, in the absence of an equity stake, a merger cannot take place under the Commercial Code, Shinkin Central Bank will use the mutual assistance scheme to lend the equivalent amount and maintain the rights of equity stakeholders. In addition, there were also cases where Zenshinren Bank made a subordinated loan to the rescuer in order to boost its capital adequacy ratio.[10]

However, there were cases, for example, where the rescuing bank had less than adequate financial resources and it was difficult to find a suitable shell or where a merger proved unacceptable. As a result, since fiscal 2000 there has been a growing number of cases where the business of the bank that has failed has been transferred but not its employees or branches (see Figure 5).

3) Dealing with bank failures after the lifting of the blanket guarantee on deposits

The amended Deposit Insurance Law of April 2001 provides for two ways of dealing with bank failures under the limited depositor protection scheme: one using

8 In addition to the increase in the normal insurance premium rate, the levy of a special insurance premium to cover the cost of protecting all shinkin bank deposits (regardless of the amount) meant that in fiscal 1996 the deposit insurance premium rate was raised to 0.084% (from 0.012% in fiscal 1995).

9 In fiscal 2001 the protection the scheme offered to equity stakes was reduced from the full amount to the minimum amount (of ¥5,000-¥10,000). However, the full amount continued to be protected as a "special measure."

10 In 1997 (in preparation for the introduction of Prompt Corrective Action in April 1998) shinkin banks were allowed to borrow using subordinated loans. In addition, the Law Governing the Issue of Preferential Participation Certificates and Preferential Participation Warrants by Cooperative Society Financial Institutions was amended, allowing shinkin banks to issue preferential participation certificates.

the so-called "financial assistance method" and the other the so-called "insurance payout method."

With the financial assistance method, the deposits of the bank that has failed that are covered by deposit protection insurance ("insured deposits") are transferred to the shell company (or, in its absence, the successor bank) and become its deposits. The best of the assets that match the insured deposits are selected as soon as possible after the bank has failed and are transferred to the shell company. If the business that is being transferred becomes insolvent during this process, the DIC provides financial assistance to the shell company. Those assets that are not transferred and remain on the books of the bank that has failed and liabilities such as uninsured deposits are liquidated as part of the bankruptcy procedure, and the depositors and other creditors receive a payout in line with their share of the liquidation dividend. The Deposit Insurance Law (Article 59.2) also enables the DIC to provide financial assistance to the bank that has failed in order to ensure that creditors other than the depositors whose deposits are insured are not treated unfairly.

With the insurance payout method, depositors receive a payout directly covering those deposits that have been insured. Unlike the procedure with the financial assistance method, however, the business of the bank that has failed is not transferred to a shell company, and the bank is wound up.

With both methods, any payouts on deposits in excess of the amount insured are subject to the liquidation procedure. As this is likely to be a long drawn-out procedure, a system has been introduced whereby depositors will be able to receive estimated payouts in order to avoid unnecessary inconvenience. Under this system, the DIC will be able to purchase deposits from depositors, if they so request, in line with their share of the estimated total payout (calculated on the basis of the estimated liquidation dividend), thus enabling depositors to recover part of their deposits as soon as possible.

The amount of deposits covered by both methods is the same. However, in a December 1999 report the Financial System Council recommended that preference should be given to the financial assistance method as it considered this method to be less costly and less disruptive than the insurance payout method.[11]

Finally, the prime minister has the authority to guarantee deposits in full if the failure of a bank threatens confidence in the financial system (either as a whole or in

[11] In cases where a bank loses its license, is declared bankrupt or is liquidated, the law permits the use only of the insurance payout method.

the area where the bank concerned operates) and the committee he chairs to deal with the threat of a financial crisis agrees.

Figure 6 Shinkin Bank Failures That Have Received Financial Assistance from the Deposit Insurance Corporation

(¥100 mil)

(FY)	1991~1994	1995	1996	1997	1998	1999	2000	2001
(Shinkin banks)								
Failures	2	0	0	0	0	2	10	7
Monetary gifts	460	0	0	0	0	406	6933	1000
Asset purchases	0	0	0	0	0	212	3340	713
(Other financial institutions)								
Banks	1	1	1	1	5	3	4	2
Credit unions	3	2	5	6	25	15	6	28
(Total)								
Monetary gifts	1084	6008	13160	1518	26847	46367	51919	16671
Asset purchases	0	0	900	2391	26815	13044	8501	4064

Source: NRI, from Annual Report for Fiscal 2001, Deposit Insurance Corporation.

