BOJ Reports & Research Papers

Financial System Report Annex Series

FSR – A

Financial System Report – Annex

Financial Results of Japan's Banks for Fiscal 2022

FINANCIAL SYSTEM AND BANK EXAMINATION DEPARTMENT
BANK OF JAPAN
SEPTEMBER 2023

The total of major banks, regional banks, and *shinkin* banks covered in this *Report* is as follows (as at end-March 2023).

Major banks comprise the following 10 banks: Mizuho Bank; MUFG Bank; Sumitomo Mitsui Banking Corporation; Resona Bank; Saitama Resona Bank; Mitsubishi UFJ Trust and Banking Corporation; Mizuho Trust and Banking Company; Sumitomo Mitsui Trust Bank; SBI Shinsei Bank; and Aozora Bank. Regional banks comprise the 62 member banks of the Regional Banks Association of Japan (Regional banks I) and the 37 member banks of the Second Association of Regional Banks (Regional banks II). *Shinkin* banks are the 247 *shinkin* banks that hold current accounts at the Bank of Japan.

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Background

The Bank of Japan issues the *Financial System Report* semiannually with the objectives of assessing the stability of Japan's financial system from a macroprudential perspective and enhancing communication with concerned parties with respect to financial stability issues. The *Report* provides a regular and comprehensive assessment of the financial system.

The *Financial System Report Annex Series* supplements the *Financial System Report* by providing more detailed analysis and insight into a selected topic. This paper covers the financial results of Japan's banks for fiscal 2022 to provide an annual analysis.

Abstract

The three main features of the financial results of Japan's banks for fiscal 2022 are as follows:

First, net income increased for major banks and regional banks, while it decreased for *shinkin* banks. For all types of banks, pre-provision net revenue (PPNR) excluding trading income, which indicates core profitability, increased, although profits were pushed down by a deterioration in realized gains/losses on bondholdings, mainly due to losses on sales of bonds that resulted from the rise in foreign interest rates.

Second, PPNR excluding trading income increased at major banks, regional banks, and *shinkin* banks. For all types of banks, an increase in net interest income contributed to raising PPNR excluding trading income. It was also pushed up by an increase in net non-interest income at major banks, and a decrease in general and administrative expenses at regional banks and *shinkin* banks.

Third, the capital adequacy ratios remained sufficiently above the regulatory requirements for all types of banks, although the ratios declined for internationally active banks, for which valuation gains/losses on securities holdings are included in capital.

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Glossary

I. Outline of Financial Results of Japan's Banks for Fiscal 2022[1]

A. Profits and Losses

At major financial groups, net income for fiscal 2022 was about 2.9 trillion yen, increasing by 6.6 percent from the previous year. Realized losses on bondholdings increased, mainly due to losses on sales of bonds that resulted from the rise in foreign interest rates. However, overall net income increased because PPNR excluding trading income rose due to (1) an increase in net interest income supported by lending, particularly foreign loans, and securities-related income led by profits from investment trusts due to cancellation and (2) an increase in net non-interest income boosted primarily by fees and commissions associated with deposits and lending in the international business sector. Meanwhile, as the impact of COVID-19 subsided, although credit costs increased from the previous year, they continued to decline on a basis excluding the impact of accounting practices associated with the share transfer of a group company of a financial group.

At major banks (on a non-consolidated basis), net income for fiscal 2022 was about 2.5 trillion yen, an increase of 85.8 percent from the previous year, mainly due to gains on sales of stocks of a subsidiary of a bank.

I-A-1: Main profit and loss items at major financial groups and banks

100 mil.yen,%

	Major Financial Groups			Major Banks (non-consolidated)		
	FY2022	y/y chg.	y/y % chg.	FY2022	y/y chg.	y/y % chg.
Net interest income	63,039	+8,646	+15.9	44,884	+5,953	+15.3
Net non-interest income	65,294	+8,282	+14.5	30,720	+6,188	+25.2
General and administrative expenses	-73,886	-3,593	+5.1	-37,505	-553	+1.5
PPNR excluding trading income	59,585	+13,316	+28.8	38,099	+11,589	+43.7
(excluding profits and losses from investment trusts due to cancellations)	(53,250)	(+7,915)	(+17.5)	(31,764)	(+6,187)	(+24.2)
Realized gains/losses on bondholdings	-12,413	-9,294	——	-11,946	-8,712	——
Realized gains/losses on stockholdings	5,978	+877	——	5,659	+914	——
Credit costs	-10,245	-484	——	-2,689	+5,376	——
(Credit cost ratio)	——	——	——	(8bps)	(-17bps)	——
Other profit and loss items	-2,875	+799	——	3,897	+5,530	——
Net income before income taxes	40,029	+5,215	+15.0	33,019	+14,696	+80.2
Tax-related expenses	-10,230	-3,399	+49.8	-7,719	-3,014	+64.1
Net income	28,808	+1,784	+6.6	25,300	+11,683	+85.8

Notes: 1. Regarding credit costs, negative numbers represent a rise in costs while positive numbers represent an increase in reversals.
2. For major financial groups, PPNR excluding trading income includes profits/losses on investments in affiliates. Some items for which there exist no data on a financial group basis are calculated using bank data on a non-consolidated basis.

Sources: Published accounts of each financial group; BOJ.

[1] Figures provided in Chapters I and II are calculated on a non-consolidated basis unless otherwise noted.

At regional banks, net income for fiscal 2022 was about 0.9 trillion yen, a 1.4 percent increase from the previous year. Although an increase in realized losses on bondholdings exerted downward pressure, net income was pushed up by such factors as an increase in net interest income due to an increase in loans outstanding mainly related to COVID-19, a rise in net non-interest income led by income from services to corporate clients, a decrease in general and administrative expenses, and a decline in credit costs.

At *shinkin* banks, net income for fiscal 2022 was about 0.2 trillion yen, a decrease of 12.8 percent from the previous year. Net income was pushed down by a deterioration in realized losses on bondholdings, although a decrease in general and administrative expenses and a decline in credit costs exerted upward pressure.

I-A-2: Main profit and loss items at regional banks and *shinkin* banks

100 mil.yen,%

	Regional banks (non-consolidated)			*Shinkin* banks		
	FY2022	y/y chg.	y/y % chg.	FY2022	y/y chg.	y/y % chg.
Net interest income	37,033	+449	+1.2	16,204	+129	+0.8
Net non-interest income	6,642	+280	+4.4	583	-147	-20.1
General and administrative expenses	-27,254	+806	-2.9	-12,168	+220	-1.8
PPNR excluding trading income	16,421	+1,530	+10.3	4,619	+203	+4.6
(excluding profits and losses from investment trusts due to cancellations)	(15,496)	(+1,288)	(+9.1)	(4,480)	(+357)	(+8.7)
Realized gains/losses on bondholdings	-6,423	-4,641	——	-1,273	-1,228	——
Realized gains/losses on stockholdings	3,147	+1,548	——	523	+136	——
Credit costs	-1,500	+1,395	——	-468	+482	——
(Credit cost ratio)	(5bps)	(-5bps)	——	(6bps)	(-6bps)	——
Other profit and loss items	-1	+28	——	-100	-2	——
Net income before income taxes	11,643	-140	-1.2	3,302	-409	-11.0
Tax-related expenses	-3,126	+261	-7.7	-889	+56	-5.9
Net income	8,516	+120	+1.4	2,413	-354	-12.8

