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Japan's Act on Strengthening Financial Functions (ASFF)[1]

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Abstract

After the Japanese Financial Crisis in 1990s, the non-performing loan problem was mitigated in the large Japanese banks but persisted in the regional banking system. By 2004, regional banks accounted for half of all non-performing loans. In 2004, the government passed the Act on Strengthening Financial Functions (ASFF)[4], legislation for capital injections to address the non-performing loan problem. Aimed at regional banks, the ASFF secured ¥2 trillion in capital, with various eligibility restrictions and requirements, such as a rigorous debt restructuring plan. As the Japanese economy and the financial system encountered multiple external shocks, the government amended the Act several times. Following the shocks, including the Global Financial Crisis in 2008, the Great East Earthquake in 2011, Brexit in 2016, the COVID-19 outbreak of 2020, and the COVID-19 recession in 2021, the government expanded the ASFF's scale, extended end dates, and relaxed eligibility and debt restructuring requirements. The ASFF—originally established to recover the capital adequacy ratios for banks—eventually turned into a macroprudential tool through amendments that made the application more accommodative (Sakaguchi 2020, 3). In total, by the end of September 2020, over 30 financial institutions applied and received ¥684.04 billion in capital injections in the form of preferred shares, subordinated loans and debt, preferred investments, and trust beneficiary rights. ¥200.5 billion in capital has been recovered to date (DICJ 2020a, 62–63).

Keywords: capital injection, Japan, Asian Financial Crisis, Resolution and Collection Corporation, Financial Functions Enhancement Examination Committee

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[1] This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering the responses to the global financial crisis that pertain to broad-based capital injection programs.
Cases are available from the Journal of Financial Crises at https://elischolar.library.yale.edu/journal-of-financial-crises/.

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[4] The Act on Strengthening Financial Functions is also referred to in Japanese financial crisis literature and government documents as Act on Special Measures for Strengthening Financial Function, or Financial Functions Strengthening Act, and written as 金融機能強化法 (Kinyuukinoukyokahou) in Japanese.

Japan's Act on Strengthening Financial Function (ASFF)

At a Glance

Following the Japanese financial crisis in the late 1990s, the Japanese government introduced a number of crisis-fighting tools and adopted restructuring frameworks. In 2002, the disposal of bad loans became a priority for the Japanese government under Prime Minister Junichiro Koizumi (Koizumi 2002). Former chair of the Financial Reconstruction Committee Hakuo Yanagisawa had chaired the Japanese Financial Services Agency (JFSA) until that point but was dismissed because of lack of progress in resolving the non-performing loan (NPL) problem. Yanagisawa was replaced by Heizo Takenaka, who enforced what came to be known as the Takenaka Plan, one of the most controversial financial policies adopted in Japan (Himino 2021). While the details of the Takenaka Plan did not differ significantly from the previous plan, it was characterized by stricter enforcement of restructuring policies (Hoshi and Ito 2004). Under Takenaka, many big banks improved their capital ratios and stock prices increased (Hoshi and Kashyap 2010; Himino 2021).

However, while large city banks improved their capital ratios, regional banks lagged in disposing of nonperforming loans (IMF 2004). Regional banks were exempted from the government policy requiring a halving of the NPL ratio (Koizumi 2002). As of March 2003, Barclays estimated regional banks accounted for 54 percent of system-wide NPLs, amounting to ¥23.8 trillion. By January 2004, the Japanese government determined regional banks to be a priority for financial stability (Hirano 2004).

Summary of Key Terms	
Purpose: "In an environment where financial institutions had difficulty in securing financing on their own, provide sufficient funding through capital participation via public fund injection so that the financial sector can voluntarily commit to risk taking and function as financial intermediaries in the regional economy" (Endo 2013).	
Announcement Date	June 14, 2004
Operational Date	August 1, 2004
Injection Start Date	September 2006
End of Application Window	March 2026 (after the amendment in June 2020)
Program Size	Originally ¥2 trillion, now expanded to ¥15 trillion after the amendment in June 2020
Eligibility	Banks and designated nonbanks
Administrator	The Deposit Insurance Corporation of Japan (DICJ) Resolution and Collection Corporation of Japan (RCC, the subsidiary of the DICJ)
Legal Authority	Passed through the Japanese Diet, executed by the Prime Minister's Office
Key Features	SME lending focus Merger and acquisitions focus (after May 2021 amendment) Multiple amendments with end date extensions, size expansions, and more generous debt restructuring requirements

In January 2004, in response to the burgeoning NPL problem within the regional banks, the Prime Minister's Cabinet submitted the Act on Strengthening Financial Functions (ASFF) to the Japanese Diet, earmarking ¥2 trillion for public capital injections into regional banks (House of Representatives, Japan 2004). FSA Chair Heizo Tanaka commented that regional banks would be inspected as strictly as national banks under previous public capital injections (Hirano 2004). The bill was discussed between January and June, and on June 14, 2004, the Japanese Diet passed the bill, two days before the end of the 159th Diet Session (House of Representatives, Japan 2004). The amount, price, capital characteristics, and the timing of the capital injection under the ASFF varied across financial institutions, tailored to each institution's needs.

Following the original legislation in 2004, the government made a series of amendments to the legislation to utilize the capital injection framework for various purposes.

First, in September 2008, the collapse of Lehman Brothers created the impetus to pass legislation to support the Japanese economy. Then Prime Minister Aso announced the Comprehensive Immediate Policy Package to Ease Public Anxiety (Aso 2008). The package focused on improving small and medium-sized enterprise (SME) financing, with a series of policy measures intended to improve economic well-being with several fiscal targets (Endo 2013). Under these measures, the Diet passed the first amendment to the ASFF, relaxing some eligibility and debt restructuring requirements, extending the sunset date from the end of March 2008 to March 2012, and expanding the size from ¥2 trillion to ¥12 trillion (FSA 2008).

Second, in March 2011, an earthquake of unprecedented scale—9.0 in magnitude—struck the northern coast of Japan. Immediately following, the Prime Minister's office added line items to the supplementary budget for disaster relief efforts (Noda 2011). Four months later, the Diet passed an amendment to the existing recapitalization legislation with special clauses for regional institutions supporting the revitalization of areas affected by the earthquake and extended the sunset date to the end of the March 2017 (House of Representatives, Japan 2011; Endo 2013).

Third, in 2016, Japan held the presidency of the G7 countries. During this presidency, the UK public voted to leave the EU. To show leadership, the Japanese government led the G7 in preparing for potential financial stability implications resulting from Brexit. The government proposed another amendment to the act to prepare for the risks arising from Brexit by continuing to support the growth of SMEs; this time the government amended the sunset date to the end of March 2022. The amended bill passed the diet on December 2, 2016 (Abe 2016; House of Representatives, Japan 2016).

Fourth, in 2020, upon the outbreak of the global COVID-19 pandemic, the Japanese Diet passed another amendment to the ASFF. On June 13, the Diet extended the period of public capital injections to financial institutions for an additional four years, to the end of 2026. The amended bill also proposed the expansion of the available public funds for the injection from ¥12 trillion to ¥15 trillion (House of Representatives, Japan 2020). In proposing the new amendment, Taro Aso, the Minister of State for Financial Services emphasized that the domestic financial system was sound and that the amendment was a preemptive measure ensuring the long-run soundness of the financial system so that it could continue to support SMEs impacted by the COVID-19 crisis and revitalize the economy (Aso 2020).

