

The JFTC Reviewed the Proposed Acquisition of Shares of The Fukuho Bank, Ltd. by The Fukui Bank, Ltd.

I. Parties

The Fukui Bank, Ltd. (regional bank, hereinafter referred to as “Fukui Bank”) and The Fukuho Bank, Ltd. (second-tier regional bank, hereinafter referred to as “Fukuho Bank”) are headquartered in Fukui Prefecture, and operate the business of banking mainly in Fukui Prefecture.

Fukui Bank and Fukuho Bank are collectively referred to as the “Parties”. In addition, a group of companies which have already formed joint relationships with Fukui Bank, and a group of companies which have already formed joint relationships with Fukuho Bank, are collectively referred to as the “Company Group.”

II. Overview of the case and applicable provision

Fukui Bank plans to acquire the shares of Fukuho Bank and thereby obtain more than 50 percent of Fukuho Bank’s voting rights (hereinafter referred to as the “Acquisition”).

The applicable provision is the Article 10 of Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (hereinafter referred to as the “Antimonopoly Act”).

III. Brief summary of results of business combination review

1 Business combination review procedure by the JFTC

In June 2020, the Company Group voluntarily explained to the Japan Fair Trade Commission (the JFTC) about the plan of Acquisition of shares of Fukuho Bank by Fukui bank. Since then, the JFTC has been explained the plan by the Company Group by oral or written reports.

The Company Group concluded a basic agreement concerning Acquisition of shares of Fukuho Bank by Fukui bank, and announced the fact on January 14, 2021. Since the Acquisition means the combination of major banks headquartered in Fukui Prefecture, and it may have an impact on the competition in Fukui Prefecture, the JFTC requested the Company Group to provide an explanation on related facts continuously, while asking competitors and users to submit document reports or be interviewed to find the necessary facts.

The Company Group submitted the written notification of their plan of the Acquisition to the JFTC, in accordance with the provision of the Antimonopoly Act, on May 17, 2021. The JFTC received it, and reviewed the impact of the Acquisition on competition, in consideration of the plan notification, documents submitted by the Company Group, the result of interview with competitors and users, and others.

2 Brief summary of the merger review

Among fields of trade where the Fukui Bank group competes with the Fukuho bank group, the field of business lending was reviewed intensively because it has considerable impact on competition as a result of the Acquisition. The review was conducted from the viewpoint of whether or not the Acquisition would lead to the decrease of alternatives of financial institutions to the Parties for users including small- and medium-sized enterprises (hereinafter referred to as “SMEs”), resulting in enabling the Parties to determine terms of trade including interest rate without considerable constraint. At the end, the JFTC concluded that the Acquisition would not substantially restrain competition in any regions of Fukui Prefecture, based on the facts including existence of competitors exerting sufficient competitive pressure in all regions of the Prefecture, as described in section VI below.

Also, regarding other fields of trade where the Fukui Bank group and the Fukuho Bank group compete with each other, such as non-business lending (see IV. 2 (2) described below), deposit, exchange, investment trust sales, public bond sales, insurance agents, and credit cards, the JFTC concluded that the Acquisition would not substantially restrain competition in the particular fields of trade, based on the facts including existence of competitors exerting sufficient competitive pressure.

The detail of the review about the field of business lending is as follows.

IV. Overview of financial institutions and lending business and the market

1 Financial institutions

Financial institutions handling business lending are banks, cooperative financial institutions, and government-affiliated financial institutions.

(1) Banks

Banks are classified into city banks, regional banks, and second-tier regional banks. Several city banks and regional banks have their branches within Fukui Prefecture and operate their businesses. Meanwhile, the second-tier regional bank which has its branches within Fukui Prefecture is Fukuho Bank only.

Also, city banks and regional banks whose branches are located not in Fukui Prefecture but in prefectures adjacent to Fukui Prefecture conduct business with a part of users in Fukui Prefecture.

Basically, there is no legal restriction on borrowers of banks.

(2) Cooperative financial institutions

Cooperative financial institutions which have their branches within Fukui Prefecture include Shinkin banks, credit unions, agricultural cooperatives (hereinafter referred to as “ACs”), and a credit federation of fishery cooperatives (hereinafter referred to as “CFFC.”)

Shinkin banks finance their members in principle¹. In the case of judicial persons, those who have the membership qualification shall be limited to judicial persons who employ 300 permanent employees or less, or whose capital amount is 0.9 billion yen or less².

Credit unions finance their members in principle³. In the case of enterprises, those who have the membership qualification shall basically be limited to judicial persons whose capital amount is 0.3 billion yen or less (0.1 billion yen in the case of wholesale business, 0.05 billion yen in the case of retail business and service business), or persons who employ 300 permanent employees or less (100 employees or less in the case of wholesale business, 50 employees or less in the case of retail business, 100 employees or less in the case of service business)⁴.

ACs finance their members and CFFCs finance members of fishery cooperatives that are members of the CFFC, in principle⁵. Those who have the membership qualification for ACs shall mainly be limited to farmers. In the case of judicial persons, those who have the membership qualification for ACs shall be limited to judicial persons who employ 300 or less employees, or whose capital amount is 0.3 billion yen or less⁶. Also, those who have the membership qualification for fishery cooperatives shall be mainly limited to fishers. In the case of judicial persons, those who have the membership qualification shall be limited to judicial persons who satisfy the requirements including that the number of employees is 300 or less⁷.

(3) Government-affiliated financial institutions

Government-affiliated financial institutions which have their branches

¹ However, if borrowers are local public bodies, lending to non-members is possible (Article 53, paragraph 2 of Shinkin Bank Act, and Article 8 of the Order for Enforcement of the Shinkin Bank Act).