3. Support for Mergers from the Financial Services Agency

In its April 2002 report "Towards a Stronger Financial System," the Financial Services Agency proposed—alongside measures to speed up the writing down of nonperforming loans and a system of all-year-round inspection of the leading groups of banks by specialist inspectors—measures to encourage banks (especially local banks) to merge. This was followed in July 2002 by a preliminary report entitled "Measures to Encourage Bank Mergers, Especially in the Regions." As well as stating that banks needed to become more profitable if their finances were to improve and announcing that government funds would be available to help them achieve this, the preliminary report (1) recognized that mergers were an important means of enabling banks to achieve this by making it easier for them to recruit the staff, develop the systems and put in place the organizational structures needed to reallocate resources selectively and offer attractive financial services and (2) announced outline measures to facilitate mergers and measures to strengthen the financial system by making banks sounder and more profitable.

This was followed, in August, by a final report ("Measures to Facilitate Mergers"), in which the Agency announced specific measures on (1) procedures, (2) taxation, (3) recapitalization, (4) interim measures on the maximum amount to be covered by deposit insurance and (5) other matters (namely, help with system integration).

The procedural measures included, in addition to measures needed to simplify the transfer of fixed mortgages when a bank's business is transferred, proposals for amending some of the arrangements specific to cooperative financial institutions, including (1) special exemption from the need to inform creditors individually of their rights and business partners of mergers, (2) the introduction of a simplified merger procedure whereby merger agreements can be approved without having to hold a general representatives' meeting,[12] and (3) the introduction of a system for writing off unappropriated equity (similar to the system of retiring treasury stock used by joint-stock companies) to enable shinkin banks to meet likely increases in requests from members to have their subscription certificates cashed in when mergers occur.[13]

As far as taxation is concerned, the following measures were included in the Agency's "Requested Taxation Amendments for Fiscal 2003": (1) a reduction in the tax on business and property registration (see Figure 7); (2) the introduction of a special provision to enable merged businesses to write down investment in new systems during their first year by the total of the normal maximum depreciation amount and the special depreciation amount (30%); and (3) the extension of the scope of application of qualified mergers to allow merged banks to transfer assets at book value for tax purposes regardless of any difference in the scale of their businesses.[14]

By way of recapitalization and as a temporary five-year measure, the final report proposes that the DIC should set up a new account to encourage shinkin banks to merge and that it should use the funds at its disposal to make capital injections into banks whose capital adequacy ratios have declined as the result of a merger. In its budget requests for fiscal 2003, the Financial Services Agency included a request for ¥1 trillion in government-backed funds for this purpose. Any request for an injection of public funds has to be made by the bank itself, and, in return, the DIC acquires shares in the bank with limited voting rights—to limit the state's involvement. However, it has been proposed that, in the case of shinkin banks, Shinkin Central Bank should be able to sell the subordinated loans it grants shinkin banks to the DIC in the form of securitized instruments and trust beneficiary rights. Also, unlike capital injections into major banks , the authorities do not intend to hold the directors of shinkin banks responsible by cutting their remuneration or dismissing them as the aim

[12] Under Article 58.2 of the Law Governing Shinkin Banks, shinkin banks may, with the approval of a general meeting of their members, merge with other shinkin banks or transfer part or all of their business to banks, other shinkin banks, credit unions or labor credit unions.

[13] Under Article 16 of the Law Governing Shinkin Banks, in cases where members leave without transferring their share, they may request the shinkin bank concerned, in accordance with its articles of association, to purchase that share. (Under Article 5 of the Implementation Ordinance Governing Shinkin Banks, this is limited to cases where the share does not exceed 5% of the total number of participation units. However, purchases of the shares of members who object to a shinkin bank's merger are not subject to this limit.) Under Article 21.2 of the Law, shinkin banks may not acquire members' shares or purchase them for the purchase of mortgaging them, and must dispose of them as soon as possible even if they have beenpurchased under Article 21.

[14] The Agency also requested to be allowed to permit the assets of a bank joining a group that pays its taxes on a consolidated basis to be transferred at book value rather than (as at present in order to prevent tax evasion) at market value.

of encouraging mergers between local banks is to help them become stronger rather than to avert a financial crisis.