The fifth and most recent amendment to the ASFF was passed by the Diet on March 5, 2021 and was implemented on May 19, 2021. The Japanese Diet explained that the purpose of the amendment was to maintain financial functions that support the recovery and revitalization of regional economies (rural areas) in the aftermath of the COVID-19 pandemic. Citing declining populations in those regional areas, regional banks that plan to merge or acquire other banks may submit "implementation plans" to receive capital injections (FSA 2021). The declining population and its negative impact on regional economies and the financial system have long been a concern for Japan. For instance, the Bank of Japan's April 2017 Financial System Report raised concerns about declining profitability of financial institutions, noting that the consequences of a declining population and other macro factors could lead to potential vulnerabilities (Bank of Japan 2017). In November 2020, the Bank of Japan also introduced the "Special Deposit Facility to Enhance the Resilience of the Regional Financial System," a program to promote cost savings, mergers, and other acquisitions within regional banks (Bank of Japan 2020).

Figure 1 below summarizes the evolution of ASFF and participation data.

Figure 1: Evolution of the Act on Strengthening Financial Functions

	June 2004	Dec 2008 Amendment	June 2011 Amendment	Dec 2016 Amendment	June 2020 Amendment	May 2021 Amendment
Reason for implementation /amendment	To restore both domestic and foreign confidence in Japan's financial system by disposing of NPLs on the balance sheets of financial institutions	The Global Financial Crisis To revitalize regional economies by strengthening financial functions through central government's capital participation to the financial sector	The Great East Earthquake To maintain and enhance financial functions in the affected areas and provide comfort to the depositors	The risk from Brexit	The COVID-19 pandemic To strengthen regional banks' financial intermediary function of supporting cash flow and promoting the equity financing of companies (Aso 2020)	The COVID-19 pandemic and the struggling regional economies To strengthen the post-COVID-19 regional economies
Size (in JPY)	¥2 trillion	Expanded to ¥12 trillion	No amendment	No amendment	Expanded to ¥15 trillion	No amendment

Debt restructuring plan	Various requirements including: -Numerical targets for profitability and efficiency -Plans to achieve the numerical targets -Plans to facilitate credit to SMEs Measures to achieve numerical targets -Establishment of a responsible management system -Plan period (within 3 years) -Banks which capital ratios are below the regulatory ratio will need to pursue management responsibility upon application -Pursue management responsibility if targets are not met	Relaxation of conditions: -Banks which capital ratios are below the regulatory ratio will NOT need to pursue management responsibility upon application -NOT Pursue management responsibility if targets are not met	Introduced the following special exceptions and requirements for the earthquake impacted financial institutions: -Exempt banks from the requirement to set numerical targets and establish a responsible management system. -Exempt banks from the requirement to facilitate credit to SMEs -Extend the plan period to five years at most -Require banks to report facilitating credit to disaster victims	No amendment	Introduced the following special exceptions and requirements for the COVID-19 impacted financial institutions: -Exempt banks from the requirement to set numerical targets and establish a responsible management system. -Exempt banks from the requirement to facilitate credit to SMEs -Extend the plan period to five years at most -Require banks to report facilitating credit to COVID-19 victims	Introduced the following special exceptions and requirements for financial institutions that would undergo mergers and management integration
Eligibility	The government screened the applications based on the following categories: - Expected to improve profitability and efficiency -Supporting SMEs in regional economy -Restructuring efforts -Repayment expected within approximately 15 years The financial institutions must be vital for the regional economy	The following items are excluded from the screening requirements: -Restructuring efforts	Introduced the following special exceptions and requirements for the earthquake impacted financial institutions: -Excluded profitability and efficiency requirements -Excluded repayment expectation within 15 years -The financial institutions need not to be vital for the regional economy	No amendment	COVID-19 impacted financial institutions will be subject to the same exceptions as the earthquake impacted financial institutions	Regional financial institutions that would undergo mergers and management integration will be subject to the special treatment

Capital Characteristics	preferred shares, trust beneficiary rights, and common stock for those financial institutions which capital ratios are below the regulatory requirements	No amendment	the earthquake impacted financial institutions have the option of subordinated loans /bonds in addition to common shares, preferred shares. The dividend rate is adjusted.	No amendme nt	COVID-19 impacted financial institutions will be subject to the same treatment as the earthquake impacted financial institutions.	
End date	End of March 2008	End of March 2012	End of March 2017	End of March 2022	End of March 2026	No amendment
# of Financial Institutions participating	2	11	21 (including 13 financial institutions that are designated as "Great East Earthquake impacted")	2	-	-
Injected capital (in JPY)	¥40.5billion	¥309 billion	¥315.34 billion	¥19.2 billion	-	-

Notes: Data as of June 2021, and participation and injection data as of September 2020.

Source: Sakaguchi 2020; FSA 2021; 2008; 2011b; House of Representatives, Japan 2004; 2011; 2020.

Summary Evaluation

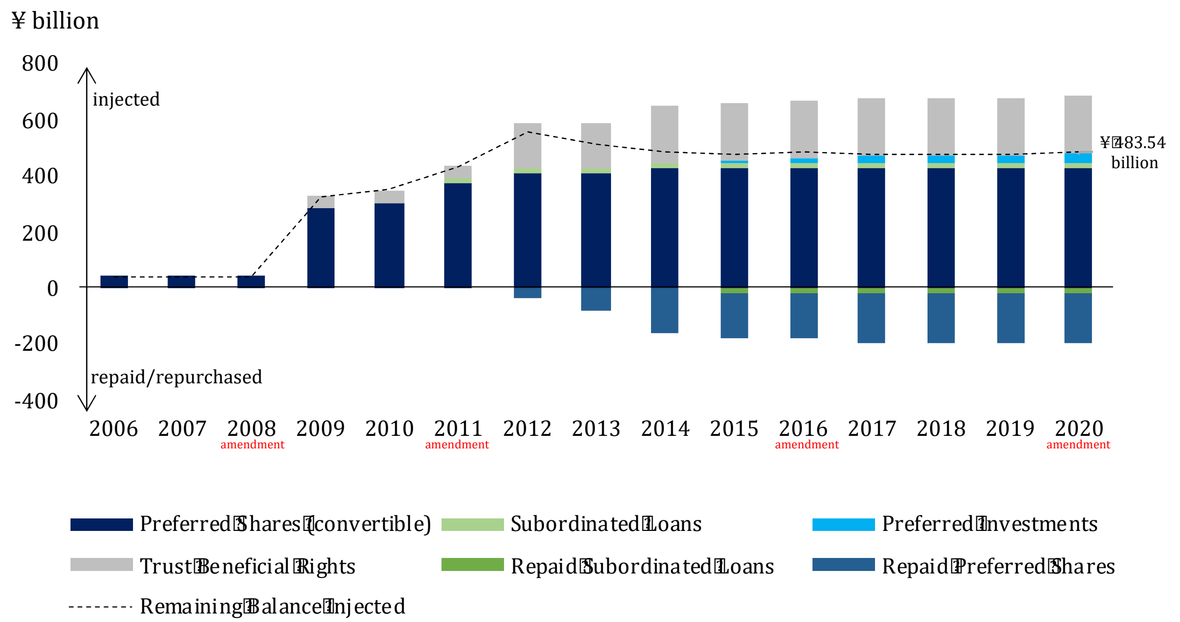
Though the program became operational on August 1, 2004, it remained unutilized until two years later, when Kiyo Bank and Howa Bank became the first banks to apply for injection in August 2006. The banks received capital in in November and December of 2006, respectively. The banks requested ¥39 billion total, with Kiyo bank requesting ¥30 billion and Howa Bank requesting ¥9 billion. They eventually received ¥40.5 billion, with Kiyo Bank receiving an additional ¥1.5 billion more than requested (DICJ 2020b).