² Article 10, paragraph 1 of Shinkin Bank Act, and Article 4, the Order for Enforcement of the Shinkin Bank Act.

³ However, if borrowers are local public bodies, lending to non-members is possible (Article 9-8, paragraph 1, item 1 of Small and Medium-Sized Enterprise Cooperatives Act, and Article 14, paragraph 1 of the Order for Enforcement of the Small and Medium-Sized Enterprise Cooperatives Act).

⁴ Article 9 (8), paragraph 1, item 1, Article 8, paragraph 4, Article 7, paragraph 1, item 1 of Small and Medium-Sized Enterprise Cooperatives Act.

⁵ Article 10, paragraph 1, item 2 of Agricultural Cooperatives Act, and Article 11, paragraph 1, item 3 of Fishery Cooperative Act. However, if borrowers are local public bodies, lending to non-members is possible (Article 10, paragraph 20 of Agricultural Cooperatives Act, Article 11, paragraph 10 of Fishery Cooperative Act, and Article 2, paragraph 1 of the Order for Enforcement of the Fishery Cooperative Act).

⁶ Article 2, paragraph 1, and Article 12 of Agricultural Cooperatives Act.

⁷ Article 18 of Fishery Cooperative Act.

within Fukui Prefecture and operate their businesses are The Shoko Chukin Bank, Ltd. (hereinafter referred to as the “SCB”) and Japan Finance Corporation (hereinafter referred to as the “JFC”).

The SCB is a financial institution which aims to facilitate financing for groups of SMEs and the members⁸. Its borrowers are limited to SCB’s shareholders including small and medium-sized enterprise cooperatives, and the members, and lending is basically provided for SMEs⁹.

The JFC is a financial institution fully funded by the government of Japan, and its purpose includes supplementing finance provided by ordinary financial institutions¹⁰. The business of the JFC consists of Micro Business and Individual Unit, SME Unit, and Agriculture, Forestry, Fisheries and Food Business Unit. The first unit finances micro and individual enterprises, the second SMEs, and the third agriculture, forestry, and fishery businesses, mainly. With the limited exception, each financing system of the JFC has the detailed requirements for lending, and only those who satisfy the requirement may be financed¹¹. Also, the terms of lending including the use of funds, limitation of lending, period of lending, and interest rate are specified beforehand, upon the approval of the competent minister.

2 Overview of lending business

Lending business provided by financial institutions is classified into “business lending” for bodies including enterprises, and “non-business lending” for general consumers.

(1) Business lending

The business lending is the business of providing funds for enterprises or local public bodies.

Lending for enterprises is firstly dealt with from (a) to (e) below, and then lending for local public bodies in (f) at the last.

(a) Trigger for entering into business

According to interviews with financial institutions and users, a lending business in Fukui Prefecture is majorly opened up by a salesperson in each branch of financial institutions, visiting a potential customer

⁸ Article 1 of Shoko Chukin Bank Limited Act.

⁹ In the case of manufacturing business, its capital amount is 0.3 billion yen or less, or its number of employees is 300 or less, in the case of wholesale business, its capital amount is 0.1 billion yen or less, or its number of employees is 100 or less, in the case of service business, its capital amount is 0.05 billion yen or less, or its number of employees is 100 or less, in the case of retail business, its capital amount is 0.05 billion yen or less, or its number of employees is 50 or less, etc. (Article 2, paragraph 1 of Small and Medium-sized Enterprise Basic Act).

¹⁰ Article 1 of Japan Finance Corporation Act.

¹¹ The website of the JFC (<https://www.jfc.go.jp/n/finance/search/index.html>)

regularly, grasping the demand for funds and making a proposal of lending.

When users select financial institutions as a lender, various terms of repayment shall be considered, for example, interest-rate level, whether the interest rate is fixed or floating, the requirement of collateral or guarantee, and period for repayment. Also, in the case of users borrowing from two or more financial institutions as described in below (d), some users select the financial institution which the users are least dependent on, for balanced borrowing from each financial institution.

(b) Examination of lending and transaction conditions

Financial institutions conduct an examination of lending by collecting information through regular visits to enterprises, finding financial status from financial statements and other sources, performing credit ratings for enterprises, and evaluating profitability of investment plans, etc.

The transaction conditions are determined by bilateral negotiations between the financial institutions and users for each loan, and the interest rate is proposed by the financial institutions considering the cost situation (for more detail on factors to be considered by financial institutions to decide the interest rate, see (e) below).

(c) Post-contract visit

Even after conclusion of a loan contract, financial institutions shall often visit the enterprise regularly or irregularly for the purpose of managing credit so that the loaned funds will be repaid as scheduled.

In business lending, marketing personnel are necessary not only for sales activities to acquire transactions but also for continuous visits to users after lending; so, it is necessary for financial institutions to develop the structure for lending, including sales personnel and branches as a base.

(d) Number of financial institutions with which users have transactions

According to the interviews with financial institutions and users, in Fukui Prefecture, users often conduct "multi-bank transactions," which mean deals with two or more financial institutions, for the purpose of stable fund procurement and risk diversification. However, some enterprises conduct "single-bank transactions" which mean deals with only a single financial institution. The number of financial institutions with which enterprise trades tends to increase as the business scales and the amount of borrowing increase.

Among the financial institutions with which enterprises conduct

transactions, the one with the largest loan balance or the longest-term business relationship is recognized as the main bank. However, according to the interviews with financial institutions and users, users in Fukui Prefecture tend to receive financing from financial institutions other than the main bank when conditions such as interest rates are satisfactory. There are also users who borrow from other financial institutions than the main bank and the borrowing amount is equivalent to or more than that from the main bank. Thus, it was not found that the selection of financial institutions is restricted by the existence of the main bank.