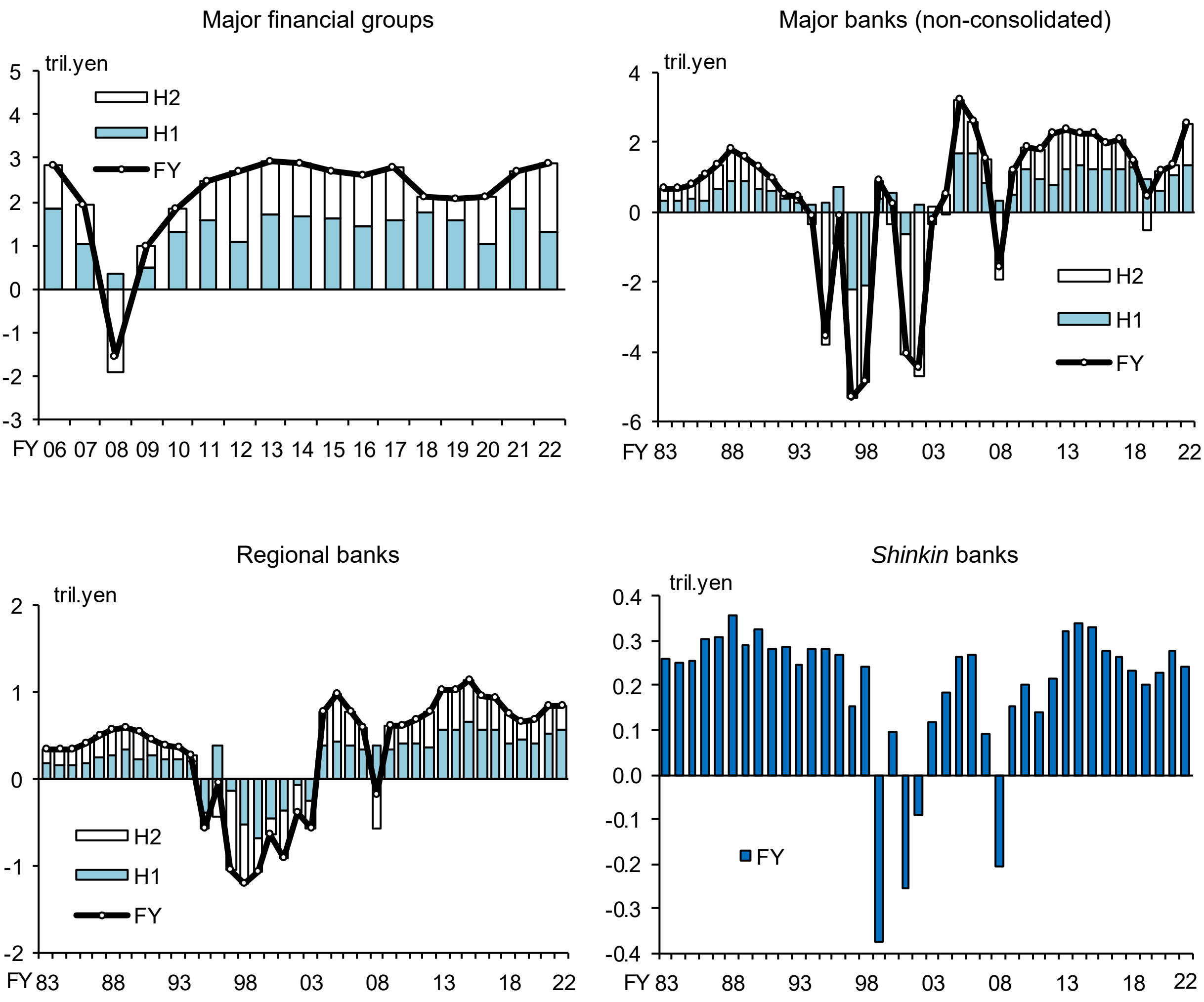
Note: Regarding credit costs, negative numbers represent a rise in costs while positive numbers represent an increase in reversals.

Source: BOJ.

B. Profit Levels from a Long-Term Perspective

Net income for fiscal 2022 for major banks (both on a consolidated and non-consolidated basis) and that for regional banks increased for the third consecutive year while that for *shinkin* banks decreased for the first time in three years.

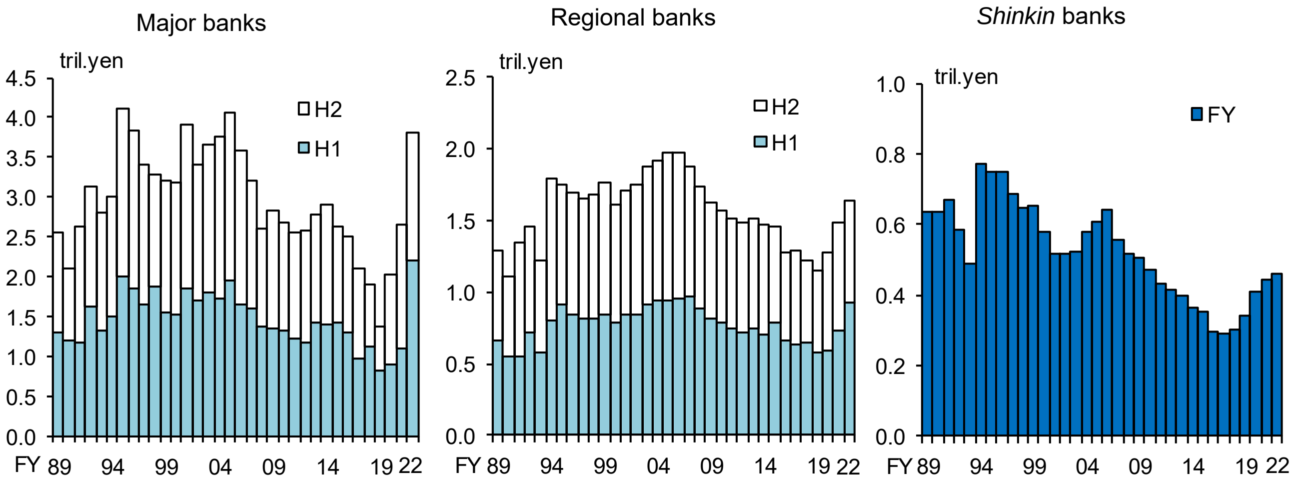
I-B-1: Net income



Source: BOJ.

With regard to core profitability, at major banks, PPNR excluding trading income for fiscal 2022 rose by 43.7 percent from the previous year, increasing for the third consecutive year. At regional banks, PPNR excluding trading income increased by 10.3 percent from the previous year, also rising for the third consecutive year. At *shinkin* banks, such profits increased by 4.6 percent from the previous year, increasing for the fifth consecutive year.

I-B-2: PPNR excluding trading income



Source: BOJ.

C. Balance Sheets

Looking at developments in balance sheets for fiscal 2022 at major banks, total assets rose by 55.7 trillion yen, reflecting increases in cash and due from banks (such as current deposits held at the Bank of Japan), loans and bills discounted at home and abroad, as well as foreign securities, despite a decrease in Japanese government bonds (JGBs). On the liability side, the main increase was in deposits and NCD at home and abroad.

I-C-1: Main balance sheet items of major banks

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	End-Mar. 2023	y/y chg.	Change from end-Sep. 2022		End-Mar. 2023	y/y chg.	Change from end-Sep. 2022
Loans and bills discounted	358.4	+22.2	-3.5	Deposits and NCD	651.1	+37.5	+8.9
Domestic business sector	239.0	+8.9	+6.1	Domestic business sector	510.4	+18.0	+17.3
International business sector	119.4	+13.2	-9.7	International business sector	140.8	+19.5	-8.4
Securities	173.3	-3.3	+4.4	Loans from BOJ	43.1	-20.8	+5.8
JGBs	68.5	-11.7	-1.0	Due to trust accounts	15.3	-0.4	+1.3
Stocks	13.9	-1.1	+0.0	Other liabilities	201.7	+40.0	-14.3
Foreign securities	64.0	+8.2	+4.6	Total liabilities	911.2	+56.2	+1.7
Cash and due from banks	284.7	+19.1	+30.1	Total net assets	30.9	-0.5	+1.7
Other assets	125.7	+17.8	-27.6	Retained earnings	13.6	+1.3	+0.6
Total assets	942.1	+55.7	+3.4	Net valuation gains/losses on securities	3.1	-1.1	+1.3

Source: BOJ.