After the amendment to the ASFF in 2008, 11 additional financial institutions participated the scheme, receiving a total of ¥309 billion. After a second amendment in 2011, which also extended the application period, an additional 21 institutions participated in the injection, receiving ¥309.1 billion (of which 13 financial institutions were designated as "Great East Japan Earthquake impacted financial institutions"). In December 2016, the Japanese government extended of the application period again, through March 31, 2022. Since December 2016, two institutions have applied, receiving ¥16.24 billion yen. The evolution of the law and its utilization can be seen above in Figure 1.

Thirty institutions participated in the capital injection scheme, with some institutions participating multiple times. As of the end of September 2020, the Japanese government had

¥684.04 billion capital injected, and ¥200.5 billion has been repaid so far, leaving ¥483.54 billion the remaining balance. (See Figure 2 below.) (DICJ 2020b).

Figure 2: ASFF Cumulative Injections and Repurchases



Source: Deposit Insurance Corporation of Japan n.d.

Of financial institutions that participated in the capital injection program, five have repaid or repurchased shares either partially or in full (77 Bank, Kiyo Bank, Howa Bank, North Pacific Bank, and Kirayaka Bank). Both Howa Bank and Kiyo Bank repurchased their preferred shares within 10 years of the capital injection. Under the extension made during the Lehman Brothers bankruptcy, two of the remaining 28 banks, North Pacific Bank and Kirayaka Bank, repurchased their preferred shares. Only one bank in the subsequent extensions, 77 Bank, has repaid the amount injected. (See Figure 3).

There is still a substantial amount of capital outstanding from the series of capital injections. The capital injection framework was utilized most during the Global Financial Crisis and in the aftermath of the Great East Japan earthquake. The Fukushima region has seen an economic recovery, but it is unclear the extent to which the regional banking sector played a role. Similarly, while banks have utilized the legislation after the amendment concerning Brexit was passed, it has been unclear the repercussions Brexit will have on financial stability and regional banking needs, and so far no banks have applied the capital injection since the COVID-19 2020 amendment.

Figure 3: Repayment Status

Which ASFF?	Name of Financial Institution	Injection Month Year	Capital Characteristics	Beginning of Conversion Period	Mandatory Acquisition Date for Preferred Shares	Fully repaid?	Repayment Details
June 2004 version (original)	Kiyo HD (Kiyo Bank)*	Nov-06	Preferred Shares (convertible)	1-Oct-11	1-Oct-16	Y	Repurchased ¥15.4 billion (out of ¥31.5 billion, repurchase amount: ¥16.66 billion) in Sep 2012. Repurchased the remaining ¥16.1billion (repurchase amount: ¥18.101 billion) in Sep 2013.
	Howa Bank**	Dec-06	Preferred Shares (convertible)	1-Apr-08	To be decided by the board of directors on or after April 2, 2020	Y	Repurchased in full (repurchase amount: ¥9.144 billion) in Mar 2014. The issuer also received capital participation of ¥16 billion.
After Dec 2008 Amendment	North Pacific Bank	Mar-09	Preferred Shares (convertible)	1-Jan-13	1-Apr-24	Y	Repurchased in full (repurchase amount: ¥9.144 billion) in Mar 2014. The issuer also received capital participation of ¥16 billion. Repurchased the remaining ¥70 billion (repurchase amount: ¥81.088 billion) in Mar 2014.
	Jimoto HD (Kirayaka Bank)*	Sep-09	Preferred Shares (convertible)	1-Oct-10	1-Oct-24	Y	Repurchased in full (repurchase amount: ¥20.078 billion) in Dec 2012. Implemented along with the issuance of new preferred shares totaling ¥20 billion.
	Towa Bank	Dec-09	Preferred Shares (convertible)	29-Dec-10	29-Dec-24	N	Partially repurchased ¥20 billion (out of ¥35 billion, repurchase amount: ¥22.744 billion) in Mar 2018.
After June 2011 Amendment	77 Bank***	Dec-11	Subordinated loan (10 years three months)	NA	NA	Y	Exercised the option to repay in full in June 2015.

* Names of financial institutions in parenthesis refer to the entities that effectively received capital participation.

** Preferred Shares with voting rights to appoint or dismiss directors.

*** Earthquake-impacted financial institution.

Source: Deposit Insurance Corporation of Japan n.d.

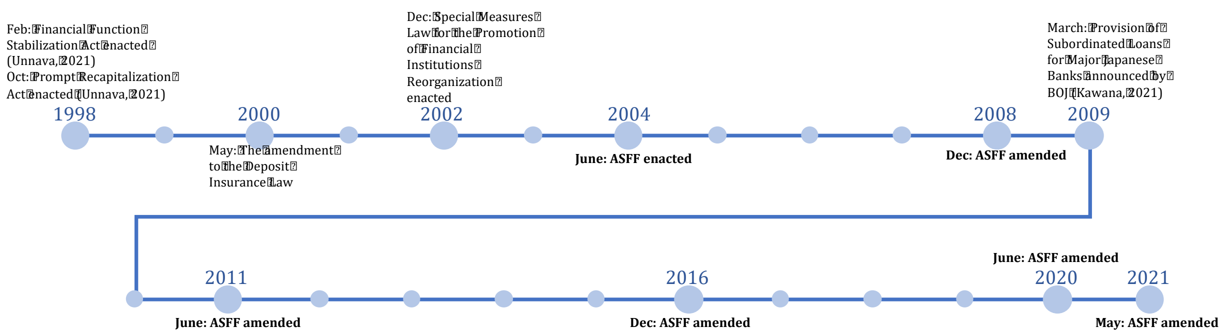
Japan Context 2004 - 2006	
GDP (SAAR, nominal GDP in LCU converted to USD)	$5.02 trillion in 2004 $4.56 trillion in 2005 $4.58 trillion in 2006
GDP per capita (SAAR, nominal GDP in LCU converted to USD)	$37,689 in 2004 $37,218 in 2005 $35,434 in 2006
Sovereign credit rating (Five-year senior debt)	Data for Q4 2004: Fitch: AA- Moody's: A2 S&P: AA- Data for Q4 2005: Fitch: AA- Moody's: A2 S&P: AA- Data for Q4 2006: Fitch: AA- Moody's: A2 S&P: AA-
Size of banking system	$7.37 trillion in 2004 $6.77 trillion in 2005 $6.93 trillion in 2006
Size of banking system as a percentage of GDP	146.8% in 2004 148.5% in 2005 151.2% in 2006
Size of banking system as a percentage of financial system	46.9% in 2004 47.7% in 2005 50.0% in 2006
Five-bank concentration of banking system	52.4% in 2004 51.9% in 2005 51.4% in 2006
Foreign involvement in banking system	Data not available for 2004–06
Government ownership of banking system	Data not available for 2004–06
Existence of deposit insurance	Yes in 2004–06
Sources: Bloomberg, World Bank Global Financial Development Database, World Bank Deposit Insurance Dataset.	