(e) Determinant of interest rates

According to the interviews with financial institutions, a lending interest rate of business lending is decided based on A) procurement cost, B) banking expenses, C) credit cost and D) profit, considering other factors including competition situation with other financial institutions, collateral and guarantee status, repayment period, and status of other transaction than the loan project with the same user.

- A) Procurement cost is the cost required for a bank to procure funds. Banks procure funds that are the source of lending from deposits or the mutual fund market of financial institutions called as interbank, and the interest rate required for the procurement is the procurement cost.
- B) Banking expenses include personnel expenses related to lending operations, material expenses for properties such as branches, and administrative expenses.
- C) Credit cost is an estimate of the loss that will be incurred if the lender becomes unable to repay.
- D) Profit is the profit for financial institutions.

Financial institutions usually set standard interest rates for each lender's business condition and loan period, taking into consideration the above A), B), C) and D). Financial institutions determine the interest rate presented to users based on the above standard interest rate, taking into consideration the competitive situation with other financial institutions regarding the lending project, other transaction status with the lender, etc.

Among the above, B), C) and D) differ depending on the financial institution. B), Banking expenses, vary depending on the density of the branch network, the efficiency of paperwork and the amount of manpower put in for sales. For example, banking expenses are relatively high when financial institutions have a lot of branches in a certain geographic area, and they have a small loan amount per user and

salespersons who are in charge of a relatively small number of users and spend long time visiting each user. Regarding the C), credit cost, how much information can be collected about users and lending projects and how to evaluate it, differs depending on the financial institution. Therefore, it is difficult for each financial institution to grasp the cost standard of the other financial institutions.

According to the interviews with competitors, in Fukui Prefecture, when multiple financial institutions compete for individual transactions, it is not uncommon to offer users an interest rate below cost.

(f) Lending to local public bodies

Unlike general enterprises, local public bodies are loaned by financial institutions with local bonds or temporary borrowings based on the Local Autonomy Law.

Lending to local public bodies is legally possible for any financial institution. According to the interviews with financial institutions and local public bodies, local public bodies in Fukui Prefecture are basically using designated bidding or other methods (hereinafter referred to collectively as “bidding”) to receive finance from the financial institution which presents the lowest interest rate. Those who participate in bidding related to lending to local public bodies in Fukui Prefecture include city banks, regional banks, second-tier regional banks and Shinkin banks, as well as ACs and a CFFC.

As described above, lending to local public bodies differs from lending to general enterprises in terms of transaction method and content.

(2) Non-business lending

Non-business lending is the business of providing loans to general consumers. Non-business lending is roughly divided into mortgage housing loans, education loans, auto loans, free loans and card loans, according to the purpose of use of the funds (including multipurpose loans).

Transactions are generally initiated with introduction by companies providing services which generate fund demand such as housing manufacturers in the case of mortgage housing loans, with users’ visits to financial institution branches and loan centers and with application via the Internet.

Financial institutions prepare standard products for non-business lending with fixed lending conditions, such as interest rates, for each purpose of use, and basically do not change the lending conditions for each individual transaction. Lending conditions such as interest rates are published on the websites of each financial institution, and it is easy for general consumers to

compare them.

V. Definition of particular field of trade

1 Service market

(1) Business lending and non-business lending

(a) Demand substitutability

While the users of business lending are enterprises and local public bodies, the users of non-business lending are general consumers (see the above IV. 2); therefore, the users themselves are different. Also, financial institutions confirm the usage for business lending and do not allow borrowing to be used for any different usage. In addition, non-business lending usually has a smaller loan amount than business lending and is not a substitute for business lending. Therefore, from a viewpoint of users, business lending and non-business lending are not substitutable for each other, and no demand substitutability can be found.

(b) Supply substitutability

In business lending, it is necessary to set lending conditions according to the business and financial situation of each user (see the above IV. 2 (1)); so, the financial institutions need to have expertise and experience to grasp or evaluate the credit status and other conditions by visiting enterprises on a regular basis and to reflect them in the lending conditions. It takes considerable costs and time for them to acquire such expertise and experience. In addition, in order to make regular visits to enterprises, branches that serve as a base and a corresponding number of sales personnel are required.

On the other hand, as for non-business lending, regardless of the credit status of individual consumers, the lending conditions are constant (see the above IV. 2 (2)). In addition, it is possible to rely on the examination of the guarantee company for the loan examination. For this reason, the expertise and experience required for business lending, as well as the development of branches and personnel, are not required.

As described above, business lending and non-business lending differ in the required branches, number of staff, expertise and experience, and it is not easy for a non-business lending provider to provide business lending. Therefore, supply substitutability between business lending and non-business lending is limited.

(c) Conclusion of this section

Based on the above, the JFTC examined the substantial restriction on competition on the premise that business lending and non-business

lending are defined as the different scope of services.

(2) Service markets and types of users

The Parties are handling business lending for large and midsize enterprises, SMEs¹², and local public bodies.

Large and midsize enterprises, SMEs, and local public bodies differ in business scale, scope of business development, nature of business, borrowing amount, transaction method, etc. In addition, the financial institutions handling transactions with large and midsize enterprises, SMEs, and local public bodies are different, because the restrictions on borrowers differ depending on the type of financial institutions that are lenders (see the above IV. 1).

Based on the above, "lending for large and midsize enterprises", "lending for SMEs", and "lending for local public bodies" are defined as different service markets.

The scope of competitors in each service market was defined as follows.

(a) Lending for large and midsize enterprises

Large and midsize enterprises tend to have a large business scale, require a significant amount of funds, and have a large amount of borrowing.

