

## Hokuriku Bank

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Hokuriku Bank is a very successful regional bank. It was established as the Kanazawa 12th National Bank in 1877 by the Kaga clan, which had been the Edo-period rulers of the area. The bank created an extensive network of branches and engaged in trade finance along the Japan Sea coast to Hokkaido, where it also developed branches.

In 2004, following a comprehensive alliance beginning in 2002, Hokuriku Bank and the slightly smaller Hokkaido Bank merged to form Hokuohoku Financial Group.

### The Region

The Hokuriku region is approximately in the center of Honshu on the Japan Sea coast. This location historically made it a center of contact with Korea and the Asian continent. The area consists of Toyama, Ishikawa, Fukui, and Niigata prefectures. Hokuriku Bank is concentrated in the first three of these. With just over 3 million people, the three prefectures are home to about 2.4 percent of Japan's population and produces 2.4 percent of the country's GDP. Toyama City, where the bank is headquartered, has a population of 419,000. Kanazawa, the historic seat of the Kaga, is the area's largest city with 466,000. It was known as the "little Kyoto" during the Edo period. Except for Kanazawa, the area has been slowly losing population for decades.

The area's economic structure reflects its long manufacturing history: the secondary sector comprises 29.6 percent of GDP, compared to the national level of 24.2 percent. The share of agriculture is small: the primary sector is 1.0 percent of output, compared to 1.1 percent for all Japan.

Hokkaido has both a larger population (5.4 million) and a higher share of GDP (3.6 percent).

### The Bank and its Financial Group

Hokuohoku Financial Group is listed on the first section of the Tokyo Stock Exchange, as well as on the Sapporo Securities Exchange. As a holding company, it has only 13 full-time employees, and 69 part-time employees. Its capital adequacy ratio is 10.3 percent (consolidated), and it has an A credit rating.

Hokuriku Bank has a dominant position in Toyama, and is strong regionally. It has 145 regular branches with full services, and 42 sub-branches that provide specialized teller services.

The Bank has 6 overseas representative offices. As of March 31, 2016, Hokuriku Bank had total assets of ¥6,880 billion, 2,798 regular employees, and a capital adequacy ratio of 9.78 percent. The numbers for Hokkaido Bank are ¥4,701 billion in assets, 2,228 employees, and a capital adequacy ratio of 10.23 percent. Both banks are highly creditworthy, with A ratings from the R&I rating agency. Standard and Poors rates Hokuriku Bank an A-.

Hokuriku Bank's loans and discounts for the year ending March 31, 2016 were ¥4,383 billion, up slightly from ¥4,228 billion from the previous year. Most of its loans are to small and medium enterprises (SMEs), amounting to ¥2,918 billion in 2016. Deposits in 2016 were ¥6,118 billion; the loan-deposit ratio was only 72 percent. The non-performing loan ratio as of March 2016 was a low 2.18 percent. These are well covered by collateral guarantees and loan-loss allowance accounts.

The key to the Bank's success lies in its long-term, close relations with its borrowers and depositors. It has the largest market share for loans in its three-prefecture primary area, with 27.4 percent of the loan market (March 2016 data). This is mainly because of its dominance in Toyoma prefecture, where its share is over 43 percent. In Ishikawa and Fukui it is second.

Hokkaido Bank has a 25 percent loan share in Hokkaido, compared to almost 40 percent for its main competitor.

There are three local banking institutions making loans to the same small companies as Hokuriku Bank. However, it does not make sense to buy them out since the borrowing companies would seek other credit associations or other local lenders in order to maintain relationships with several financial institutions in addition to their main bank.

Given the extremely low interest rate structure that has prevailed for some years, the spread between loan and deposit rates is low, and lending is not very profitable. With minor differences, ordinary income, net income, costs, and core net business profits were flat from fiscal 2013 through fiscal 2015.

About 20 percent of profits are from fees as an agent for life and non-life insurance companies. The tellers who sell these products require special training and licenses. The basic way to increase profits is to increase the number and value of transactions, especially of fee-based services.

In addition to its 2,798 regular employees, the Bank has about 2,000 contract, part-time, and temporary workers in its branches. It annually hires about 200 new young employees into its management track; about one-half of whom are women. Female employees continue to work after marriage. About half of female regular employees return to work after childbirth if it is within 10 years. Many of them live in three-generation households, since most are locally hired to work in one of the branches.

The parent company Hokuhoku Financial Group still has some way to go in integrating the two banks and reducing costs. The Group also plans to expand its business in its other, still modest-sized subsidiaries that engage in leasing, credit card operations, loan guarantees, venture capital, software development, and other services. Start-up enterprises can receive

some initial funding from government institutions, and a public-private guarantee association provides collateral for bank loans.

In January 2017 Hokuhoku teamed with rapidly-emerging Tokai Tokyo Financial Holdings to form Hokuhoku Tokai Tokyo Securities Co Ltd with branches in Toyama, Kanazawa, and Sapporo (the capital of Hokkaido). Hokuhoku owns 60%. According to Hokuhoku's web site, the goal is to "Become a leading bank-affiliated securities house in the area by fully leveraging on both the close-knit operational network of Hokuhoku FG and the experience and the operational function of Tokai Tokyo FH."

Not surprisingly, Managing Director Takashi Asabayashi expressed considerable concern about the future of the Japanese economy and particularly the local economies of Hokuriku and Hokkaido. The Bank expects the Bank of Japan's extremely low interest rate policy to continue indefinitely. Hokuriku Bank's major challenge is how both to reduce operating costs and to fully maintain the high quality of services to its customers. Cutting costs involves applying new technologies, investment in internal infrastructure, and reforming back office procedures. To achieve this without reducing customer service, the Bank is in the process of developing a more innovative business model with major emphasis on further staff education and training; and motivating the capable, young staff to be more ambitious. The Bank's perspective is that its long-term competitive strength is based on good, trustworthy relationships with its customers; service for them is more important and effective than price competition in loans, deposits, and other business.

Hokuriku Bank is quietly ambitious, and I am optimistic about its future.

#### Acknowledgment

On November 10 2016 I visited Hokuriku Bank in Toyama City in Toyama Prefecture. My visit was arranged by Hirofumi Maki of the Development Bank of Japan, who accompanied me. We had a great meeting with Mr. Takashi Asabayashi, Managing Director. Ms. Chiho Minami, my interpreter, also participated.

The company maintains an excellent English-language web site at <http://www.hokuhoku-fg.co.jp/english/>.