The original Act on Strengthening Financial Functions (ASFF) was passed as a stand-alone package, without any other accompanying legislation (Hirano 2004; House of Representatives, Japan 2004).[5] Meanwhile, it can be regarded as one of the components in the series of broad-based capital injections throughout the Japanese financial crisis. As shown in Figures 4 and 5, the Financial Function Stabilization Act and the Prompt Recapitalization Act in 1998 were the two broad-based capital injection frameworks that preceded the ASFF.

Figure 4: Timeline of YPFS Japanese Broad-Based Capital Injection Cases

Key Design Decisions

1. **Part of a Package: The Japanese government originally passed the Act on Strengthening Financial Functions (ASFF) as a stand-alone package. Later amendments to the ASFF were incorporated as part of various policy packages, often responding to the external macroeconomic shocks, and it eventually evolved into a macroprudential policy tool.**



Source: Authors' analysis

[5] Some consider the ASFF as part of the Program for Financial Revival or the Financial Reconstruction Program, a framework established in October 2002 to reduce non-performing loans (Matsubayashi 2015, 20; Endo 2013). In July 2003, a public discussion paper on the public capital injection scheme was published, and the ASFF was eventually designed under the discussed frameworks (Oomori 2017, 3–4; Financial Function Enhancement Examination Committee 2003).

Figure 5: Summary and Timeline of Japanese Capital Injection Frameworks

Feb 1998	Financial Function Stabilization Act[6] (Unnava 2021a) (Broad-based Capital Injection Scheme) ¥1.8 trillion was injected in subordinated debt and loans and preferred shares. Three out of 21 participating banks were regional banks (Bank of Yokohama, Hokuriku Bank, and Ashikaga bank). By 2017, all banks had repurchased their shares, loans, and debts. Most banks received a similar amount of capital (approximately ¥100 billion) simultaneously in March 1998. The application window closed in March 2003.
Oct 1998	Prompt Recapitalization Act[7] (Unnava 2021 b) (Broad-based Capital Injection Scheme) Between 1998-2001, ¥8.6 trillion capital was injected in in subordinated debt and loans and preferred shares. The underwriting terms, size, and timing of the capital injection were tailored to each banks' needs. The application window closed in March 2001.
May 2000	Deposit Insurance Act (measures against financial crisis) (Ad-hoc Capital Injection Scheme) While Financial Function Stabilization Act and Prompt Recapitalization Act had clear sunset dates, the amendment of the Deposit Insurance Act enabled ad-hoc capital injections to solvent banks under Article 102 (1). Under this amended Act, Resona Bank received an ad-hoc capital injection of ¥1,960 billion in June 2003.
Dec 2002	Organizational Restructuring Act (Ad-hoc Capital Injection Scheme) This new law enabled the government ad-hoc capital injection to merging and restructuring banks

	which capital adequacy ratios are below the requirement. Under this new Act, Kanto Tsukuba Bank received ¥6.0 billion in September 2003.
June 2004 Dec 2008 June 2011 Dec 2016 June 2020 May 2021	Act on Strengthening Financial Functions (ASFF) and further amendments (Broad-based Capital Injection Scheme)

Source: Authors' analysis

However, compared to other schemes, the ASFF is a unique preemptive broad-based capital injection scheme, targeting regional banks[8] and cooperatives[9]. The ASFF was established to focus more on the regional banking sector, which was not necessarily the focus of the previous schemes (Hoshi and Kashyap, 2010).

Subsequent amendments were sometimes packed with other economic or financial policies. For instance, the amendment in 2008 corresponded with economic policies at the Enterprise Turnaround Initiative Corporation of Japan and the SME Revitalization Support Councils (Hatanaka 2012; Endo 2013). Furthermore, the JFSA and media often emphasized the coordination of the COVID-19 related ASFF 2020 amendment and the Special Act under the Anti-Trust Law (FSA 2020). Lastly, the most recent amendment in June 2021 was paired with revisions in other laws; one banking law revision eased restrictions on the scope of bank's business and equity investments, and

[6] 金融機能安定化法 in Japanese, cited as Act on Emergency Measures for Financial Functions Stabilization (Former Financial Functions Stabilization Act) on the DICJ website.

[7] 早期健全化法(Soukikenzenkahou) in Japanese, cited as Act on Emergency Measures for Early Strengthening of Financial Functions (Early Strengthening Act) on the DICJ website.

[8] In Japan, there are first-tier regional banks, which operate in one or a few prefectures, and second-tier regional banks, which are smaller than first-tier regional banks and operate mainly within a prefecture. In this YPFS case, we call both "regional banks".

[9] Cooperatives include those operating within a prefecture and specializing in small and medium-sized enterprise loans, so-called shinkin, community-based credit union, so-called shinkumi, etc.

another investment law was intended to promote overseas investors' participation in Japanese financial markets (Jiji Press 2021).

2. Legal Authority: The Japanese Diet formally passed the ASFF.

In January 2004, in response to the burgeoning nonperforming loan issue at regional banks, the Prime Minister's Cabinet submitted the Act on Strengthening Financial Functions to the Japanese Diet, earmarking ¥2 trillion for public capital injections into regional banks. On June 14, 2004, the Japanese Diet finally passed the bill, two days before the end of the 159th Diet Session (House of Representatives, Japan 2004). Each subsequent amendment passed through the Diet successfully as well.

3. Communication: The Prime Minister's office publicly announced each recapitalization bill and subsequent amendments; the Diet debated each publicly before passing the bills and amendments.

The Prime Minister's office publicly announced each recapitalization bill and the subsequent amendments. The Diet debated each bill and amendment publicly before officially passing them. Occasionally, the Minister of State for Financial Service also released official statements.

4. Governance and Administration: The ASFF capital injection framework involves ministers from a number of relevant ministries, the prime minister, the Financial Function Enhancement Examination Committee, and the Deposit Insurance Corporation of Japan (DICJ).

Multiple stakeholders are involved in the ASFF capital injection scheme, including ministers from relevant ministries, prime minister, the Financial Function Enhancement Examination Committee (Committee), and the DICJ.

The Japanese Financial Services Agency (JFSA), under the Ministry of Finance, was tasked to form the Committee[10] to assess applications and oversee the implementation of the plans for the recapitalization (House of Representatives, Japan 2004, 48). The Committee consisted of part-time members appointed by the prime minister serving three-year terms (House of Representatives, Japan 2004, 49,51). The maximum number of members is 6 people (The House of Representatives, Japan 2021). The JFSA website hosts the Committee's meeting minutes soon after the meeting and transcripts are publicly disclosed three years after meetings (Financial Function Enhancement Examination Committee 2004, 5). As of June 2021, according to the JFSA website, the Committee has met 25 times over the span of the ongoing recapitalization (Financial Service Agency, n.d.).

The Committee evaluates the management enhancement plan submitted by the applicant financial institutions. The involved ministers—including the Commissioner of JFSA or the Minister of Agriculture, Forestry and Fisheries, depending on the type of the financial institution, the Minister

[10] This committee has also been referred to as the "Banking Function Reinforcement Study Council" and the "Examination Committee for Strengthening Financial Functions", referred as 金融機能強化審査会 (Kinyuukinoukyoukashinsakai) in Japanese.

of Finance, and prime minister—receive reports. The ministers also have the right to approve or request exercise rights, including conversions. Voting rights are only exercised if the banks with preferred shares do not pay their dividends (see Key Design Decision #11 for further detail) (Sakaguchi 2020).[11]

The DICJ entrusts the operation of capital participation, management, and disposal to the RCC, a subsidiary of the DICJ. The RCC [12] was created as a merger between the Housing Loan Administration Corporation and the Resolution and Collection Bank on April 1, 1999, under the Financial Revitalization Act. The RCC is funded entirely by the DICJ (DICJ 2020a). The DICJ acts independently of the Bank of Japan or the Treasury, though in close cooperation (Financial Stability Board 2016).