Under the interim measures on the maximum amount to be covered by deposit insurance proposed by the final report, banks would be allowed to raise the amount insured per depositor per bank for 1-2 years following the merger to cover the amount deposited in each of the banks involved in a particular merger up to a maximum of ¥10 million per depositor per bank.

The Agency's proposals would appear to be aimed at helping banks that have already decided to merge rather than at steering banks in this direction or at setting a national standard in order to force shinkin banks as a whole to restructure overnight.

Those measures in the Agency's final report that required legislation were due to come before the Diet on 18 October as the Bill on Encouraging Financial Institutions to Restructure and the Deposit Insurance Amendment Bill. However, as a result of wrangling between the government and the ruling coalition, the two bills had not been passed as of 21 October.

Figure 7 Reductions in the Tax on Business and Property Registration

	Business registration		Property registration	
	Capital increase on establishment (mergers and separations)	Capital increase on establishment	Transfer of ownership (merger)	Transfer of ownership (other cases)
Present rate	0.15%	0.70%	0.60%	5.00%
Requested rate (in exceptional cases)	**0.10%**	**0.15%**	**0.30%**	**3.50%**

☐ The Industrial Reconstruction Law contains a similar reduction.

	Property registration		
	Transfer of (fixed) mortgage (merger)	Transfer of (fixed) mortgage (transfer of business)	Transfer of (fixed) mortgage (separation)
Present rate	0.10%	0.20%	0.20%
Requested rate (in exceptional cases)	Exempt	Exempt	Exempt

Note: Although the Agency has requested that transfers of (fixed) mortgages be exempted from the tax in special cases, the Industrial Reconstruction Law does not offer any such reductions.

Source: NRI, from "Requested Taxation Amendments for Fiscal 2003," Financial Services Agency.

4. Conclusion

In terms of legislative provision, considerable progress has been made in facilitating mergers between shinkin banks. In spite of this, however, it is unlikely that there will be a wave of mergers. For one thing, the measures are not designed to even half-compel banks to merge; for another, not many shinkin banks appear to see much advantage in the increased scale that merger would bring.

Whether or not the advantages of a merger outweigh the disadvantages will ultimately depend very much on the particular situation of the shinkin banks involved. Let us take, for instance, increased efficiency—one of the most commonly claimed advantages of a merger.

Figures 8 and 9 show the relationship between the total assets of 352 shinkin banks and their expense and employment cost ratios, respectively. There is an inverse correlation between total assets and the two ratios, and this is particularly clear in the case of banks with total assets of less than ¥500 billion. Similarly, Figure 10 shows the post-merger changes in the expense ratio of shinkin banks that merged in the period 1990-2000. As the data include cases where, under a blanket guarantee, considerable financial assistance was provided to some banks to enable them to merge, it is difficult to make a pure and simple comparison. Nevertheless, it is clear that in most cases these two indicators of efficiency improved following the merger.

However, the fact that the geographical areas of operation of many shinkin banks are clearly demarcated means that, in many cases, there are limits to the branch reductions that can be made when banks in neighboring areas merge. Similarly, any attempt to achieve improvements in efficiency indicators such as expense ratios would need to consider whether cutting the number of employees would affect the quality of customer service.

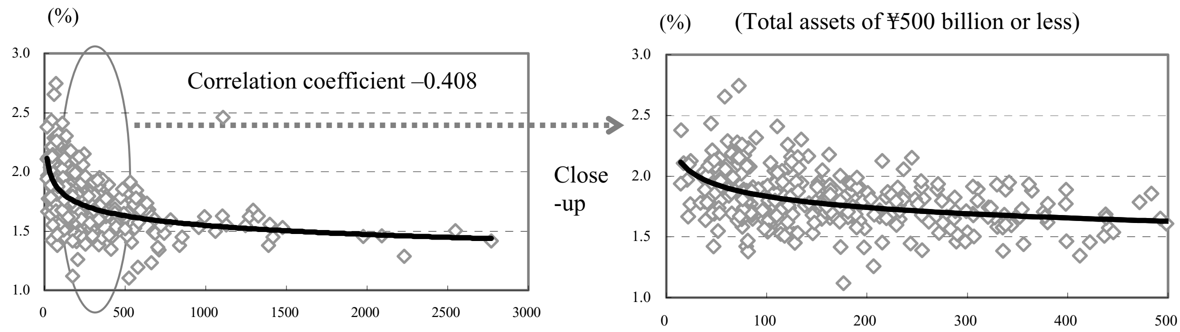
In other words, it is dangerous to make sweeping generalizations about the advantages of merging shinkin banks. Each bank should make its own assessment based on its particular circumstances.

