



The Shizuoka Bank, Ltd.

Company Profile

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COMPANY OVERVIEW

The Shizuoka Bank (Shizuoka Bank) is Japanese regional banking group operating in Shizuoka Prefecture. The bank comprises Shizuoka Bank and 12 group companies. The bank operates 167 branches and 23 sub branches. The group primarily operates in Japan. It is headquartered in Shizuoka, Japan and employs 3,153 people.

The company recorded revenues of JPY200,585 million (\$2,166.3 million) during the financial year ended March 2010 (FY2010), an increase of 0.8% over FY2009. The operating profit of the company was JPY54,264 million (\$586.1 million) in FY2010, as compared to profit of JPY19,677 million (\$212.5 million) in FY2009. The net profit was JPY32,755 million (\$353.8 million) in FY2010, as compared to profit of JPY13,012 million (\$140.5 million) in FY2009.

KEY FACTS

Head Office	The Shizuoka Bank, Ltd. 2-1, Kusanagi-Kita Shimizu-ku Shizuoka-shi Shizuoka 424 8677 JPN
Phone	81 54 345 5411
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Web Address	http://www.shizuokabank.co.jp
Revenue / turnover (JPY Mn)	200,585.0
Financial Year End	March
Employees	3,153
Tokyo Stock Exchange Ticker	8355

SWOT ANALYSIS

Shizuoka Bank is Japanese regional banking group operating in Shizuoka Prefecture. The group is a strong regional player and operates over 167 branches and 23 sub-branches, most of which are located in Shizuoka. However, the competitive landscape in Shizuoka prefecture is changing rapidly. Changing competitive landscape in Shizuoka prefecture will keep the market share of Shizuoka Bank under check.

Strengths	Weaknesses
<p>Strong market position in Shizuoka Prefecture and nearby regions Exceptionally strong capitalization provides resilience to adverse market developments Diversifying revenue sources reduce earnings volatility</p>	<p>Lack of scale limiting the competitive edge Declining asset quality impacting return on assets</p>
Opportunities	Threats
<p>Regional companies expansion into overseas may aid revenue expansion Partnerships with other institutions helping in new business launches Increasing demand for pension products likely to increase revenues</p>	<p>Changing competitive landscape in Shizuoka prefecture Japan's mounting debt problem</p>

Strengths

Strong market position in Shizuoka Prefecture and nearby regions

Shizuoka Bank is the leading bank in Shizuoka Prefecture. The company's market share of loans in Shizuoka Prefecture increased from 26.09% in the year ended March 2005 to 29.19% in the year ended March 2010. This is in contrast to decline in the market shares of mega banks (Mitsubishi UFJ Financial Group Inc., Sumitomo Mitsui Financial Group Inc., and Mizuho Financial Group Inc.) and 13 Shinkin banks (large-scale credit unions). Shizuoka Prefecture contributes nearly 87% of Shizuoka Bank's total deposits. Over the sixty years since its establishment, Shizuoka Bank has built up a strong base of loyal customers. In addition to being the leading bank in Shizuoka Prefecture, Shizuoka Bank also has significant presence in three major economic centers in Japan, namely Tokyo, Osaka, and Nagoya, all of which are comparatively nearby. Strong market position in Shizuoka Prefecture and nearby regions sustains continued business for Shizuoka Bank.

Exceptionally strong capitalization provides resilience to adverse market developments

Shizuoka Bank's capitalization is exceptionally strong by both Japanese and international standards. But for one dip in the BIS capital adequacy ratio in the year ended March 2009, the bank's Core Capital ratio, Tier I ratio, and BIS capital adequacy ratio strengthened during the years ended March 2007 and 2010. The Bank's capital adequacy ratio was 15.32% on a consolidated basis, one of the highest ratios among Japanese banks, and its Tier I ratio was 14.06%, substantially higher than the BIS standard of 8% for banks engaging in international operations. Moreover, capital quality is also good, with no preferred securities, which are less likely to absorb losses than common shares. Furthermore, the bank posted limited deferred-tax assets, which indirectly boosted its Tier 1 capital. The bank's exceptionally strong capitalization provides it resilience to adverse market developments. Additionally it provides scope for business expansion.

Diversifying revenue sources reduce earnings volatility

Shizuoka Bank's efforts to diversify revenue sources have been yielding positive results. The bank generates revenues through three business operations namely banking, leasing and others. Shizuoka Bank's revenue mix favorably developed in the year ended March 2010 as compared to the year ended March 2009. During the period under discussion, the share of banking in total revenue declined from 89.2% to 84% while the shares of leasing and other operations increased. As a result, the share of non-interest revenue increased favorably from 29.6% in FY2009 to 33% in FY2010. Moreover, the contribution of other 12 companies to the consolidated revenue and profits of Shizuoka Bank increased during the period under discussion. As a result, Shizuoka Bank's operating profit and net profit increased significantly in the year ended FY2010. Diversifying revenue sources help the bank reducing volatility in its earnings.