The RCC has been responsible for managing capital and making purchases as determined by the Committee. Funded by the DICJ, the RCC purchased either preferred stocks, subordinated bonds and debt, preferred investments, or trust beneficiary rights from the financial institutions that applied for capital injections under the ASFF (Hoshi and Kashyap 2010).

The actual capital injection operations vary based on the characteristics of the financial institutions applying for the injection. For instance, the support for financial institutions undergoing restructuring is different than that of institutions that are not undergoing restructuring. Also, non-banks (e.g., cooperative structured central financial institutions) and banks that are affected by earthquakes or COVID-19 receive a different treatment in application, screening, and funding (DICJ 2020a).

5. **Size: The original ASFF, as passed in June 2004, set the DICJ's Financial Functions Strengthening Account to ¥2 trillion. As the Act was amended multiple times, the size grew to ¥15 trillion.**

When the ASFF was passed in June 2004, the DICJ;s Financial Functions Strengthening Account had a budget of ¥2 trillion. As the Act was amended over the years, the size expanded to ¥15 trillion. So far, as of the end of September 2020, the Japanese government had utilized ¥684.04 billion in capital, only 4.5% of the full capacity (DICJ 2020b).

6. **Timing: Each financial institution received capital once its application (including the management plan) had been screened by the Financial Function Enhancement Examination Committee and accepted by the Japanese government.**

Unlike the Prompt Recapitalization Act or other past capital injection frameworks, each financial institution received their capital on their own application timeframe, and there was no coordinated schedule across the various financial institutions. Each financial institution received capital once its

[11] So far, Howa Bank (received capital in December 2006) has been the only bank that borrowed capital in preferred shares with voting rights to appoint or dismiss directors (DICJ 2020b).

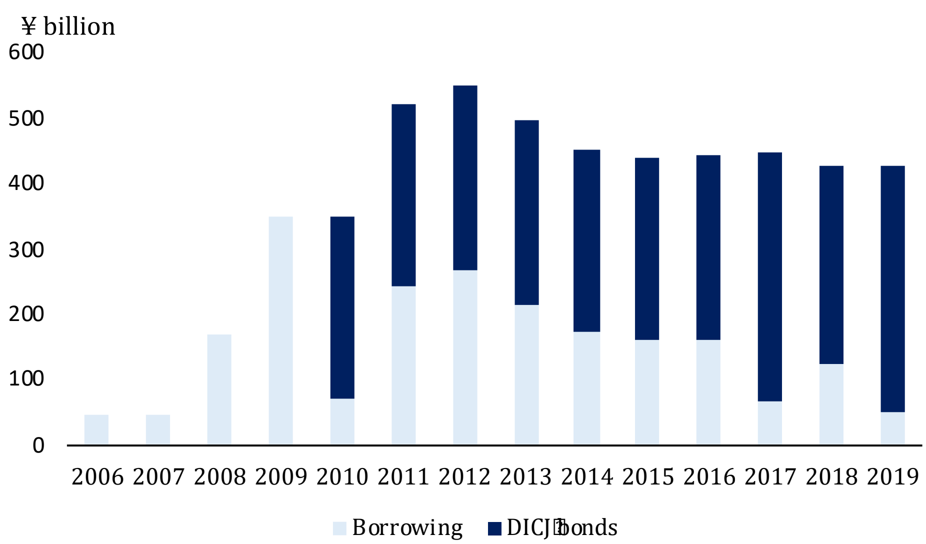
[12] For more information regarding the RCC and its operations, please refer to the "Resolution and Collection Corporation" YPFS case study (Dreyer 2021).

application (including the management plan) had been screened by the Financial Function Enhancement Examination Committee and accepted by the Japanese government.

7. **Source of Injections: The DICJ's Financial Functions Strengthening Account is funded through the issuance of government-backed DICJ bonds, borrowings from financial institutions or other investors, and in rare instances, directly from the Bank of Japan.**

The DICJ holds the Financial Functions Strengthening Account, which is specifically dedicated for the ASFF. Under Article 29, paragraph (1) of the ASFF Act, the DICJ's Financial Functions Strengthening Account is funded through the issuance of government-backed DICJ bonds and borrowings from financial institutions, other investors, and in rare instances, directly from the Bank of Japan (Financial Stability Board 2016; DICJ 2020a). Under Article 45 of the ASFF, the government guarantees the account (Financial Stability Board 2016; DICJ 2020a).[13] The extent to which DICJ funded the ASFF recapitalization from either source is shown in Figure 6 below.

Figure 6: Funding Status of the Financial Functions Strengthening Account



Note: Years in Japanese fiscal year (April – March next year).

[13] DICJ bond issuances and borrowings are subject to ceilings set out in the Deposit Insurance Act and are complemented by annual budgetary appropriations (as approved by the Diet) for the amount guaranteed by the government. (Financial Stability Board 2016). The government guarantee ceiling was ¥12 trillion in the budget for fiscal year 2020 and ¥15 trillion for the second supplementary budget for fiscal year 2020 (DICJ 2020a).

Source: DICJ 2020a.

Meanwhile, the funding source for financial institutions that undergo mergers and management integration under the ASFF capital injection scheme introduced in May 2021 is slightly different. The revised ASFF now provides approximately a third of the initial cost of system integration and branch consolidation, accounting for about ¥3 billion (Nikkei 2021; Jiji Press 2021).

8. **Eligible Institutions: Initially, all financial institutions—both banks and non-banks—were eligible for the ASFF application but were required to target SME financing in regional economy. In later amendments, the ASFF established special treatment for financial institutions that were affected by the Great East Earthquake (June 2011 Amendment), by the COVID-19 (June 2020 Amendment), and that undergo mergers and management integration (May 2021 Amendment).**

Unlike some of the previous recapitalizations, the ASFF did not require financial institutions to be of systemic importance to receive capital injections using public funds. The Committee accepts applications from financial institutions that fail to fulfill the capital adequacy requirements (but are not bankrupt or insolvent) or financial institutions that meet the capital adequacy requirements but intend to undertake a fundamental organizational restructuring (Ikenaga and Watanabe 2008).

Any domestic or foreign bank was eligible for capital injection; however, no foreign banks participated (Deposit Insurance Corporation of Japan 2020b).

The law did not require the participation of any banks, and the application was voluntarily. It did allow the participation of specific non-banks, listed explicitly: Norinchukin Bank, the Long-Term Credit Bank, the Federation of Agricultural Cooperatives, Fisheries Cooperative Association, and the Federation of Fisheries Processing Cooperatives. The law also allowed the participation of shinkin banks, labor unions, credit cooperatives (shinkumi), and bank holding companies (House of Representatives, Japan 2004).[14]

Furthermore, after the amendment in 2008, the focus on SMEs in the regional economy intensified (Ikenaga and Watanabe 2008). After the collapse of the Lehman Brothers on September 15, 2008, the Japanese government proposed the Comprehensive Immediate Policy Package to Ease Public Anxiety, with fears over how global economic events might lead to a credit crunch for SMEs (Aso 2008; Yamori et al. 2013). In the new iteration of the program, the facilitation of credit to SMEs became a special focus in management plans submitted. The amendment extended the period for application from March 31, 2008 to March 31, 2012.