On the other hand, there can be little doubt that all shinkin banks need to improve their finances before the blanket guarantee on ordinary savings and other transaction accounts is finally lifted. However, the fact that some of the weaker banks might like to achieve this by means of a merger does not necessarily mean that many of them will be queuing up to do so. Therefore, not only do such banks need to make their own efforts to improve profitability and efficiency, but they also need support in the form, for example, of capital injections.[15]

With such support likely to be forthcoming from the Financial Services Agency and Shinkin Central Bank, the focus of attention is now on what action particular shinkin banks will take.

[15] In April 2001 the shinkin banks set up a system to improve their performance. As well as incorporating a performance analysis system (or a consultation system based on such a system), the new system is intended to help shinkin banks strengthen their capital structure. If, for example, a shinkin bank's capital adequacy ratio has declined as a result of a merger or is only between 4% and 6%, Shinkin Central Bank can grant it a subordinated loan or underwrite preferential participation certificates (not exceeding 15% of the value of its own capital), provided it submits a business improvement plan.

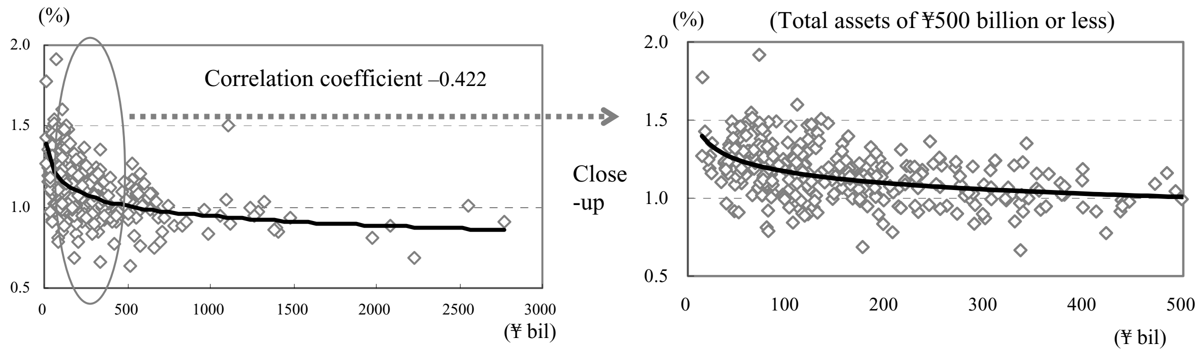
Figure 8 Total Assets and Expense Ratios of Shinkin Banks (Fiscal 2000)



Notes: 1) Expense ratio = operating costs/(deposits + savings plans) (average of year-end balances for 1999 and 2000)
2) The data cover 352 shinkin banks. Those that merged in the course of fiscal 2000 or for which no data were available have been excluded.

Source: NRI, from Analysis of Financial Statements, Kin'yu Tosho Konsarutantosha and Japan Financial News Co. data.

Figure 9 Total Assets and Employment Cost Ratios of Shinkin Banks (Fiscal 2000)



Notes: 1) Employment cost ratio = employment costs/(deposits + savings plans) (average of year-end balances for 1999 and 2000)
2) The data cover 352 shinkin banks. Those that merged in the course of fiscal 2000 or for which no data were available have been excluded.

Source: NRI, from Analysis of Financial Statements, Kin'yu Tosho Konsarutantosha and Japan Financial News Co. data.