At regional banks, total assets decreased by 16.1 trillion yen since cash and due from banks (such as current deposits held at the Bank) and securities decreased while loans and bills discounted increased. On the liability side, other liabilities (such as loans from the Bank) decreased.

I-C-2: Main balance sheet items of regional banks

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	End-Mar. 2023	y/y chg.	Change from end-Sep. 2022		End-Mar. 2023	y/y chg.	Change from end-Sep. 2022
Loans and bills discounted	303.9	+13.3	+7.0	Deposits and NCD	403.5	+7.7	+5.7
Securities	85.2	-3.6	-2.1	Current deposits	253.2	+10.4	+8.2
JGBs	15.2	-2.5	-1.5	Other liabilities	64.5	-22.9	+6.4
Cash and due from banks	86.4	-27.5	+7.7	Total liabilities	468.0	-15.2	+12.1
Other assets	14.9	+1.7	-0.1	Total net assets	22.4	-0.8	+0.4
Total assets	490.3	-16.1	+12.5	Net valuation gains/losses on securities	1.6	-1.1	+0.6

Source: BOJ.

With regard to *shinkin* banks, total assets decreased by 5.0 trillion yen as securities and cash and due from banks (such as current deposits held at the Bank, deposits at the Shinkin Central Bank) decreased. On the liability side, other liabilities (such as loans from the Bank) decreased.

I-C-3: Main balance sheet items of *shinkin* banks

tril.yen

	End-Mar. 2023	y/y chg.		End-Mar. 2023	y/y chg.
Loans and bills discounted	79.5	+1.0	Deposits and NCD	159.7	+1.2
Securities	46.2	-2.3	Current deposits	75.9	+3.0
JGBs	7.7	-0.7	Other liabilities	6.1	-5.4
Cash and due from banks	44.7	-3.9	Total liabilities	165.8	-4.2
Other assets	3.8	+0.2	Total net assets	8.4	-0.8
Total assets	174.2	-5.0	Net valuation gains/losses on securities	-0.9	-1.0

Source: BOJ.

II. Financial Results of Japan's Major Banks and Regional Banks for Fiscal 2022

This chapter outlines banks' core profitability (net interest income, net non-interest income, and general and administrative expenses), realized and valuation gains/losses on securities holdings, credit costs and non-performing loans, as well as capital adequacy ratios, dividends, and share repurchases. The financial results of *shinkin* banks are outlined in Chapter III.

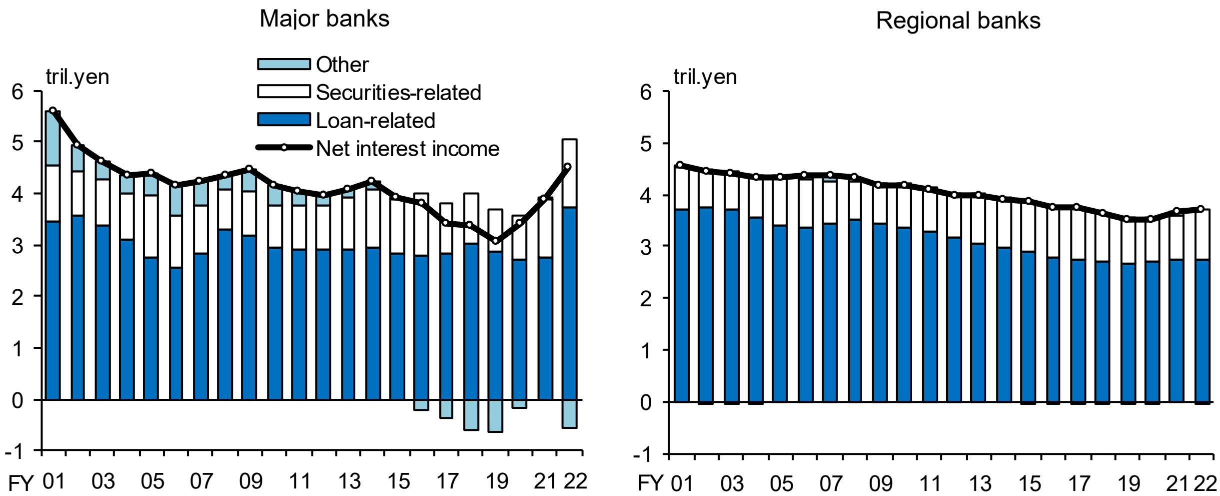
A. Core Profitability

1. Net Interest Income

At major banks, net interest income for fiscal 2022 increased by 15.3 percent from the previous year. Loan-related income increased reflecting a rise in the outstanding amount of loans, particularly foreign loans, and securities-related income also increased. In addition, net interest income was pushed up by profits from investment trusts due to cancellations.

At regional banks, net interest income for fiscal 2022 increased by 1.2 percent from the previous year. Loan-related income was firm, reflecting an increase in the outstanding amount of loans mainly related to COVID-19, while securities-related income increased.

II-A-1: Net interest income



Note: Loan-related = (average loans outstanding) * (interest rate spreads on loans). Securities-related = (average outstanding securities holdings) * (interest rate spreads on securities).
Source: BOJ.

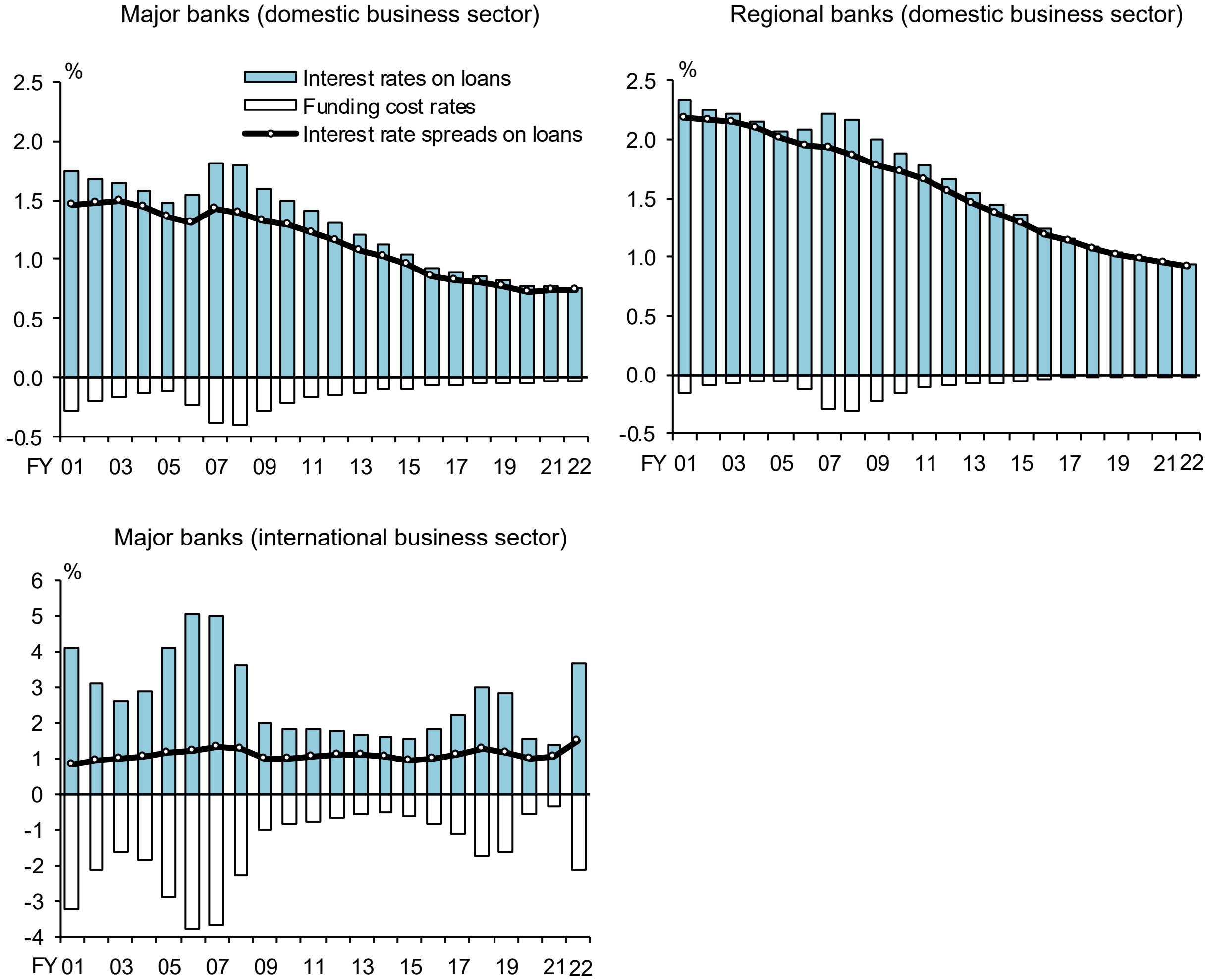
2. Interest Rate Spreads on Loans and Loans Outstanding