In this respect, banks have no legal restrictions on the size of borrowers, industries, etc. (see the above IV. 1 (1)), and the lending limit is also large. Therefore, large and midsize enterprises can use each bank as an alternative lender.

Borrowers of Shinkin banks, credit unions and the SCB are basically limited to SMEs by law (see the above IV. 1 (2)). In addition, the JFC mainly lends SMEs, etc. (see the above IV. 1 (3)). Therefore, the number of cases where large and midsize enterprises can use such financial institutions as an alternative lender is limited.

For ACs, etc., the lending target is basically limited to farmers, etc., and the borrower shall be, in principle, their members; but large and midsize enterprises do not have the membership qualifications (see the above IV. 1 (2)).

Based on the above, in the examination of this case, the scope of competitors in lending to large and midsize enterprises was considered to be banks.

(b) Lending to SMEs

¹² "SMEs" are those who satisfy the requirement stipulated in Article 2, paragraph 1 of Small and Medium-sized Enterprise Basic Act (see the aforementioned footnote 8), and "large and midsize enterprises" are those who do not satisfy such requirement.

Since SMEs tend to have relatively small business scales and borrowing amounts, banks are sufficiently capable of meeting the funding needs of SMEs; so SMEs can use each bank as an alternative lender.

Regarding Shinkin banks and credit unions, there are restrictions on the size of the borrowers; but all SMEs meet the standards (see the above IV. 1 (2)). In addition, the lending limit stipulated by law does not impose restrictions on SMEs' borrowing¹³, and SMEs can use Shinkin banks and credit unions as an alternative lender.

For ACs, etc., the lending target is basically limited to farmers, etc. (see the above IV. 1 (2)). The SCB and the JFC basically conduct lending for those who have difficulty borrowing from private financial institutions, for supplementing the private sector. In addition, the SCB lends only to the shareholders and their union members, etc., and the JFC lends to those who meet the detailed lending requirements stipulated for each loan system, with some exceptions (see the above IV. 1 (3)). Therefore, there are only a limited number of cases where SMEs can use ACs, etc., the SCB and the JFC as an alternative lender.

Therefore, in the examination of this case, the scope of competitors in lending to SMEs is defined as banks, Shinkin banks and credit unions, whereas ACs, etc., the SCB, and the JFC should be considered as competitive pressure from adjacent markets, if necessary¹⁴.

(c) Lending to local public bodies

As described in IV. 2 (1) (f) above, local public bodies in Fukui Prefecture basically select the financial institution offering the lowest interest rate as a lender by bidding method. Therefore, the Parties cannot obtain the contracts if they offer high interest rates. Besides, transaction conditions other than interest rates cannot be influenced by the Parties, because local public bodies specify such transaction conditions.

Also, according to the interviews with local public bodies, the bidding participants are not only banks and Shinkin banks but also ACs and the CFFC. In particular, ACs have branches in all municipalities in Fukui Prefecture. These competitors are considered to have sufficient financial excess capacity.

¹³ According to the interviews with financial institutions, cases in which the SMEs' financing demand cannot be satisfied due to the legally specified limitation amount of lending are quite rare.

¹⁴ As described in Section VI. 2 below, as for lending for SMEs, since the JFTC could make judgement concerning the substantial restraint on competition based on factors excluding the competitive pressure from the adjacent market, the JFTC didn't have to examine it.

Based on the above, without further investigation, the JFTC found that the Acquisition would not substantially restrain competition in the particular fields of trade of lending to local public bodies.