Following the Great East Japan Earthquake, the Diet passed an amendment to the existing recapitalization legislation with special clauses for regional institutions supporting the

[14] The amendment of 2008 newly created an injection scheme for the Central Organization of Cooperative Structured Financial Institution, enabling easier access to capital support to each non-banks as well as reinforcing the financial soundness of the for the Central Organization of Cooperative Structured Financial Institution (Ikenaga and Watanabe 2008).

revitalization of areas affected by the earthquake (FSA 2011a). In this amendment, the Japanese government extended the application period for capital injections, in addition to creating special treatment for those institutions impacted by the Great East Japan Earthquake. Similarly, the June 2020 amendment established special treatment for financial institutions that were affected by COVID-19.

The affected institution can apply for a capital injection without being screened for the feasibility of the targets in the management plan or feasibility of repayment within 15 years (Rhee and Unnava 2020). Affected institutions are those whose "financial statements have gotten considerably worse due to the coronavirus or measures to prevent coronavirus, or if the financial institution needs to lend to companies that are affected by coronavirus or measures to prevent coronavirus" (Rhee and Unnava 2020). Sakaguchi (2020) assumes that eventually all financial institutions should fall under these criteria.

Lastly, the 2021 amendment related to COVID-19 covers approximately one-third of initial costs related to business integration, including system and branch consolidations for those financial institutions undergoing mergers and organizational restructuring (Jiji Press 2021). While the promotion of mergers and reorganization is similar the Organizational Restructuring Act (a capital injection scheme that was established in December 2002), financial institutions can apply for the capital injection even when their capital adequacy ratios are above the requirement. According to the revised Act, financial institutions that wish to receive capital for system and branch consolidations will submit an "implementation plan," indicating their outlook for the reorganization and contribution to the regional economy (The House of Representatives, Japan 2021).

9. Individual Participation Limits: No explicit statement limiting individual participation was found in the legal documents.

No explicit statement limiting individual participation was found in the legal documents. As of September 2020, the largest capital injected was ¥100 billion (North Pacific Bank in March 2009), and the mean and median of the capital received were ¥18.5 billion and ¥15 billion, respectively (DICJ 2020b).

10. Capital Characteristics: The capital characteristics were determined on a case-by-case basis; thus far, 18 financial institutions received capital in the form of convertible preferred shares, 13 in trust beneficial rights, five in preferred investments, and one in subordinated loans. No financial institution has received capital in the form of common shares, though it is an available option in certain circumstances.

The capital characteristics and terms were decided on a case-by-case basis (DICJ 2020b). Ultimately, the Committee utilized a combination of preferred shares, subordinated debt, priority investment, and trust beneficiary rights for capital injections over the multiple injection windows.

So far, 18 banks received capital in the form of convertible preferred shares, 13 non-banks in trust beneficial rights, five non-banks in preferred investments, and one bank in the form of a subordinated loan (DICJ 2020b). No financial institution has received in capital support in the form of common shares, though it is an option if the financial institution's capital ratio is below the regulatory requirement (Aso 2008; House of Representatives, Japan 2004; FSA 2008; House of

Representatives, Japan 2011; 2016; Deposit Insurance Corporation of Japan 2020a). A detailed table listing of the characteristics and the terms for capital is available in the Appendix.

11. Term/Dividends/Pricing: Terms were proposed by the applicant institutions via management plans, which were then considered by the Committee.

Applicant institutions proposed terms via their management plans, which were then considered by the Committee (Financial Service Agency, n.d.; House of Representatives, Japan 2004). A detailed table listing of the characteristics and the terms for capital is available in the Appendix.

It appears that financial institutions proposed granular terms in their plans—including repayment dates, dividend rates, and instruments to be used for injection—which were then reviewed by the Committee. These terms were presented to members in the Committee meetings and then approved or rejected. There appear to have been no rejections of financial institution applications at any point, including the revisions to management plans after the plan periods ended.

Management plans were evaluated along several criteria, listed in Figure 7 below.

Figure 7: Evaluation Criteria for Management Enhancement Plans

Category	Evaluation Strategy	Notes
Strategies for Achieving Goals	- Streamline operations - Dispose of assets unnecessary for operations or unprofitable - Specialize in profitable areas	
Establishing a Responsible Management System	- Appoint new external members to the board - Strengthen the independence of those members	
Improving the Legal Compliance System	- Create a committee of lawyers, certified public accountants, and other third parties specifically to improve compliance with existing laws - Improve the internal audit system	
Ensuring Objectivity of Management Evaluations	- Establish a third-party committee to evaluate management - Use performance-based compensation	Note that cooperatives should follow management guidance by the central cooperative institution.
Improving Information Disclosure	- Improving disclosure each quarter - Provide clearer and richer information on profits and losses - Increase information on contributions to the regional economy of the financial institution	
Management Accountability if Goals are not Achieved	- Providing a clear statement that management will retire	
Defining Management and Shareholder Liability	- Noting the representing officer submitting a request for capital will resign immediately if the Financial Function Enhancement Examination Committee decides to give capital to the financial institution - Clarifying the financial institution will not request the underwriting of any shares until management has resigned	
Facilitating Credit Provision and Revitalization of Regional Economies	- Providing two or more indicators to show the status of contributions to the regional economy - Calculating actual or expected results during the implementation of the management plan - Describing the basic approach to smoothing credit provision	(a) One indicator must be the ratio of the number of regional business partners to the total number of business partners that a financial institution has. (b) If a financial institution is operating in multiple regions and approaches differ with each region, write each approach.
Share Underwriting	- Stating the amount, content, and timing of the underwriting terms	

Source: FSA, n.d.

The requisite information on underwriting terms were also evaluated, shown below in Figure 8.

Figure 8: Evaluation Strategy for Proposed Share Underwriting.

Category	Evaluation Strategy
Stock	- Type, total paid-in capital, number of shares issued, paid-in capital, issuing method, and non-capitalized shares - "the contents listed in each item of article 108, Paragraph 1 of the Companies Act" - the number of voting rights and percentage of voting rights of all shareholders who have voting rights - the right to receive the total allotment of shares and the right to request conversion of those shares
Subordinated Bonds	- Total amount of bonds, interest rate, redemption method and time limit, interest payment method and time limit, details of subordinated special agreements, etc.
Preferred Investments	- Type, total amount paid, number of units issued, amount paid, method of issuance and non-capitalized amount - "Contents listed in Article 5, Paragraph 1, Items 2-4 of the Act on Priority Investment of Cooperative Financial Institutions"
Subordinated Loans	- Borrowing amount, interest, method and term of repayment of the principal and interest payments, details of the special agreement, etc

Source: FSA, n.d.

The application also required banks to submit their capital status, as well as balance sheet information, for evaluation. While the Committee did not explicitly require increased SME lending as part of the original application for capital injection, the Committee evaluated the plans against this criterion before the amendment to the legislation in 2008 (FSA, n.d.; House of Representatives, Japan 2004).

These requirements for management plans and capital status were radically eased after several amendments (Figure 1). For instance, management responsibility is no longer strictly pursued after the 2008 amendment. Furthermore, in the 2011 amendment, the government introduced multiple exemptions of requirements for financial institutions that were affected by the Great East Earthquake. Such exemptions included the requirement to set numerical targets and establish a responsible management system. After the 2020 amendment, these exemptions from the requirements eventually expanded to COVID-19 affected financial institutions (which are assumed to be all financial institutions, according to Sakaguchi 2020).