(1) Interest Rate Spreads on Loans

Interest rate spreads on loans in the domestic business sector were almost unchanged at major banks as both interest rates on loans and funding cost rates were flat. At regional banks, the spreads continued to narrow as funding cost rates were unchanged and interest rates on loans declined somewhat.

At major banks, interest rate spreads on loans in the international business sector widened. This was because the increase in interest rates on loans due to the rise in foreign interest rates exceeded the increase in funding cost rates.

II-A-2: Interest rate spreads on loans

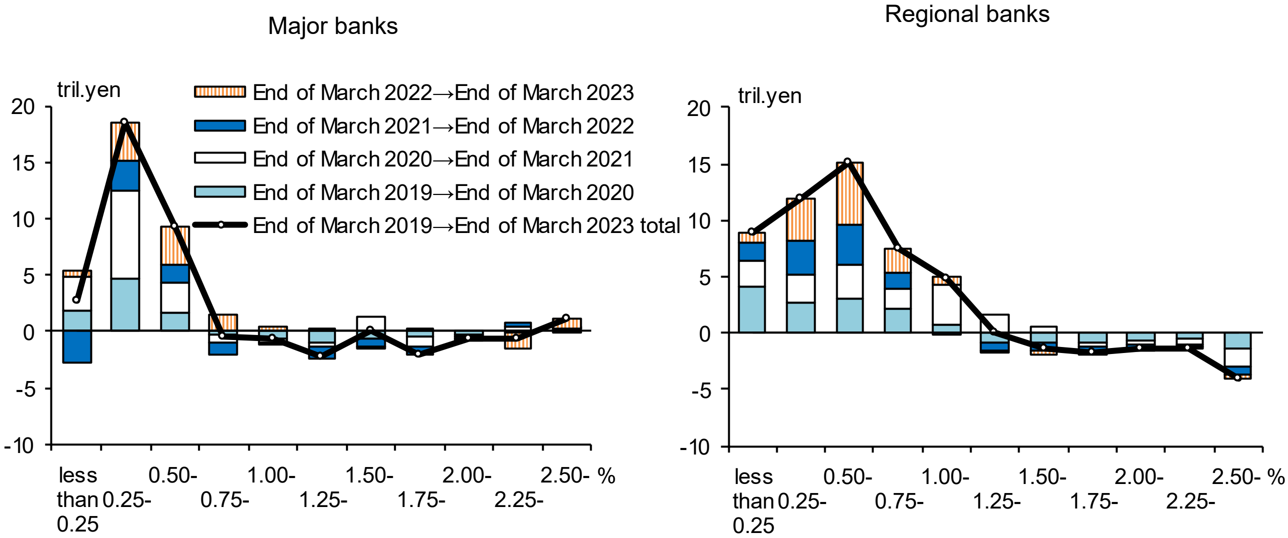


Note: In calculating the interest rate spreads, interest expenses on interest rate swaps are deducted from funding costs.
Source: BOJ.

(2) Loans Outstanding by Lending Rate

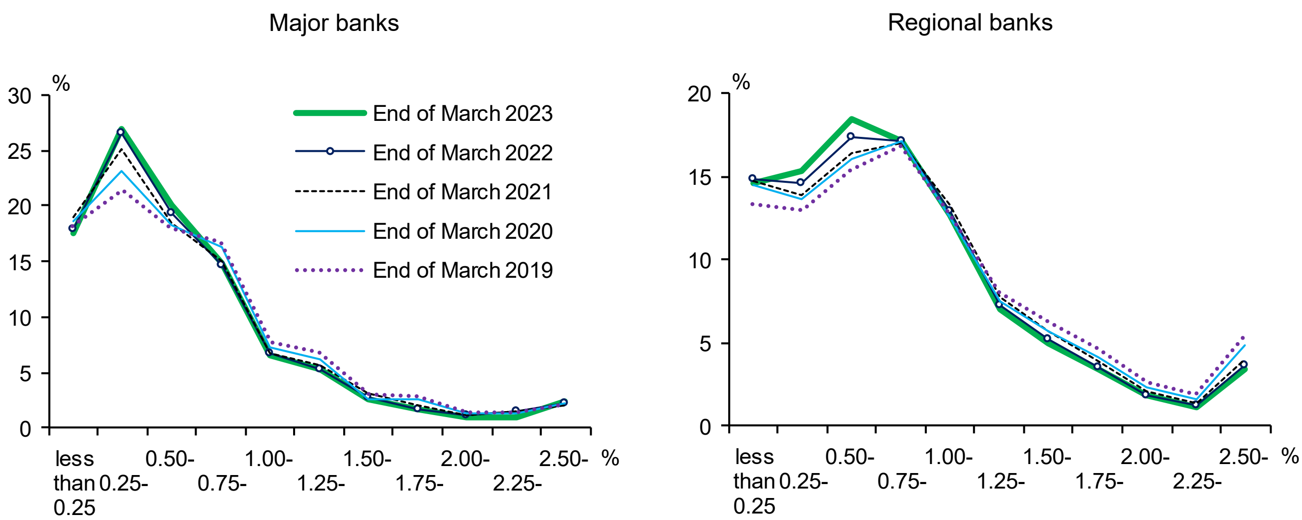
Looking at developments in loans outstanding by lending rate (yen loans outstanding in the domestic business sector) at both major banks and regional banks, those with low lending rates continued to increase. Meanwhile, at major banks, the outstanding amount of some loans with high lending rates started to increase due to new leveraged buyout (LBO) loans and other loans.

II-A-3: Changes in loans outstanding by lending rate (from the end of March 2019 to the end of March 2023)



Note: The data are for yen loans outstanding in the domestic business sector (excluding loans to the financial sector) based on the amount outstanding at month-end.
Source: BOJ.

