

Background of the New Action Program (FY 2005 and 2006)

Action Program concerning enhancement of Relationship Banking Functions (March 28, 2003, FSA)

Ensuring strengthening functions of Relationship Banking during FY 2003 and 2004 (“Intensive Improvement Period”)

《 I . Measures to revitalize Small- and Medium-sized Enterprise (SME) financing》

1. Strengthening functions to support creation and opening of new businesses
2. Strengthening functions of management consultations and support for client companies
3. Proactive efforts for prompt business revitalization
4. Strengthening measures for new SME financing
5. Developing systems of explanation to customers; strengthening functions to deal with consultations and complaints
6. Semiannual disclosure of the progress of the above measures (by each financial institution and industry)

《 II . Measures to ensure soundness and improve profitability》

1. Tightening assessment of assets and credit risk management
2. Developing management systems of earnings and improving profitability
3. Strengthening governance
4. Disclosure of information on contributions to local communities
5. Compliance
6. Ensuring the stability of regional financial system
7. Supervision and inspection system



Program for Further Financial Reform (December 24, 2004, FSA)

The FSA will strive to further promote region-based Relationship Banking via coordination with relevant government bodies and utilization of Regional Financial Bureaus, with a view to promoting, under a competitive environment, revitalization and activation of regional economies, facilitation of SME financing such as by encouraging new businesses in the region, and strengthening of management functions of regional financial institutions, thereby ultimately realizing active and vital regional societies. In this context, the FSA will design a new action program inheriting the existing “Action Program concerning enhancement of Relationship Banking Functions,” by building on the assessment of its progress.



“Working Group on Relationship Banking” under the Second Subcommittee of the Financial System Council
 (Six meetings and two regional conferences (in Fukuoka and Osaka) since February 7, 2005)

“Overview of the Evaluation of the Results from the Action Program concerning enhancement of Relationship Banking Functions” (March 28, 2005, Working Group on Relationship Banking)

《Achievements》

- Re-recognition by financial institutions (FIs) of their roles
 - Improvement in lending attitude and borrower assistance
 - Progress in preparing infrastructure to promote Relationship Banking
- ⇒ A certain level of credit for the FIs’ actions during the “Intensive Improvement Period”

《Insufficiencies》

- Incorrect understanding of the nature of Relationship Banking by a number of FIs
- Diffusive plans by FIs and varying attitudes/results
- Further need for efforts toward business revitalization and improvement in business evaluation ability
- Insufficient disclosure of information to users etc.

《Expectations for the New Action Program》

- (1) Continued promotion of Relationship Banking
- (2) Promotion of Relationship Banking based on correct understanding of its nature
- (3) Promotion via “selection and concentration” reflecting regional features and user needs
- (4) Promotion of disclosure and discipline thereby



New Action Program (FY 2005 and 2006)

Ensuring further promotion of region-based Relationship Banking during FY 2005 and 2006

《1. Business revitalization and facilitation of SME financing》

- (1) Strengthening functions to support creation and opening of new businesses
- (2) Strengthening functions of management consultations and support for client companies
- (3) Proactive efforts for business revitalization
- (4) Promoting loans without excessive reliance on collateral and guarantee
- (5) Developing systems of explanation to customers; strengthening functions to deal with consultations and complaints
- (6) Developing human resources

《2. Strengthening of management functions》

- (1) Enhancing risk management
- (2) Developing management systems of earnings and improving profitability
- (3) Strengthening governance
- (4) Strengthening compliance
- (5) Strategic utilization of IT
- (6) Enhancing functions of central cooperative financial institutions
- (7) Supervision and inspection system

《3. Enhancement of convenience for regional users》

- (1) Disclosure of information on contributions to local communities
- (2) Development of a database on the state of SME financing
- (3) Establishment of FIs’ management focusing on regional users’ satisfaction
- (4) Coordination with various measures to promote revitalization of regional economies
- (5) Survey on users’ assessment of FIs

⇒ Each FI is required to submit a “Relationship Banking Promotion Plan” to the FSA by the end of August 2005 and to publicly release it. Each FI will also release a report on the progress of its plan semiannually.

Summary of the New Action Program (FY 2005 and 2006)

Ensuring further promotion of region-based Relationship Banking during FY 2005 and 2006

⇒ Each FI is required to submit a “Relationship Banking Promotion Plan” to the FSA by the end of August 2005 and to publicly release it. Each FI will also release a report on the progress of its plan semiannually.