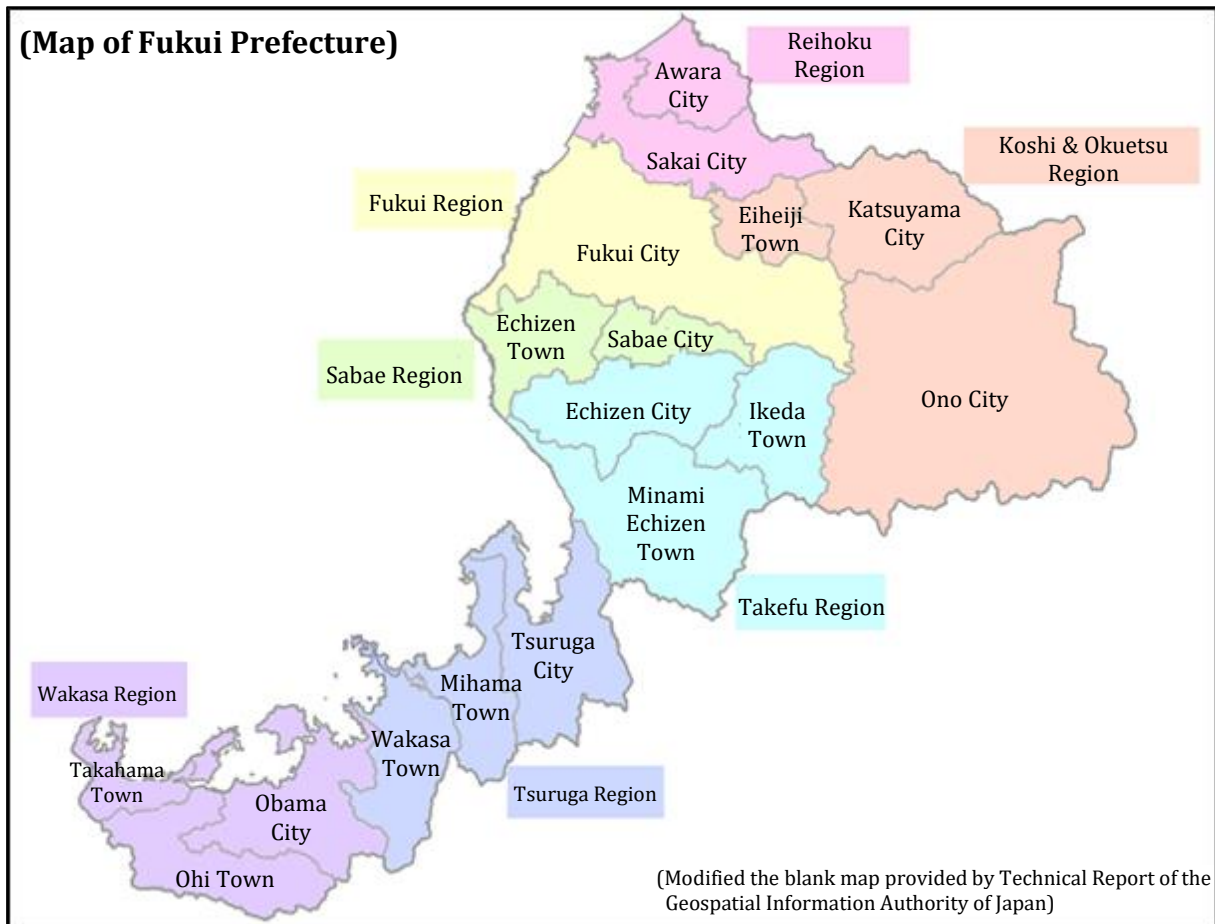
(d) Conclusion of this section

Based on the above (a), (b), and (c), the JFTC further examined "lending for large and midsize enterprises" and "lending for SMEs" (see paragraph 2 below).

2 Geographic markets for lending to large and midsize enterprises and lending to SMEs

Regarding the geographic range, the Parties explained to the JFTC that they are competing in the seven economic zones in the table below (hereinafter simply referred to as "economic zones"), both for lending for large and midsize enterprises and lending for SMEs.

Economic zones	constituent cities and towns
Reihoku Region	Sakai City, Awara City
Fukui Region	Fukui City
Koshi & Okuetsu Region	Ono City, Katsuyama City, Eiheiiji Town
Sabae Region	Sabae City, Echizen Town
Takefu Region	Echizen City, Minami Echizen Town, Ikeda Town
Tsuruga Region	Tsuruga City, Mihama Town, Wakasa Town
Wakasa Region	Obama City, Takahama Town, Ohi Town



The results of examination on this point are as follows.

(1) Background circumstances

According to the interviews with financial institutions and users, in transactions between financial institutions and users in Fukui Prefecture, financial institutions often visit users, whereas users do not often visit branches of financial institutions. Therefore, users say that the location of financial institutions in remote areas does not pose a particular obstacle to conducting transactions. On the other hand, according to financial institutions, their sales personnel needs to continue to visit users even after lending, and the cost of the visit is so high that lending to users located in remote areas of the branch is not realistic.

From the above, in defining the geographic markets in the lending for large and midsize enterprises and the lending for SMEs in this case, the main consideration is the geographic area that the sales personnel can actually visit from each branch of financial institutions.

In addition, according to the interviews with financial institutions, as for lending to large and midsize enterprises, the business scale and loan amount of users tend to be large; so, even if the cost of visiting is high, it is easy to obtain revenue that exceed the cost. Thus, as for lending to large and midsize

enterprises, the geographic area that can be visited from each branch is wider than that for SMEs.

(2) Lending for large and midsize enterprises

Since the Parties (both of Fukui Bank and Fukuho Bank) lend funds to users mainly located in Fukui Prefecture, the JFTC focused on examining the impact on users in Fukui Prefecture. Almost all loans, in terms of monetary amounts, to large and midsize enterprises in Fukui Prefecture are made by banks.

According to the interviews with financial institutions, as described in (1) above, in the case of lending to large and midsize enterprises, it is easy to make a profit even for users located in remote areas from each branch. Therefore, financial institutions have a long reach, and the banks can provide finance to large and midsize enterprises located in Fukui Prefecture without any particular problem regardless of the city or town where they are located.

Based on the above, regarding lending to large and midsize enterprises, the JFTC found "Fukui Prefecture" as the geographic market, and financial institutions that perform business lending to users located in Fukui Prefecture as a competitor in the same market.

(3) Lending to SMEs

According to the interviews with and submitted materials from financial institutions, each financial institution lending funds to SMEs in Fukui Prefecture generally visits potential or existing borrowers located in the same economic zone or in a broader area.

In addition, in the interviews with financial institutions, most of them explained that the area where financial institutions can conduct business lending for SMEs is basically within an hour by car from the branch, partially because lending to SMEs is less profitable than lending to large and midsize enterprises, as described in the above (1), and the area that can be actually visited is narrower. The range within an hour by car from a branch is wider than the range of each economic zone.

From these facts, it is considered that the geographic markets for lending to SMEs match or are wider than the range of economic zones.

Based on the above, in order to conduct more careful examination, each economic zone is defined as a geographic market for loans to SMEs, and financial institutions that perform business lending to users located in each economic zone are considered to be competitors in the same market.

VI. Examination of substantive restrictions on competition in business lending

1 Lending for large and midsize enterprises

The table below shows the market share, etc. in lending for large and midsize enterprises in Fukui Prefecture as of the end of March 2020¹⁵. According to the “Guidelines to application of the Antimonopoly Act concerning review of business combination” (issued by the JFTC on May 31, 2004, hereinafter referred to as “business combination guidelines”), when A) Herfindahl-Hirschman Index (hereinafter referred to as “HHI”)¹⁶ after the business combination is 1,500 or less, B) The HHI after the business combination is more than 1,500 and 2,500 or less and the increment of HHI is 250 or less or C) HHI after the business combination exceeds 2,500 and the HHI increment is 150 or less, the horizontal business combination is usually not considered to substantially restrain competition in any particular field of trade¹⁷ (such criteria are called as “the safe-harbor criteria”; the same shall apply hereinafter). According to the market share, etc. in lending for large and midsize enterprises listed in the table below, the value of HHI after the Acquisition and its increment correspond to the case of B) above, so this case falls under the safe-harbor criteria for horizontal business combination.