II-A-4: Changes in proportion of loans outstanding by lending rate (from the end of March 2019 to the end of March 2023)

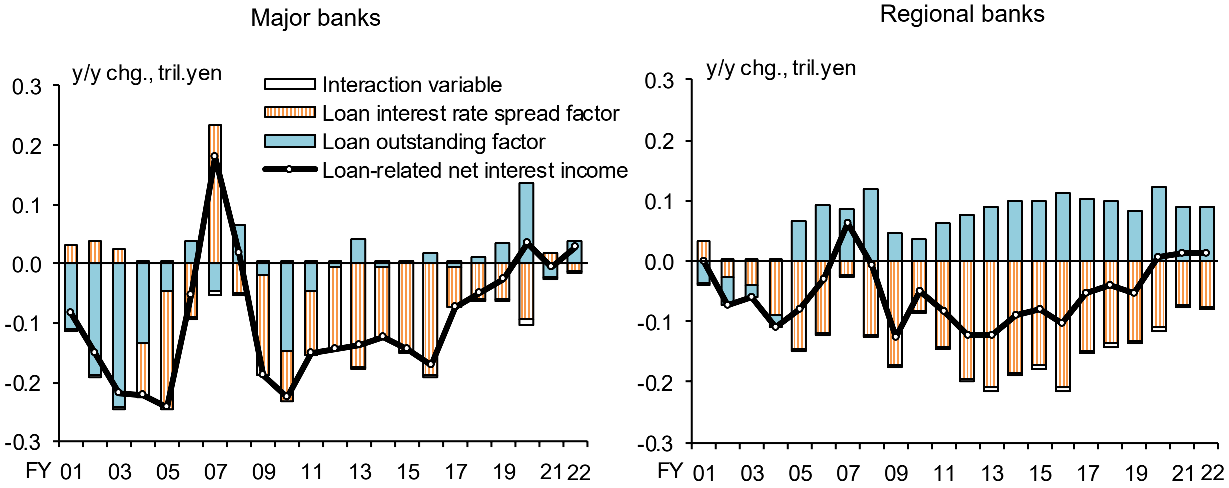


Note: The data are for yen loans outstanding in the domestic business sector (excluding loans to the financial sector) based on the amount outstanding at month-end.
Source: BOJ.

(3) Contributions of Loans Outstanding and Loan Interest Rate Spread Factors to Changes in Loan-Related Net Interest Income

Looking at the changes in net interest income from domestic lending activities, at major banks, loan demand due to the rise in raw material prices as well as an increase in the outstanding amount of real estate loans contributed to the increase in loan-related net interest income. At regional banks, such income increased, with the positive contribution of an increase in loans outstanding outweighing the negative contribution of the narrowing of interest rate spreads.

II-A-5: Changes in loan-related net interest income (domestic business sector)



Notes: 1. In calculating the interest rate spreads, interest expenses on interest rate swaps are deducted from funding costs.

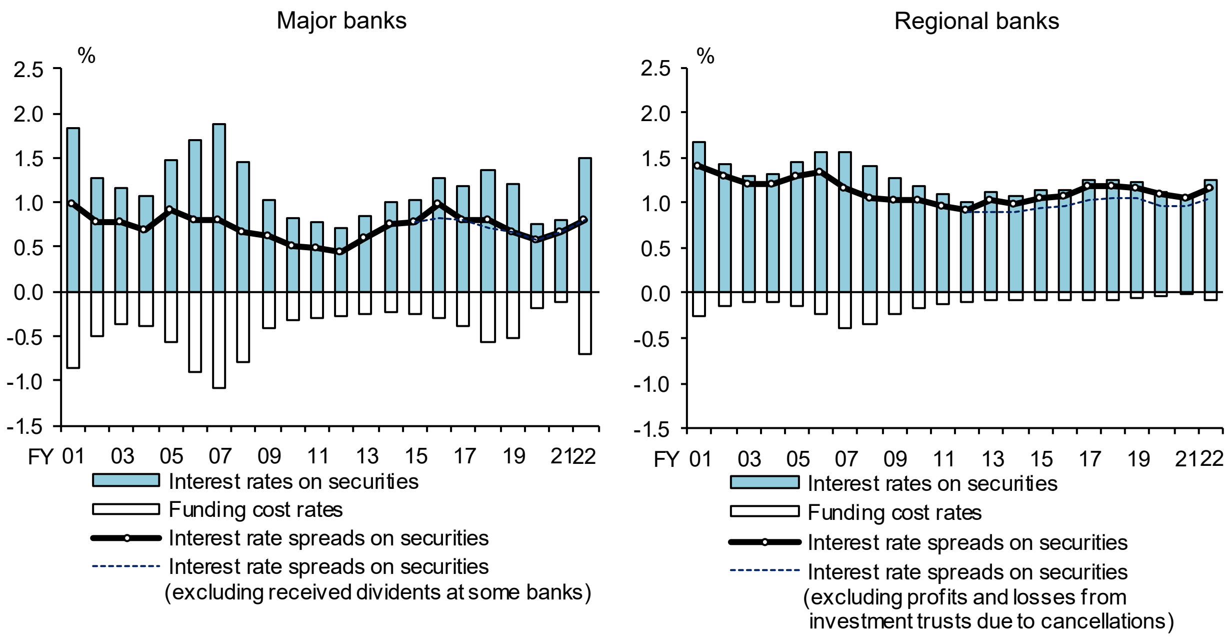
2. Loan-related net interest income = (average amount of loans outstanding) * (interest rate spreads on loans).

Source: BOJ.

3. Interest Rate Spreads on Securities

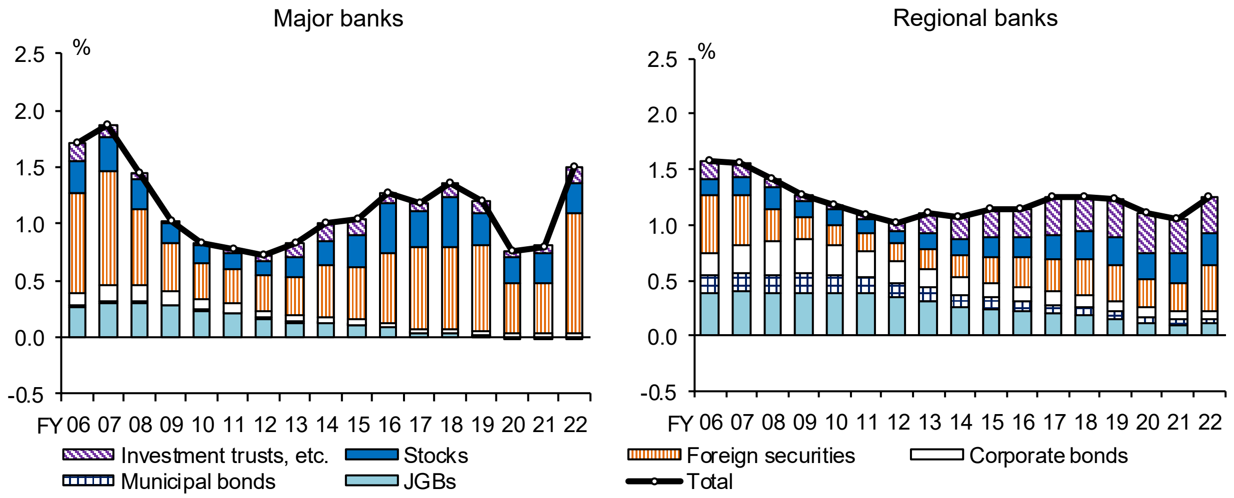
Interest rate spreads on securities widened at major banks. This was because interest rates on securities rose mainly reflecting sales of low-yielding foreign securities, although funding cost rates, particularly of foreign currency, increased amid the rise in foreign interest rates. At regional banks, such spreads on securities on a basis excluding profits and losses from investment trusts due to cancellations were underpinned by a rise in interest rates on securities due to replacement of foreign securities, although they were pushed down by a rise in foreign currency funding rates. At major banks, while the profitability of domestic bonds (JGBs, municipal bonds, and corporate bonds) decreased, foreign securities and stocks continued to function as important contributors to positive interest rate spreads on securities. At regional banks, the roles of foreign securities, investment trusts, and stocks continued to increase.

II-A-6: Interest rate spreads on securities



Note: In calculating the interest rate spreads, interest expenses on interest rate swaps are deducted from funding costs.
Source: BOJ.

