

Oita Bank Ltd.

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Oita Bank is the leading regional bank in Oita Prefecture. Established in 1893, its headquarters are in Oita City, and it has 94 branches throughout the prefecture. It is a successful, profitable bank, though its profits have been under pressure due to the Bank of Japan's sustained low interest rate policy. The bank has the highest (A+) rating for its long-term preferred debt from the Japan Credit Rating Agency.

Oita Prefecture, like Japan overall, is experiencing population decline, and prefectural economic growth is slow. Because lending is not profitable and demand growth is limited, the bank is placing emphasis on increasing its fees and services business, as well as creating, investing in, and lending to, new companies. One is Oita Made Company, for which there is a separate report.

The Bank's shares are listed. They are owned by a life insurance company and other (primarily regional) institutional investors; 18 percent are foreign-owned. Total equity as of March 31, 2018 was ¥196.4 billion (\$1.755 billion at the 106.24 yen/dollar exchange rate used in the bank's 2018 annual report), with paid-in capital of ¥19.6 billion (\$184.5 million). Accordingly, the capital adequacy ratio was a healthy 10.8 percent, far above the domestic standard minimum of 4 percent. Deposits were ¥2,918 billion (\$27.5 billion). Loans and discounted bills were only 61 percent of its deposits, ¥1,792 billion (\$16.9 billion). Its securities investments were ¥1,069 billion (\$10.1 billion). There were ¥24.1 billion (\$226 million) of unrealized capital gains.

Profits before income taxes were ¥9.2 billion (\$86.7 million), a modest decline from 2017. Realized capital gains on the sales of JGBs, stocks, and other securities comprised 45 percent of the profits, substantially more than in the previous year, so profits earned from operations had decreased significantly. Dividends were 80 yen, an increase from 70 yen in fiscal 2017, even though net profits decreased. Still, the pay-out ratio (dividends as a percentage of net income) was only 21 percent.

As one way to contribute to what is termed “the revitalization of Oita Prefecture,” Oita Bank is participating in an unusual five-year project to grow cattle to produce *wagyu* beef in pastures. The project is managed by a steering committee of representatives from Oita Bank, the Oita Branch of Japan Agriculture Cooperatives (JA), the Oita Prefectural Government, Kyushu University, and several other specialists. Oita Bank and JA provide funding, and the Oita Prefectural Government provides subsidies. The project has received a government award for an economic rehabilitation program, one of 23 awarded out of 1,100 projects considered.

Wagyu translates directly to English as “Japanese cows.” But not just any cow, wagyu refers to just four specific breeds: Japanese Black, Japanese Shorthorn, Japanese Polled, and Japanese Brown. Japan produces 300 varieties of wagyu, depending on region, farmer, and type of production. Genetically, cattle from Miyazaki prefecture in southern Kyushu are the source of about 85% of all the wagyu raised in Japan, regardless of where it is raised. (Wagyu beef is sometimes called Kobe beef in the United States because that is where it was first imported from, but wagyu and Kobe beef are not synonyms. Although branded Kobe beef is wagyu, wagyu also comes from other places in Japan.)

What characterizes wagyu beef is that it is marbled with fat throughout the meat, giving it a soft, rich, buttery taste. Prices vary widely depending on quality and cut. It can be found on the web in the US for about \$150 a pound for flash-frozen rib eye steaks.

The government enforces grading standards and limits production to maintain quality (and high price). Most wagyu production is consumed in Japan, but exports have increased from ¥5 billion in 2013 to ¥24.7 billion in 2018.

The standard method of wagyu production is to keep calves in small pens for about two years, while feeding them a concentrate made from rice, wheat, and hay up to three times a day until the animals are almost 50 percent fat.

Oita Prefecture has hilly land not used for field crops, but it is suitable for free-roaming cattle. In the spirit of free-range chickens, the managers of this project have rented 50 hectares of land. The land has been seeded with a Kentucky grass (Bahia grass) that grows well and on which cows benefit from grazing. Cows tend to stay close to each other, which makes them relatively easy to manage. The cows are allowed to range freely, and have calves. The calves grow to maturity in just under two years. The project now has 100 cows, and aims for 1,000 by the end of the fifth year. One farm family can readily manage at least 10 hectares of this pasture land, and make a good living compared to others in the area.

One problem has been the Oita farmers have been unwilling to take the risk of this completely different way of raising beef. Farm families from outside had to be recruited. How to obtain the trust of the local farming community is a challenge.

Nonetheless, the costs of producing wagyu through this pasture methodology is about half that of the established way of enclosure. Unused land in Oita Prefecture is not expensive, and labor requirements are substantially lower. It appears that once the pasture-raising wagyu project is fully developed, it will be very profitable.

Oita Bank expects to learn from this project how to develop other projects, which it finances, to help the prefecture.

Acknowledgements

On May 16, 2019 I had an extended visit with senior executives at Oita Bank's head office in Oita City. I met for 30 minutes with President Tomiichiro Goto, and then for more than an hour with Yuji Yano, Senior Manager, Regional Creation Division, and Yuji Kamei, General Manager, Regional Creation Division. Mr. Yano led the discussion on Oita Bank's leadership in the development of the agricultural project briefly described here.

I went to Oita Bank with Hirofumi Maki, General Manager of the Development Bank of Japan (DBJ), who arranged the meeting and joined me from Tokyo. Kimihiro Fukuyama, DBJ chief representative in Oita, participated in the meeting. Patricia Hara, a long-term Oita resident and Chair of her company (Pacific English Inc), kindly served as interpreter.

References

The web site is in Japanese. <https://www.oitabank.co.jp/>