As seen in the Appendix, preferred shares had mandatory conversion dates to common shares, while trust rights ranged in period from 10 to 25 years, though the terms were potentially extendable (DICJ 2020b). The beginning of the conversion period for the convertible preferred

(1) If it contributes to maintaining the soundness of bank management,

(2) If it contributes to securing a repayment source of public funds,

(3) If it is in accordance with the purposes of the law, such as financial facilitating, on which capital injection of public funds has been based (DICJ, n.d.).

shares also varied from bank to bank, sometimes as early as within a month (e.g., Kirayaka Bank and Howa Bank), or more than seven years after the capital injection (Michinoku Bank) (DICJ 2020b).

After the capital injection, the conversion price is often calculated as the average of the common equity (stock) price over the week preceding the calculation. The conversion price on convertible preferred shares has a "floor price." The floor price is often calculated as 50% of the average price of common stock when the capital was injected to the targeted financial institution. There is no "ceiling" price in the convertible preferred shares (Sakaguchi 2020).

After the 2008 amendment, financial institutions were given the option to buy the preferred stock at book value, the equivalent to providing a call option for financial institutions. This option can be exercised if the stock price continuously falls under the conversion price and if banks request the JFSA to do so. Sakaguchi (2020) notes that the stock prices of many of the banks affected by the Great Earthquake fall under the floor price.[15]

For preferred investments, so far, all the receivers have been Shinkumi Federation banks, in the form of preferred perpetual investments (noncumulative corporate bonds). In terms of trust beneficial rights, the trust period has been either 10 or 25 years, which is can also be extendable. For those with 10 year trust periods, it is stipulated that within 10 years following the capital injection, either "authorization of management improvement" or "authorization of capital reorganization associated with business restructuring" will be obtained (DICJ 2020b).

In terms of capital with voting rights, the DICJ clarifies on its website that it can exercise its rights as a shareholder and investor, considering three factors:

In addition, the DICJ pays attention to if its exercise of rights is consistent with administrative policies and measures. However, available information doesn't clarify to what extent the DICJ or RCC have exercised those rights.

[15] This is not only because the stock price of the Great Earthquake affected banks hover low, but also because the floor price of those banks was arbitrarily set higher compared to non-affected banks (Sakaguchi 2020, 9). The floor price adjustment is not mentioned in the ASFF Act legal text but rather implemented on the ad-hoc capital design basis. Sakaguchi (2020) warns that the higher floor price may be functioning as the permanent subsidies for certain banks, narrowing the exit of the program.

12. Allocation of losses to existing stakeholders: ASFF did not seem to require any write-downs to the existing shareholders at the participating institutions.

No further detail has been found for this Key Design Decision.

13. Debt restructuring plan: The debt restructuring plan in the ASFF was to be implemented according to the management plan submitted by financial institutions upon the application of the ASFF.

There appear to have been no rejections of financial institution applications at any point, including revisions to management plans after plan periods ended.

Each financial institution reports the ongoing status of the management plan, and the JFSA publishes those reports annually on its website. Furthermore, if the management plan were to be revised, they are rescreened and reexamined by the Financial Function Enhancement Examination Committee (Financial Function Enhancement Examination Committee 2004).

The application also required banks to submit their capitalization status, as well as balance sheet information, for evaluation. While the Financial Function Enhancement Examination Committee did not explicitly require increased SME lending as part of the original application for capital injection, the Committee evaluated organizations along this criterion before the amendment to the legislation in 2008 (Financial Service Agency, n.d.; House of Representatives, Japan 2004). However, these requirements in the management plan and capitalization status were radically eased after several amendments (Figure 1). For instance, management responsibility no longer strictly pursued after the 2008 amendment. Furthermore, in 2011 amendment, the government introduced multiple exemptions of requirements for financial institutions that were affected by the Great East Earthquake amendment. Such exemptions included the requirement to set numerical targets and establish a responsible management system. After the 2020 amendment, these exemptions of the requirements eventually expanded to COVID-19 affected financial institutions (which are assumed to be all financial institutions, according to Sakaguchi 2020).

14. Fate of existing board and management: Initially, the government required the highest levels of management to resign upon receipt of the capital injection; later amendments limited the government to request members of the board or management to resign only if the financial institution's capital ratio was below 4% when the institution applied for capital injection.

In the original, stricter version of management plans, the government required the highest levels of management to resign upon receipt of capital injection. In addition, external board members were required to be appointed if they were not already part of the board. Later, the government could request members of the board or management to resign only if the financial institution's capital ratio was below 4% when the institution applied for capital injection.

(1) If the recapitalized financial institution requests the selling of Preferred Stocks to third parties (including sale in the capital market)

(2) If the recapitalized financial institutions request for repaying the public funds injected

(3) If disposing is strongly preferable under the given market conditions.

15. Exit Strategy: Some form of capitals (subordinated loans and preferred shares) have a clear exit strategy, while injection in the form of preferred investments have no explicit exit date.

Of the banks that participated in the capital injection program, five have repaid or repurchased shares either partially or in full. Both Howa Bank and Kiyo Bank repurchased their preferred shares within ten years of the capital injection. Under the extension made during the Lehman Brothers bankruptcy, two of the remaining 28 banks, North Pacific Bank and Kirayaka Bank, repurchased their preferred shares. Only one bank in the subsequent extensions, 77 Bank, has repaid the amount injected. (See the Appendix). As of the end of September 2020, the Japanese government had ¥684.04 billion capital injected, and ¥200.5 billion has been repaid so far, leaving ¥483.54 billions the remaining balance.

In October 2005, the DICJ published "Immediate Guideline for Disposal of Preferred Stocks, etc. Acquired through Capital Injection with Public Funds" and clarified the criteria for repayment and disposal (DICJ 2005). According to this guideline, the DICJ will dispose the preferred stocks and other capital under the following three situations:

Banks were expected to reacquire their shares within 15 years of purchase. In practice, the mandatory acquisition date for financial institutions varied, with some institutions facing mandatory acquisition dates within ten years and some firms facing mandatory acquisition dates 25 years after injection. Additional variation occurred in trust periods, with some firms receiving ten-year periods and some firms receiving 25-year periods, though all were extendable (DICJ 2020b). For those with ten-year periods, the allocation required they receive an additional approval for management plans. Injection through preferred investments have no explicit exit date, as each preferred investment is a preferred perpetual investment injection.