[Market share, etc. in lending for large and midsize enterprises]

Rank	Financial institutions	
1	Fukui Bank	Approx. 35%
2	A	Approx. 15%
3	B	Approx. 15%
4	C	Approx. 10%
5	D	Approx. 5%
6	E	Approx. 5%
7	Fukuho Bank	0-5%
	Other	0-5%
Total		100%
Total market share & rank for the Parties: Approx. 40% (Top)		
HHI after the Acquisition: Approx. 2,300		
Increment of HHI: Approx. 230		

According to the business combination guideline, even if the horizontal business combination falls under any of the above A), B), and C), it may be necessary to consider various other judgment factors in some cases. However, there are no circumstances that require such examination on lending to large and midsize enterprises in Fukui Prefecture.

Therefore, as for lending to large and midsize enterprises, the Acquisition does not

¹⁵ The market share is calculated on the basis of loan balance. The same shall apply hereafter.

¹⁶ HHI is a commonly accepted measure of market concentration. It is calculated by squaring the market share of each firm in a particular field of trade and then summing the resulting numbers.

¹⁷ Part IV, 1 (3) of business combination guideline

substantially restrain competition in the particular field of trade.

From A to E in the above table are all banks (city banks or regional banks).

2 Lending for SMEs

Regarding lending to SMEs, the general situation, etc. of competition in Fukui Prefecture is firstly described in the below item (1); then, the examination results regarding the substantial restriction on competition are explained.

The examination results for the six economic zones excluding Wakasa Region (hereinafter referred to as "six economic zones") are described in the same section (item (2) below), because the situations are similar, and Wakasa Region is dealt with separately in item (3) below because the situation is different.

(1) Competitive situation in lending to SMEs

Fukui Bank is a regional bank, and Fukuho Bank is a second-tier regional bank. Second-tier regional banks originate from Mujin, which was a financial institution for individuals, and most of them are relatively small banks that are closely related to the local region.¹⁸ In general, second-tier regional banks have higher ratio of loans to SMEs than that regional banks¹⁹ do, and process more small loans than those regional banks do. These also apply to the status of lending to SMEs at Fukui Bank and Fukuho Bank.

According to the interviews with financial institutions and users and materials submitted by financial institutions, regarding lending to SMEs, the business scales of the main borrowers of the Parties are different from each other, and there is relatively little overlap of users of both banks. In addition, it can be seen that there are relatively few cases in which the Parties actually have a rivalry for a specific deal with an individual user. According to the interviews with financial institutions and users, Fukui Bank is believed to have a relatively strong competitive relationship with regional banks for lending to relatively large users among SMEs, and with Shinkin banks in each region for lending to relatively small users among SMEs. On the other hand, Fukuho Bank mainly lends to relatively small users, and it is Shinkin banks in each region that are considered to have a relatively strong competitive relationship with Fukuho Bank.

¹⁸ Documents submitted by The Second Association of Regional Banks to the "Working Group on Japanese Banking System" of the Financial System Council held on Oct. 28, 2020.

¹⁹ The ratio of lending for SMEs in the lending for corporation is 72.2% in regional banks ("Overview of FY2019 financial results of regional banks" issued on June 17, 2020, by the Regional Banks Association of Japan), whereas 98.6% in second-tier regional banks ("Financial results of members bank as of Mar. 31, 2020" available at the website of The Second Association of Regional Banks [<https://www.dainichiginkyo.or.jp/membership/conditions.html>]).

From these facts, the competitive relationship between the Parties may be relatively weak compared to the degree of competitive relationship with each competitor of the Parties. At least, the competitive relationship between the Parties is not found to be particularly strong.

In addition, some of the Parties and competitors offer refinancing, offering low interest rates to the users of other financial institutions. Also, within the past few years, one of the competitors opened a new branch to expand transactions in Fukui prefecture. Thus, it is recognized that the principle of competitive markets sufficiently works.

(2) Six economic zones

(a) Market share, etc.

For each of the six economic zones, the market share and other index on lending to SMEs as of the end of March 2020 is as shown in the following tables. None of them meets the safe-harbor criteria of the horizontal business combination.

[Reihoku Region]

Rank	Name of Financial institutions	Market share
1	F	Approx. 30%
2	Fukui Bank	Approx. 25%
3	G	Approx. 20%
4	Fukuho Bank	Approx. 10%
5	H	Approx. 5%
	Other	0-5%
Total		100%
Total market share & rank: Approx. 40% (Top)		
HHI after combination: Approx. 3,000		
Increment of HHI: Approx. 600		

[Fukui Region]

Rank	Name of Financial institutions	Market share
1	Fukui Bank	Approx. 35%
2	I	Approx. 25%
3	J	Approx. 15%
4	Fukuho Bank	Approx. 15%
5	K	Approx. 5%
	Other	Approx. 5%
Total		100%
Total market share & rank: Approx. 50% (Top)		
HHI after combination: Approx. 3,200		
Increment of HHI: Approx. 900		

[Koshi & Okuetsu Region]

Rank	Name of Financial institutions	Market Share
1	Fukui Bank	Approx. 30%
2	L	Approx. 30%
3	M	Approx. 20%
4	Fukuho Bank	Approx. 5%
5	N	Approx. 5%
	Other	Approx. 5%
Total		100%
Total market share & rank: Approx. 40% (Top)		
HHI after combination: Approx. 2,800		
Increment of HHI: Approx. 500		