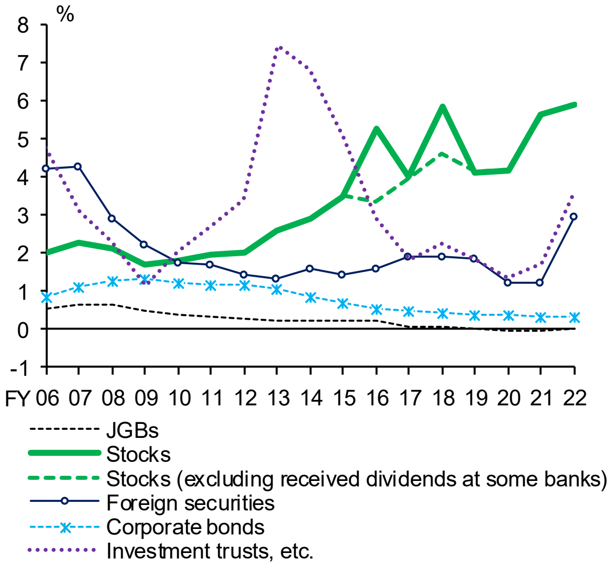
II-A-7: Decomposition of interest rate spreads on securities by product type

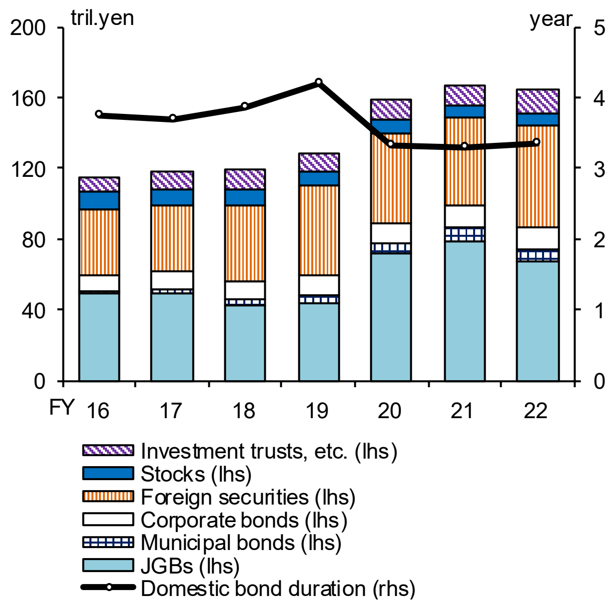


Note: For major banks, the rises in interest rate spreads on stocks in fiscal 2016 and 2018 reflect dividends received from subsidiaries at some banks.
Source: BOJ.

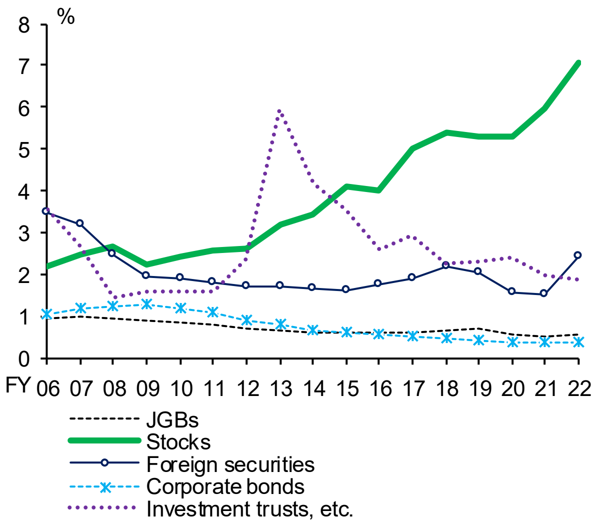
II-A-8: Interest rates on securities holdings and amounts outstanding by product type (at fiscal year-end)

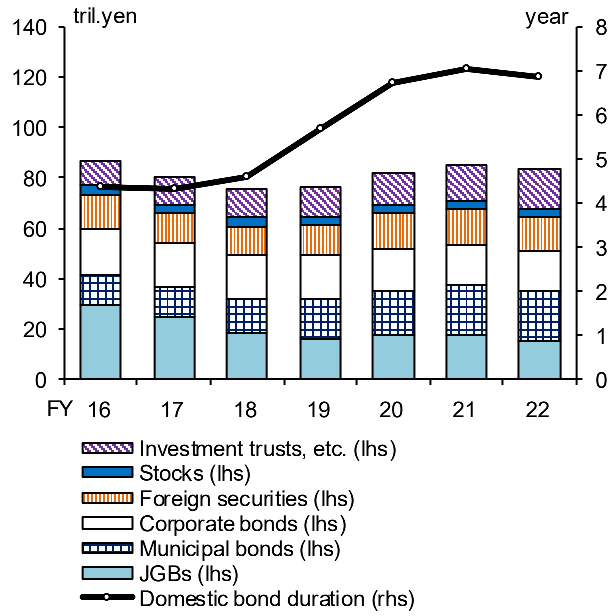
Major banks





Regional banks



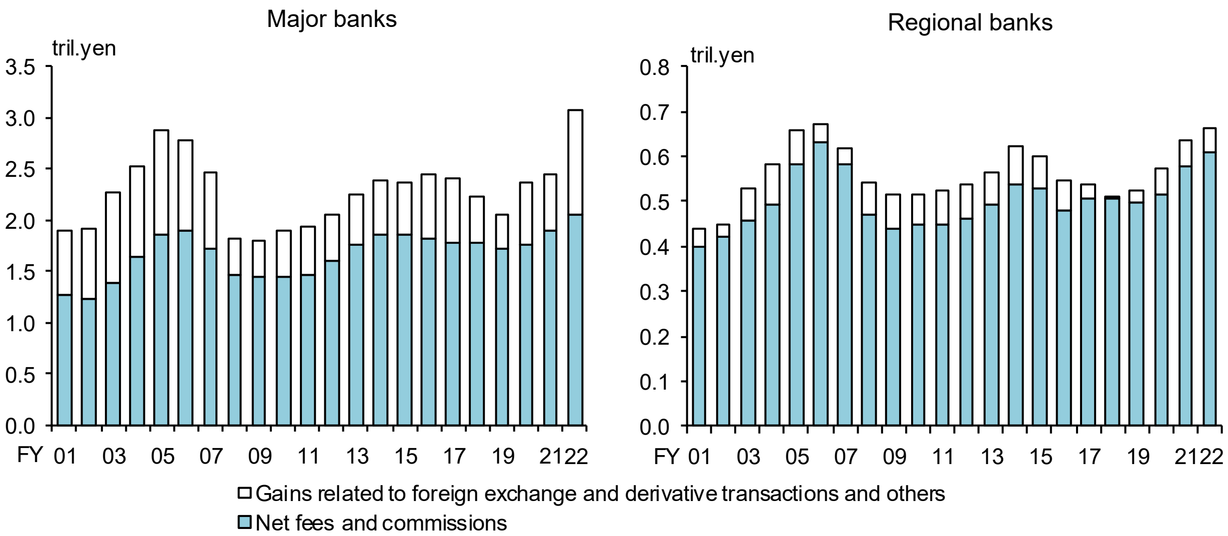


Source: BOJ.