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Appendixes

Appendix A : Details of the Preferred Shares (convertibles)

Which ASFF?	Name of Financial Institution	Injection Month-Year	Amount	Rate	Beginning of Conversion Period	Mandatory Acquisition Date	Earthquake impacted financial institution?
June 2004 version (original)	Kiyo HD (Kiyo Bank)*	Nov-06	31.5	T + 1.15 (cap rate: 7.50)	1-Oct-11	1-Oct-16	N
	Howa Bank**	Dec-06	9	1.84 (until March 2009) 6m JPY TIBOR + 1.20 (after March 2010	1-Apr-08	To be decided by the board of directors on or after April 2, 2020	N
After December 2008 Amendment	North Pacific Bank	Mar-09	100	T + 1.00 (cap rate: 8.00)	1-Jan-13	1-Apr-24	N
	Fukuho Bank	Mar-09	6	1.90 (until March 2012) T + 1.10 (after March 2013) (cap rate: 8.00)	1-Oct-11	1-Apr-24	N
	Minami Nippon Bank	Mar-09	15	T + 1.05 (cap rate: 8.00)	1-Oct-12	1-Apr-24	N
	Michinoku Bank	Sep-09	20	T + 0.95 (cap rate: 8.00)	1-Apr-17	1-Oct-24	N
	Jimoto HD (Kirayaka Bank)*	Sep-09	20	T + 1.15 (cap rate: 8.00)	1-Oct-10	1-Oct-24	N
	San ju San FG (Daisan Bank)*	Sep-09	30	T + 1.00 (cap rate: 8.00)	1-Oct-12	1-Oct-24	N

	Towa Bank	Dec-09	35	T + 1.15 (cap rate: 8.00)	29-Dec-10	29-Dec-24	N
	Bank of Kochi	Dec-09	15	T + 1.10 (cap rate: 8.00)	29-Dec-10	29-Dec-24	N
	FIDEA HD (Hokuto Bank)*	Mar-10	10	T + 1.00 (cap rate: 8.00)	1-Apr-13	1-Apr-25	N
	Miyazaki Taiyo Bank	Mar-10	13	T + 1.05 (cap rate: 8.00)	1-Oct-10	1-Apr-25	N
After June 2011 Amendment	Jimoto HD (Sendai Bank)*	Sep-11	30	Funding cost as an annualized rate of preferred dividend ***	1-Apr-13	1-Oct-36	Y
	Tsukuba Bank	Sep-11	35	Funding cost as an annualized rate of preferred dividend ***	1-Jul-12	1-Oct-31	Y
	Tohoku Bank	Sep-12	10	Funding cost as an annualized rate of preferred dividend ***	29-Jun-13	September 29, 2037	Y
	Jimoto HD (Kirayaka Bank)*	Dec-12	20	T + 1.15 (cap rate: 8.00)	29-Dec-12	1-Oct-24	Y
	Jimoto HD (Kirayaka Bank)*	Dec-12	10	Funding cost as an annualized rate of preferred dividend ***	29-Jun-13	29-Dec-37	Y
	Howa Bank	Mar-14	16	T + 0.95 (cap rate: 8.00)	1-Apr-14	1-Apr-29	N

* Names of financial institutions in parenthesis refer to the entities that effectively received capital participation.

** Preferred Shares with voting rights to appoint or dismiss directors.

*** Rates or dividend rates applied for capital participation based on the special measures concerning the Great East Japan Earthquake are "funding cost as an annualized rate of preferred dividend" announced by the DICJ in each fiscal year, which is capped at 12-month JPY TIBOR or 8%, whichever is lower.

Appendix B: Preferred investments

Which ASFF?	Name of Financial Institution	Injection Month-Year	Amount	Rate
After June 2011 Amendment	Shinkumi Federation Bank	Dec-15	10.6	T+0.32 (cap rate: 8.00)
	Shinkumi Federation Bank	Dec-16	6.24	T+0.32 (cap rate: 8.00)
After December 2016 Amendment	Shinkumi Federation Bank	Dec-17	10	T+0.35 (cap rate: 8.00)
	Shinkumi Federation Bank	Mar-20	2	T+0.38 (cap rate: 8.00)
	Shinkumi Federation Bank	Mar-20	7.2	T+0.49 (cap rate: 8.00)

Appendix C: Subordinated loan (10 years three months)

Name of Financial Institution	Which ASFF?	Month Year	Amount	Rate	Earthquake impacted financial institution?
77 Bank	After June 2011 Amendment	Dec-11	20	Funding cost as an annualized rate of preferred dividend*	Y

* Rates or dividend rates applied for capital participation based on the special measures concerning the Great East Japan Earthquake are "funding cost as annualized rate of preferred dividend" announced by DICJ in each fiscal year, which is capped at 12-month JPY TIBOR or 8%, whichever is lower.

Appendix D: Trust Beneficial Rights

Which ASFF?	Name of Financial Institution	Month Year	Amount	Rate	Trust Period (for Trust Beneficial Rights)	Reference (for Trust Beneficial Rights)	Earthquake impacted financial institution?
After December 2008 Amendment	Shinkumi Federation Bank (Yamanashikenmin Shinkumi Bank)*	Sep-09	45	T + 1.73 (cap rate: 8.00)	25 years (extendable)	Preferred beneficial rights out of trust beneficial rights	N
After June 2011 Amendment	Shinkumi Federation Bank (Soso Gojo Shinkumi Bank)*	Jan-12	13.9	Funding cost as an annualized rate of preferred dividend ***	10 years (extendable)	**	Y
	Shinkumi Federation Bank (Iwaki Shinkumi Bank)*	Jan-12	17.5	Funding cost as an annualized rate of preferred dividend ***	10 years (extendable)	**	Y

Shinkin Central Bank (Miyako Shinkin Bank)*	Feb-12	8.5	Funding cost as an annualized rate of preferred dividend ***	10 years (extendable)	**	Y
Shinkin Central Bank (Kesennuma Shinkin Bank)*	Feb-12	13	Funding cost as an annualized rate of preferred dividend ***	10 years (extendable)	**	Y
Shinkin Central Bank (Ishinomaki Shinkin Bank)*	Feb-12	15.7	Funding cost as an annualized rate of preferred dividend ***	10 years (extendable)	**	Y
Shinkin Central Bank (Abukuma Shinkin Bank)*	Feb-12	17.5	Funding cost as an annualized rate of preferred dividend ***	10 years (extendable)	**	Y

	Shinkumi Federation Bank (Nasu Shinkumi Bank)*	Mar-12	5.4	Funding cost as an annualized rate of preferred dividend ***	25 years (extendable)	Preferred beneficial rights out of trust beneficial rights	Y
	Shinkumi Federation Bank (Gunmamirai Shinkumi Bank)*	Dec-12	25	T + 1.24 (cap rate: 8.00)	25 years (extendable)	Preferred beneficial rights out of trust beneficial rights	N
	Shinkumi Federation Bank (Tokyo Kosei Shinkumi Bank)*	Mar-14	5	T + 1.07 (cap rate: 8.00)	25 years (extendable)	Preferred beneficial rights out of trust beneficial rights	N
	Shinkumi Federation Bank (Yokohama Kougin Shinyo Kumiai)*	Mar-14	19	T + 1.00 (cap rate: 8.00)	25 years (extendable)	Preferred beneficial rights out of trust beneficial rights	N
	Shinkumi Federation Bank (Kushiro Shinkumi Bank)*	Dec-14	8	T + 0.89 (cap rate: 8.00)	25 years (extendable)	Preferred beneficial rights out of trust beneficial rights	N

	Shinkumi Federation Bank (Shiga-Ken Shinkumi Bank)*	Dec-14	9	T + 1.05 (cap rate: 8.00)	25 years (extendable)	Preferred beneficial rights out of trust beneficial rights	N

* Names of financial institutions in parenthesis refer to the entities that effectively received capital participation.

** It is stipulated that within 10 years following capital participation, either (i) "authorization of management improvement" or (ii) "authorization of capital reorganization associated with business restructuring" must be obtained.

*** Rates or dividend rates applied for capital participation based on the special measures concerning the Great East Japan Earthquake are "funding cost as annualized rate of preferred dividend" announced by DICJ in each fiscal year, which is capped at 12-month JPY TIBOR or 8%, whichever is lower.