[Sabae Region]

Rank	Name of Financial institutions	Market share
1	O	Approx. 25%
2	P	Approx. 25%
3	Fukui Bank	Approx. 25%
4	Fukuho Bank	Approx. 10%
5	Q	Approx. 5%
	Other	Approx. 10%
Total		100%
Total market share & rank: Approx. 35% (Top)		
HHI after combination: Approx. 2,400		
Increment of HHI: Approx. 400		

[Takefu Region]

Rank	Name of Financial institutions	Market share
1	R	Approx. 35%
2	Fukui Bank	Approx. 30%
3	S	Approx. 15%
4	Fukuho Bank	Approx. 10%
5	T	Approx. 10%
	Other	0-5%
Total		100%
Total market share & rank: Approx. 40% (Top)		
HHI after combination: Approx. 3,000		
Increment of HHI: Approx. 600		

[Tsuruga Region]

Rank	Name of Financial institutions	Market share
1	U	Approx. 35%
2	Fukui Bank	Approx. 25%
3	V	Approx. 25%
4	Fukuho Bank	Approx. 10%
5	W	0-5%
	Other	0-5%
Total		100%
Total market share & rank: Approx. 35% (Top)		
HHI after combination: Approx. 3,100		
Increment of HHI: Approx. 500		

The total market share of the Company Group for each market is approximately 35-50%, which ranks first in all economic zones. On the other hand, also in all economic zones, there are two or more competitors whose market share reaches approximately 15% or more. Moreover, the gaps between the total market shares of the Parties and the shares of leading competitors are not necessarily large.

From F to W are regional banks or Shinkin banks with branches in Fukui Prefecture.

(b) Excess capacity of competitors

Even if there are multiple competitors, if the excess capacity of the competitors is not sufficient, the restraining force against the Company Group may not work well. Therefore, when the excess capacity of the competitors is not sufficient, even if the difference of the market share between the Company Group and the competitors is not so large after the Acquisition, the impact of the Acquisition on competition may not be small²⁰. The excess capacity related to business lending in financial institutions is generally classified into excess capacity in terms of funds, and excess capacity in terms of human resources.

(i) Excess capacity in terms of funds

The JFTC examined the excess capacity of competitors in terms of funds in each of the six economic zones, considering the below 2 factors for each competitor; (1) the difference between the amount of the deposit and the amount of the loan, and (2) the maximum amount that can be lent under the capital adequacy requirements.

Each bank is considered to have sufficient excess capacity in terms of funds, based on such as the fact that each of the above (1) and (2) exceeds the total amount of business lending of the Parties in Fukui

²⁰ Part IV, 2 (1) E. of business combination guideline

Prefecture (including those for large and midsize enterprises).

Also, each Shinkin bank is considered to have sufficient excess capacity in terms of funds, based on the fact that each of the above (1) and (2) exceeds the total amount of business lending for SMEs of the Parties, in the economic zone which is the main business scope of each Shinkin bank.

(ii) Excess capacity in terms of human resources

Regarding the excess capacity of competitors in terms of human resources in each of the six economic zones, firstly the JFTC confirmed the number of users that each competitor can newly lend funds, based on the number of borrowers, the number of sales staff, the number of users that each sales staff member is in charge of, practical possibility of increase in the number of sales staff, and time required to visit the users after lending, at the time of examination.

In addition, according to the interviews with competitors, if starting a loan to new users who did not have any transactions in the past, the number of users to be visited by sales staff will increase. Meanwhile, if the loan amount or lending projects to existing lenders increases, the number of users to be visited will not increase; so, it is recognized that the shortage of sales staff will not hinder new lending. Also, among the users of the Parties, those who received funds from competitors are existing users for competitors.

Based on the above points, the JFTC compared the number of users of the Parties and the total number of users that competitors can lend additionally. The results show that as a whole, it is possible for competitors to lend funds to many of the users of the Parties instead of the Parties in each of the six economic zones, and competitors have sufficient excess capacity in terms of the human resources.

(c) Substantial restriction on competition related to unilateral conduct

In the six economic zones, there are two or more leading competitors, and the competitors have sufficient excess capacity in terms of funds and human resources (see the above (a) and (b)). Thus, competitors are considered to have sufficient restraining power. In addition, as described in the above (1), the degree of the competitive relationship between the Parties is not found to be particularly strong, compared to the competitive relationship with each competitor of the Parties.

Therefore, it is acknowledged that the Acquisition would not lead to substantial restriction on competition in the fields of lending for SMEs in the six economic zones, resulting in enabling the Parties to determine

terms of trade including interest rate without considerable constraint.

(d) Substantial restriction on competition related to coordinated conduct

The transaction conditions for business lending for SMEs in Fukui Prefecture are determined by bilateral negotiations between financial institutions and users for each loan project (see the above IV. 2 (1) (b)), and the contents are not disclosed. The transaction conditions include whether the interest rate is fixed or floating, the necessity and content of collateral and guarantees and the repayment deadline as well as the level of interest rate (see the above IV. 2 (1) (a)), and there can be various combinations of these conditions. In addition, financial institutions consider the interest rate in light of the cost of lending, but the cost standards differ depending on the financial institutions, and it is difficult for financial institutions to grasp the cost standards of other financial institutions (see the above IV. 2 (1) (e)).

The above points leads to the recognition that, regarding business lending for SMEs in six economic zones, it is not easy to establish a common understanding and mutual prediction among suppliers, which is a prerequisite for coordinated conduct, and to monitor deviance from coordinated conduct.