Weaknesses

Lack of scale limiting the competitive edge

Shizuoka Bank lacks the scale to compete with large players in its markets. Many of its competitors such as Mizuho Financial Group and Mitsubishi UFJ Financial Group are much larger in size, operations and coverage. Mitsubishi UFJ Financial Group recorded revenue of JPY4,437,969 million (approximately \$47,885.7 million) and employed 79,000 employees in FY2010 and Mizuho Financial Group, for instance, recorded revenues of JPY2,515.6 billion (approximately \$27.1 billion) and employed 49,114 people, during the same period. Shizuoka Bank, in contrast, recorded revenues of JPY200,585 million (\$2,166.3 million) and employed 3,153 people in FY2010. Lack of scale limits the company's ability to compete effectively with large players.

Declining asset quality impacting return on assets

Shizuoka Bank's asset quality as indicated by the developments in asset classifications show signs of concern. The bank classifies loans into—'normal', 'caution', 'possible bankruptcy', 'virtual

bankruptcy', and 'legal bankruptcy.' The aggregate of loans under problem category increased from JPY210,734 million (\$2,275.9 million) at end March 2009 to JPY231,612 million (\$2,501.4 million) at end March 2010. As a result, allowances for loan losses increased from JPY81,141 million (\$876.3 million) at end March 2009 to JPY90,873 million (\$981.4 million) at end March 2010. As a result, the bank's return on assets (ROA) is lower than the average ROA of its peers.

Opportunities

Regional companies expansion into overseas may aid revenue expansion

Regional companies especially those from Shizuoka Prefecture are increasingly expanding into Asia and the rest of the world. For instance, the number of companies which started overseas operations increased from 1,074 in 2003 to 1,261 in 2009. This trend is expected to have continued in 2010 and persist in the coming years as Japanese domestic market has matured. In line with customers' expansion into Asia and the rest of the world, Shizuoka Bank has also been expanding its overseas operations. Shizuoka Bank is leveraging business alliance with three financial institutions operating in Asia; namely Credit-Agricole CIB, Bangkok Bank, and China Construction Bank in order to increase its overseas business. Regional companies expansion into overseas is thus likely to aid Shizuoka Bank's revenue expansion.

Partnerships with other institutions helping in new business launches

The group has been taking initiatives in various expansion plans. For instance in 2006, Shizugin Securities (a stock broking subsidiary of the group), opened its first branch office outside Shizuoka prefecture, in the city of Fujisawa (eastern Japan) to attract new clients outside the Shizuoka prefecture. Similarly in 2007, the bank established Shizugin Saison Card Company in a joint venture with the credit card company Credit Saison Company. Also in 2007, Shizuoka Bank and its two subsidiaries, Shizugin Management Consulting Company and Shizuoka Capital Company, together with Shizuoka Economic Research Institute formed a business alliance with Nagoya University in the industrial affiliated program. Through the alliance, the five entities collaborated to provide support and consulting services for venture business, sharing research information, and contributing to regional economic development. The group is collaborated with Mitsubishi UFJ Trust and Banking to provide expert advice on inheritance planning, which attracts attention from aging population. Shizugin Saison Card, a joint venture with Credit Saison, is partnering with local businesses to provide new services and conveniences to customers of the region, such as the Entetsu card, issued in conjunction with Ensyu Railway, an operator of transportation and leisure facilities in the western part of Shizuoka. Expansion plans would enable the group to expand its market share and generate incremental revenues.

Increasing demand for pension products likely to increase revenues

The Japanese population is aging fast. The 65 and over age group as a proportion of total population is expected to increase many folds over next forty years. By 2050, four out of ten Japanese will be

over 65. Moreover pension assets under management in the Asia Pacific region stood at \$3 trillion, which is roughly 15% of the \$23 trillion globally, according to Towers Watson's Global Pension Asset Study 2010. This number is expected to grow dramatically in the coming years.

Aging population in Japan would boost demand for the pension products of the group. The bank offers corporate pension trust services, support systems for pensions and pension consulting services. The changing demographic profile of Japan would increase demand for Shizuoka Bank's pension and trust services business.

Threats

Changing competitive landscape in Shizuoka prefecture

The competitive landscape in Shizuoka prefecture is changing rapidly. In addition to Shizuoka Bank, three other regional banks operate in the prefecture. Additionally, there are 13 shinkin banks (large-scale credit unions) and various government-run financial institutions and agricultural cooperatives operating in this region. Moreover, Japan's megabanks and other money-center banks operating on a nationwide scale are now active in the principal cities of Shizuoka prefecture. Changing competitive landscape in Shizuoka prefecture will keep the market share of Shizuoka bank under check.

Japan's mounting debt problem

Japan has the largest public debt among developed countries. Japan's public debt stands at about \$10 trillion, which is double the size of its economy. Recently, Japan has faced criticism from the ratings agencies for lacking credible plans to bring their deficits under control.

As a result, in the beginning of 2011, Moody's Investors Service changed the outlook on Japan's Aa2 sovereign rating to negative from stable, warning that government policies may be insufficient to rein in the country's huge public debt. This was followed by Standard & Poor's downgrade of its rating on Japanese Government Bonds, its first such cut in nine years.

The mounting welfare costs and shrinking savings as a result of a rapidly aging population raise doubts over Japan's ability to solve its debt problem. If Japan does not resolve its debt problem then it would reach a crucial point in five to 10 years if the problem is not resolved. This could have an adverse impact on Japan's economy. As Shizuoka Bank generates over 90% of its revenue from Japan, its business performance could be impacted.

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