【 I . Basic concepts】

1. Continued promotion of Relationship Banking
2. Promotion of Relationship Banking based on correct understanding of its nature
3. Promotion via “selection and concentration” reflecting regional features and user needs
4. Promotion of disclosure and discipline thereby

※ Nature of region-based Relationship Banking: Improving FIs’ profitability as well as strengthening their financial intermediary functions to SME by grasping borrowers’ business conditions through quality communication including via face-to-face transactions, while utilizing the information acquired through long-term business relationships with borrowers.

【 II . Specific measures】

《1. Business revitalization and facilitation of SME financing》

(1) Strengthening functions to support creation and opening of new businesses

- Strengthening of the pre-loan examination system
- Further strengthening of networks among industries, academics and the government; effective utilization of the “Conference on Financing to Support Industrial Clusters”
- Strengthening cooperation with institutions with expertise in assisting venture business in the region

(2) Strengthening functions of management consultations and support for client companies

- Further strengthening of functions to provide consultation service and useful information to SME
- Strengthening measures to upgrade “need attention” loans to the “normal” category, and disclosure of their progress

(3) Proactive efforts for business revitalization

- Establishment and utilization of corporate reconstruction funds for regional SME
- Proactive utilization of debt-to-equity swaps and debt-to-debt swaps backed by proper restructuring plans
- Proactive utilization of SME Revitalization Support Councils
- Utilization of experts and know-how regarding financial business practices via cooperation with other institutions
- Providing DIP finance
- Providing exit finance for revitalized enterprises including via utilization of syndicated loans
- Further promotion of information disclosure concerning results of assistance for corporate restructuring and the sharing of know-how underlying such achievements
- Establishment of a scheme to assist acquisition of outside experts in financial business

(4) Promoting loans without excessive reliance on collateral and guarantee

- ① Promoting loans without excessive reliance on collateral and guarantee**
 - Strengthening of measures to correctly evaluate SME’s prospects and technology
 - Development of methods to promote loans without excessive reliance on real estate collateral and guarantee (e.g., strict review of business conditions after making loans, utilizing covenants to secure loans, etc.)
- ② Diversifying fund raising methods for SME**
 - Lending via methods focusing on value of the borrowers’ business (e.g., loans secured by intellectual property rights, non-recourse loans, etc.)
 - Proactive measures towards securitization including CLOs
 - Measures for liquidation of credited loans by central cooperative financial institutions

(5) Developing systems of explanation to customers; strengthening functions to deal with consultations and complaints

- Developing internal arrangement for explanation to customers and strengthening functions to deal with customers’ consultations and complaints
- Convening and utilizing the “Conference to Facilitate Regional Financing”

(6) Developing human resources

- Measures to develop human resources for business revival and facilitation of SME financing, including measures to improve ability to assess borrowers’ business conditions and to provide assistance

《2. Strengthening of management functions》

(1) Enhancing risk management

- Enhancing risk management in preparation for introduction of Basel II
- Ensuring proper self-assessment of assets, write-off and provisioning
- Reviewing market risk management systems

(2) Developing management systems of earnings and improving profitability

- Restructuring FIs’ business based on performance evaluation by utilizing managerial accounting

(3) Strengthening governance

- Strengthening governance of cooperative financial institutions
- Examining the performance of the governing function of the board of directors and the board of auditors

(4) Strengthening compliance

- Strengthening the internal inspection of compliance condition of each operating branch
- Ensuring proper management and treatment of customer information

(5) Strategic utilization of IT

- Strategic utilization of IT in accordance with each FI’s business model

(6) Enhancing functions of central cooperative financial institutions

- Proactive utilization of capital reinforcement system and provision of physical support
- Measures for further utilization of functions to return profits through management of each FI’s surplus funds

(7) Supervision and inspection system

- Comprehensive and intensive supervision and inspection based on assessments reflecting various points of view
- Further permeation of the “Supplement to the Financial Inspection Manual: Treatment of Classifications Regarding Credits to Small- and Medium-Sized Enterprises”

《3. Enhancement of convenience for regional users》

(1) Disclosure of information on contributions to local communities

(2) Development of a database on the state of SME financing

(3) Establishment of FIs’ management focusing on regional users’ satisfaction

(4) Coordination with various measures to promote revitalization of regional economies

(5) Survey on users’ assessment of FIs

【 III. Implementation methods】

1. Composition and release of unique plans reflecting regional features
2. Compilation and release of progress reports
3. Utilization of Regional Financial Bureaus (e.g., convening symposiums to share FIs’ unique efforts, etc.)
4. Overall evaluation of the “Intensive Improvement Period”