Therefore, it is acknowledged that the Acquisition would not lead to substantial restriction on competition in the field of lending for SMEs in each six economic zone, resulting in enabling the Parties and competitors to determine terms of trade including interest rate in a coordinated way without considerable constraint.

(3) Wakasa Region

(a) Market share, etc.

The market share and other index on lending to SMEs in Wakasa Region as of the end of March 2020 is as shown in the table below, and they do not meet the safe-harbor criteria of the horizontal business combination.

[Market share, etc. of lending for SMEs in Wakasa Region]

Rank	Financial institutions	
1	X	Approx. 35%
2	Fukui Bank	Approx. 30%
3	Fukuho Bank	Approx. 20%
4	Y	Approx. 5%
5	Z	Approx. 5%
6	AA	0-5%
7	BB	0-5%
8	CC	0-5%
9	DD	0-5%
	Other	0-5%
Total market share & rank: Approx. 50% (Top)		
HHI after combination: Approx. 3,800		
Increment of HHI: Approx. 1,200		

The total market share of the Company Group is approximately 50%, which ranks first. On the other hand, the market share of the leading competitor X reaches approximately 35% and exceeds that of the Parties before the Acquisition.

From X to DD are banks or Shinkin banks.

(b) Branch network and business area

Regarding the actual number of branches²¹ in Wakasa Region of the Parties, Fukui Bank has four branches (two in Obama City, one in Ohi Town, one in Takahama Town), and Fukuho Bank has two branches (one in Obama City, one in Takahama Town).

On the other hand, as for competitors, two out of the seven listed in the table above (a) have branches in Wakasa Region, and the total number of branches of the competitors is seven (four in Obama City, one in Ohi Town, two in Takahama Town). In addition, according to the interviews with competitors and users, it is recognized that three out of the five competitors who do not have branches in Wakasa Region can visit users located in the whole or partial area of Wakasa Region on a daily basis to close a deal from branches in other economic zones in Fukui Prefecture or branches located in prefectures adjacent to Fukui Prefecture. According to the evidences including interviews with competitors, it is difficult for the other competitors to close a deal from users in Wakasa Region broadly because of the fact that the nearest branch is located in a remote location²² or others.

²¹ In the case that a branch has another branch inside of it (branch in branch), they are counted as one branch.

²² Those competitors have the loan balance for users in the said region. However, according to the interview with the competitors, it is because they got deals from the parent company (operating in the sales area of such competitors) of users as a result of

Based on the above points, it is recognized that in Wakasa Region, there are, in total, five competitors (the above two and three) that can generate a substantial restraining force against the Parties after the Acquisition.

(c) Excess capacity of competitors

(i) Excess capacity in terms of funds

The excess capacity in terms of funds of five competitors described in the above (a), which can be a substantial restraining force against the Parties after the Acquisition in Wakasa Region, was examined in consideration of the two factors below for each competitor; (1) the difference between the amount of deposit and the amount of loan, and (2) the maximum amount that can be lent under the capital adequacy requirements, in common with the six economic zones described in the above (2) (b) (i).

Among the five competitors, regarding banks, the above (1) and (2) greatly exceed the total business lending amount of the Parties in Fukui Prefecture (including those for large and midsize enterprises); so, it is recognized that banks have sufficient excess capacity in terms of funds.

Also, regarding Shinkin banks, the above (1) and (2) exceed the total business lending amount for SMEs of the Parties in Wakasa Region. It is recognized that Shinkin Banks have sufficient excess capacity in terms of funds.

(ii) Excess capacity in terms of human resources

Regarding the excess capacity in terms of human resources of the five competitors described in the above (a), in the same way as the above (2) (b) (ii), firstly, the JFTC confirmed the number of users that each competitor can newly lend funds.

Also, as described in the above (2) (b) (ii), if the loan amount or lending projects to existing lenders increases, the number of users to be visited will not increase; so, it is recognized that the shortage of sales staff will not hinder new lending. Also, among the users of the Parties, those who received funds from competitors are existing users for competitors.

Based on the above points, we compared the number of users of the Parties and the total number of users that the five competitors described in the above (a) can lend additionally. The results show that

sales activity, or users formerly operating in such sales area moved to the out of the area during repayment period. Therefore, it is difficult for those competitors to widely get new deals from other users in the area.

as a whole, it is possible for the competitors to lend funds to many of the users of the Parties instead of them, and that the competitors have sufficient excess capacity in terms of human resources.

(d) Substantial restriction on competition related to unilateral conduct

In Wakasa Region, there are competitors, and the competitors have sufficient excess capacity in terms of funds and human resources (see the above (a) and (c)). Thus, competitors are considered to have sufficient restraining power. In addition, as described in the above (1), the degree of the competitive relationship between the Parties is not found to be particularly strong, compared to the competitive relationship with each competitor of the Parties.

Therefore, it is acknowledged that the Acquisition would not lead to substantial restriction on competition in the field of lending for SMEs in Wakasa Region, resulting in enabling the Parties to determine terms of trade including interest rate without considerable constraint.

(e) Substantial restriction on competition related to coordinated conduct

Regarding business lending for SMEs in Wakasa Region, for the same reasons described in the above (2) (d), it is not easy to establish a common understanding and mutual prediction among suppliers, which is a prerequisite for coordinated conduct, and to monitor deviance from coordinated conduct.

Therefore, it is acknowledged that the Acquisition would not lead to substantial restriction on competition in the field of lending for SMEs in Wakasa Region, resulting in enabling the Parties and competitors to determine terms of trade including interest rate in a coordinated way without considerable constraint.

VII. Conclusion

The JFTC concluded that the Acquisition would not substantially restrain competition in the particular fields of trade.