Figure 10 Expense Ratios before and after Merger (Fiscal 1999-Fiscal 2000)

(FY)	(Method)	(Immediately after restructuring) A	B	C	D	E	(3 periods later) A	B	C	D	E
1990	Merger	○	○	○	○	○	○	○	○	○	○
	Merger	×	×	×	×	○	×	×	×	×	○
	Merger	○	○	○	○	○	○	○	○	○	○
1991	Merger	○	○	○	○	○	○	×	○	○	○
	Merger	×	×	×	○	○	×	○	×	○	○
	Merger	○	○	○	○	○	○	○	○	○	○
	Merger	×	×	×	○	○	○	○	○	○	○
	Merger	○	○	×	○	○	○	○	○	○	○
	Merger	○	○	×	○	○	○	○	×	○	○
	Merger	○	○	○	○	○	○	○	○	○	○
1992	Merger	×	×	○	×	×	○	○	×	○	○
	Merger	×	×	×	○	○	×	○	×	○	○
	Merger	×	×	×	○	○	×	○	×	○	○
	Merger	×	×	×	○	○	×	×	○	○	○
1993	Merger	×	×	○	○	○	○	○	○	○	○
	Merger	○	○	○	○	○	○	○	○	○	○
	Merger	×	×	×	○	○	×	×	×	○	○
	Merger	○	○	○	○	○	○	○	○	○	○
	Merger	×	×	×	×	×	×	×	×	○	×
1994	Merger	○	×	○	○	○	○	×	○	○	○
	Merger	×	×	×	×	×	×	○	×	○	×
	Merger	○	○	○	○	○	○	○	○	○	○
	Merger	○	○	○	○	○	○	○	○	○	○
	Merger	○	○	○	○	○	○	○	×	○	○
	Merger	×	×	○	○	○	○	○	×	○	○
	Merger	○	○	×	○	○	○	○	×	○	○
1995	Merger	×	×	×	○	○	×	×	×	○	○
	Merger	×	×	×	○	○	×	○	×	○	○
	Merger	×	○	×	○	○	○	○	×	○	○
1996	Merger	×	×	×	○	○	○	○	○	○	○
	Merger	○	×	○	×	×	○	○	×	○	×
	Merger	×	×	×	○	○	×	×	×	○	○
	Business transfer	○	○	×	○	○	○	○	○	○	○
	Merger	×	×	×	○	○	○	○	×	○	○
	Merger	×	×	×	○	×	×	×	×	○	○
1997	Merger	×	×	×	×	×	○	○	×	○	○
	Merger	○	○	○	○	○	○	○	○	○	○
	Merger	○	○	○	○	○	○	○	○	○	○
	Merger	○	○	○	○	○	○	○	○	○	○
	Merger	○	○	○	○	○	○	○	○	○	○
	Merger	○	○	×	○	○	○	○	○	○	○
	Merger	○	○	×	○	×	○	○	○	○	×
1998	Merger	○	○	○	○	○	○	○	○	○	○
	Merger	○	○	○	○	○	○	○	○	○	○
	Merger	○	○	○	○	○	○	○	○	○	○
1999	Merger	○	○	○	○	○	33	36	25	44	41
	Merger	○	○	○	○	×	(out of 45):				
	Merger	○	○	×	○	○					
	Merger	○	○	○	○	○					
2000	Merger	○	○	○	○	○					
	Merger	○	○	○	○	○					
	Merger	○	○	○	○	○					
	Merger	○	○	○	○	○					
	Business transfer	○	○	○	○	×					
	Business transfer	○	○	○	○	×					
	Business transfer	○	○	○	○	○					
	Business transfer	○	○	○	○	×					
	Merger	○	○	○	○	○					
	Merger	○	○	○	○	○					
	Business transfer	○	○	○	○	○					
	(Cases of improvement)	40	39	36	54	49					
		(out of 60):									

Notes: 1) "Immediately after restructuring": comparison of accounting period immediately after restructuring with period immediately before;
"3 periods later": comparison of accounting period immediately before restructuring with period 3 periods later.
2) A: operating costs/(deposits + savings plans) (average of year-end balances)
B: employment costs/(deposits + savings plans) (average of year-end balances)
C: nonemployment costs/(deposits + savings plans) (average of year-end balances)
D: deposits + savings plans (average of year-end balances)/number of company officers (average of year-end balances)
E: Loans (average of year-end balances)/number of company officers (average of year-end balances)
3) In the case of A, B and C, a ○ symbol indicates that the ratio has declined. In the case of D and E, it indicates that the ratio has increased.

Note: A number of cases for which no data were available have been excluded.
Source: NRI, from Analysis of Financial Statements, Kin'yu Tosho Konsarutantosha and Japan Financial News Co. data.