4. Net Non-Interest Income

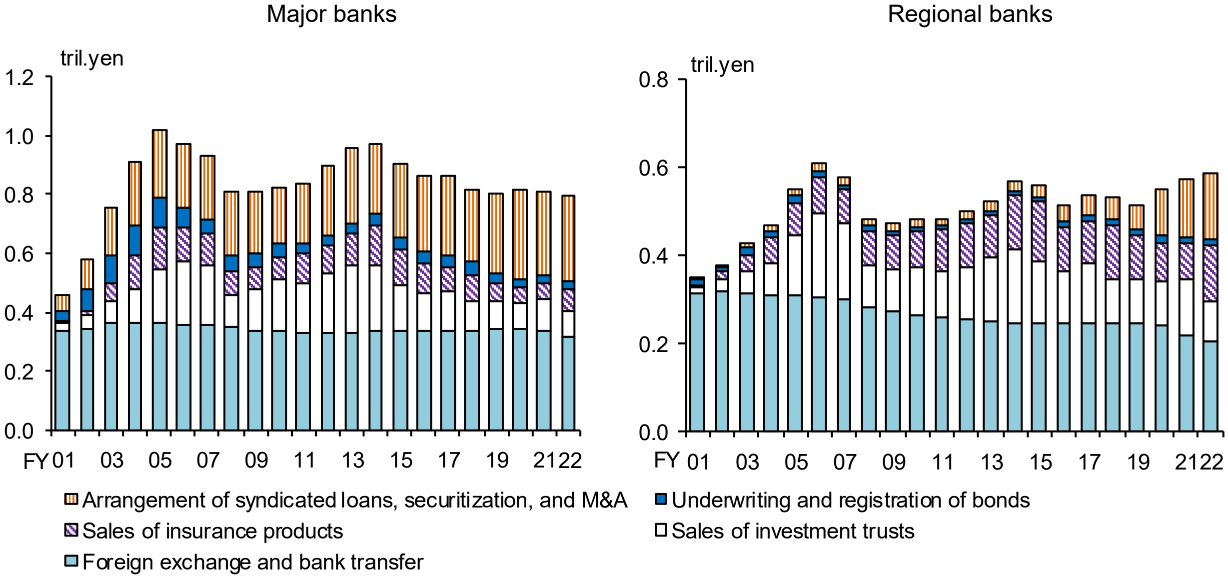
At major banks, net non-interest income increased by 25.2 percent from the previous year. Specifically, customer transactions such as foreign exchange and derivative transactions increased amid a rise in market volatility, and income from fees and commissions increased as income associated with deposits and lending accumulated in the international business sector. At regional banks, net non-interest income increased by 4.4 percent from the previous year. This was because income from fees and commissions increased, led by services to corporate clients such as structured finance and business matching, which are included in "arrangement of syndicated loans, securitization, and M&A."

II-A-9: Net non-interest income



Source: BOJ.

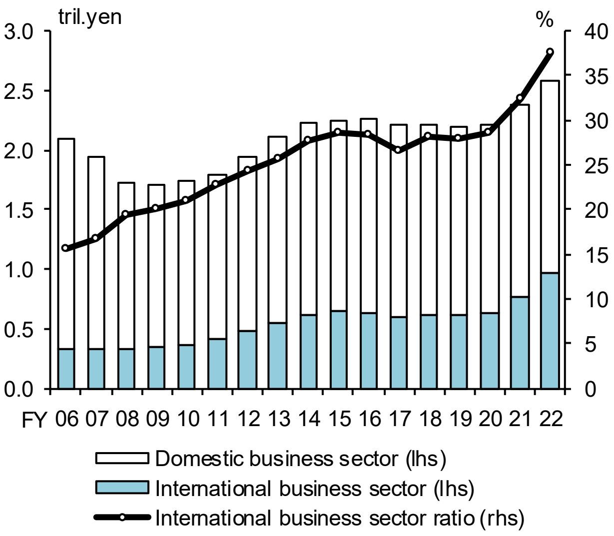
II-A-10: Income from fees and commissions (domestic business sector)



Note: Among items of income from fees and commissions, the 5 items listed above are counted. As for regional banks, "Arrangement of syndicated loans, securitization, and M&A" from fiscal 2020 onward includes income such as from structured finance and business succession.

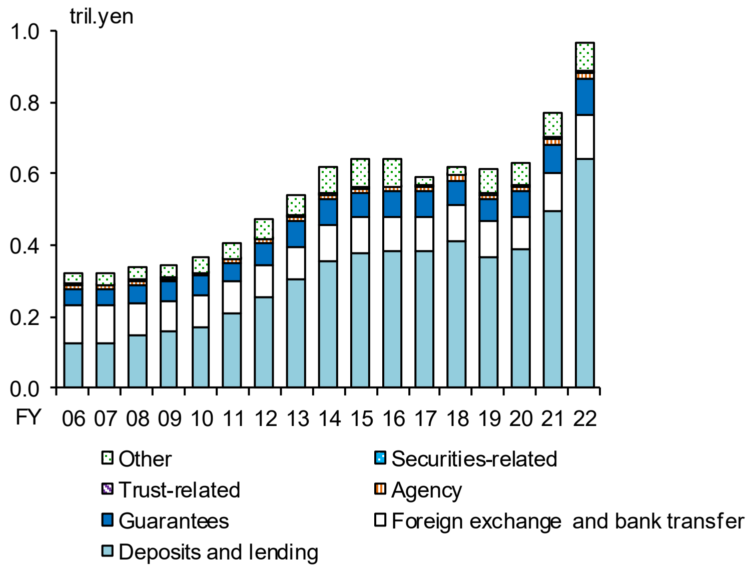
Source: BOJ.

II-A-11: Income from fees and commissions at major banks (breakdown according to domestic and international business sectors)



Source: BOJ.

II-A-12: Income from fees and commissions in the international business sector at major banks



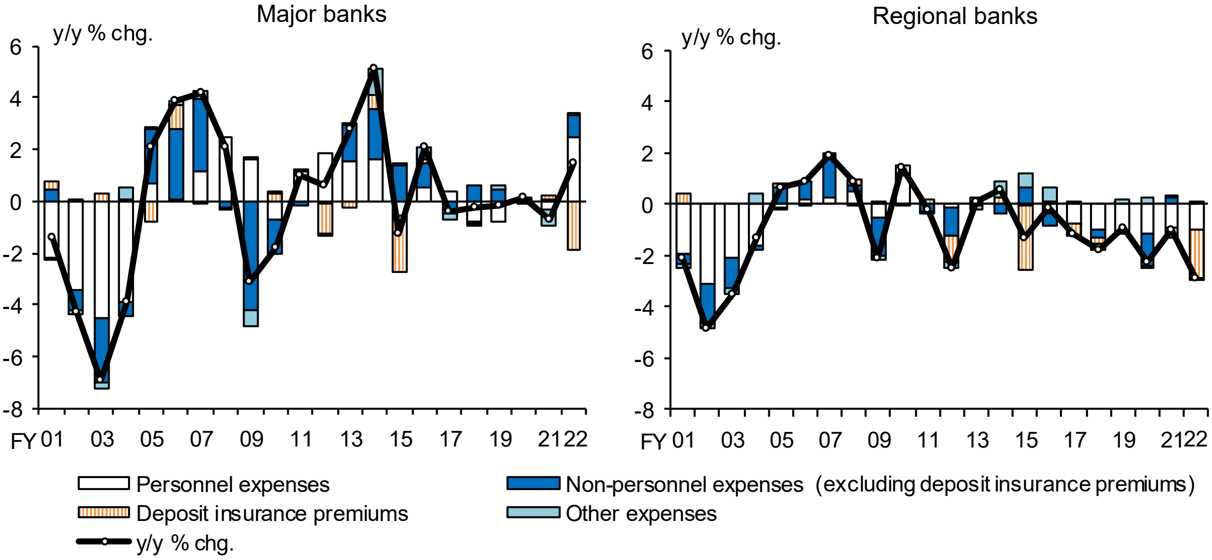
Note: The figures are categorized based on each bank's internal definition. Thus, there are variations on such categorization. "Deposits and lending" includes income from fees and commissions related to the arrangement of syndicated loans, commitment lines, securitization, and M&A transactions.

Source: BOJ.

5. General and Administrative Expenses

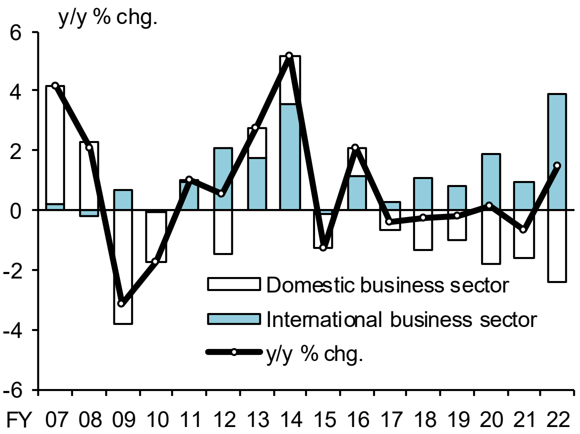
At major banks, general and administrative expenses increased by 1.5 percent from the previous year. Although such expenses continued to decrease in the domestic business sector, both personnel and non-personnel expenses increased in the international business sector, affected in part by the depreciation of the yen. At regional banks, general and administrative expenses decreased by 2.9 percent from the previous year because both personnel and non-personnel expenses declined. The adjusted overhead ratios (OHRs) (= overhead costs / gross operating profits from core business [hereinafter referred to as "core gross operating profits"], excluding profits and losses from investment trusts due to cancellations) decreased at major banks due to an increase in core gross operating profits and at regional banks because of an increase in core gross operating profits as well as a decline in general and administrative expenses.[2]

II-A-13: Decomposition of general and administrative expenses



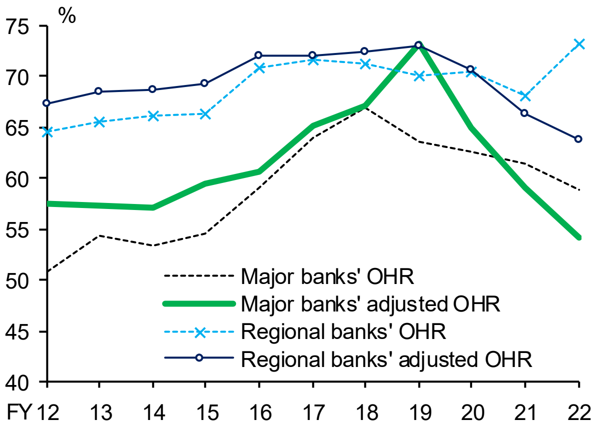
Source: BOJ.

II-A-14: Decomposition of general and administrative expenses according to domestic and international business sectors at major banks



Source: BOJ.

II-A-15: OHRs



Note: OHR = overhead costs / gross operating profits. Adjusted OHR = overhead costs / core gross operating profits (excluding profits and losses from investment trusts due to cancellations).

Source: BOJ.

[2] For details on regional financial institutions' efforts to strengthen their business foundations, see "Efforts to Enhance the Resilience of the Regional Financial System: Strengthening the Business Foundations of Regional Financial Institutions and the Bank's Measures," *Financial System Report Annex Series*, September 2021 (available only in Japanese).

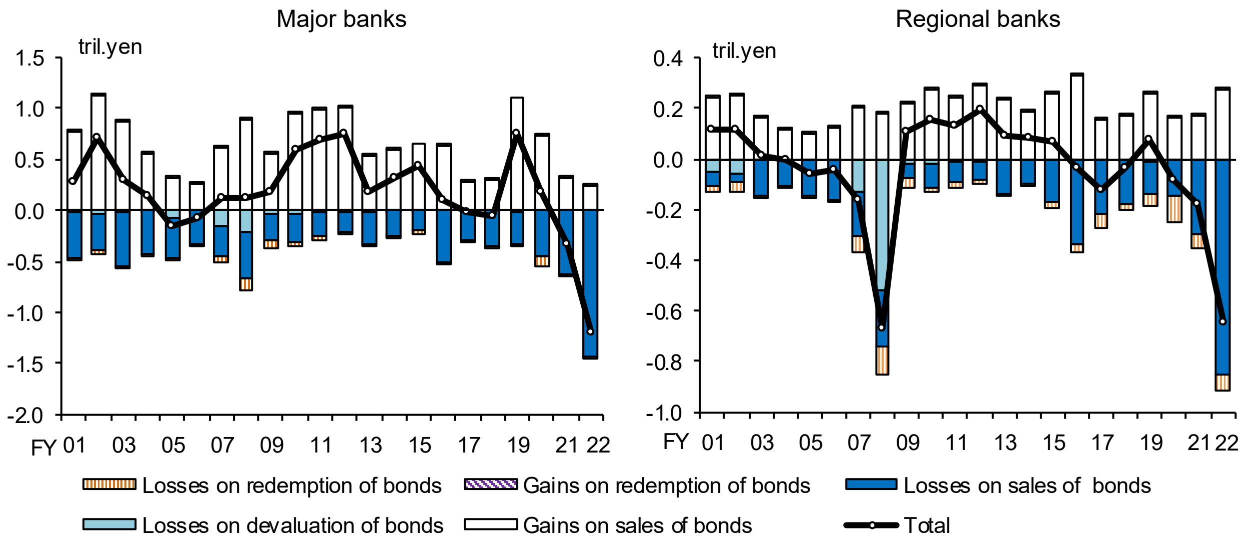
B. Realized and Valuation Gains/Losses on Securities Holdings

1. Realized Gains/Losses on Securities Holdings

With regard to realized gains/losses on bondholdings, realized losses expanded at both major banks and regional banks because of an increase in losses on sales of foreign bonds due to the rise in foreign interest rates.

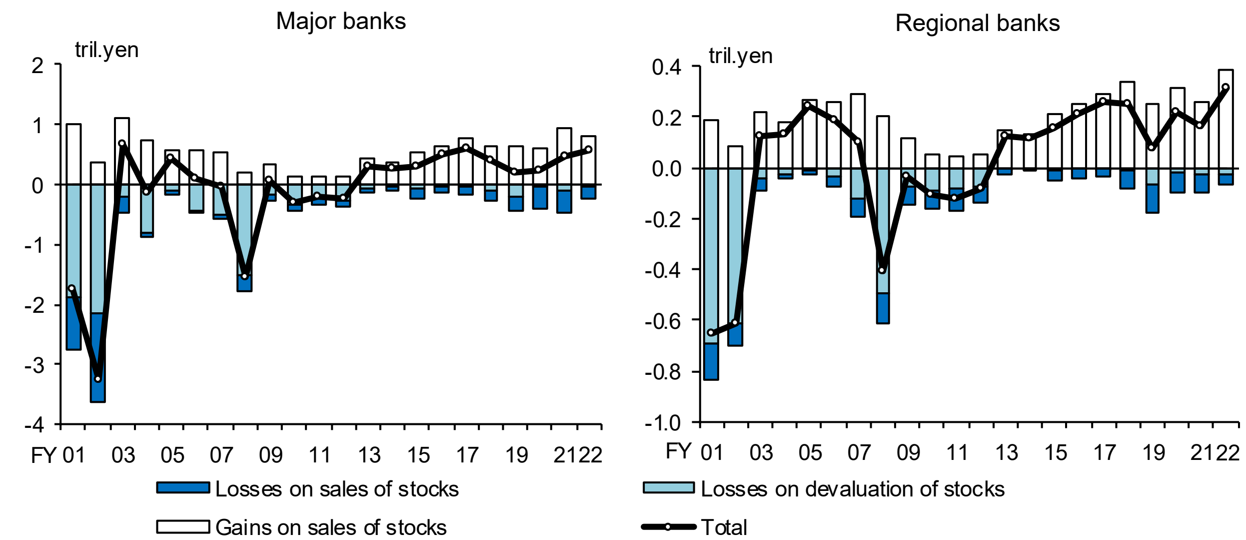
As for realized gains/losses on stockholdings, realized gains expanded at major banks because of a decline in losses on sales, and such gains also expanded at regional banks due to an increase in gains on sales.

II-B-1: Realized gains/losses on bondholdings



Source: BOJ.

II-B-2: Realized gains/losses on stockholdings

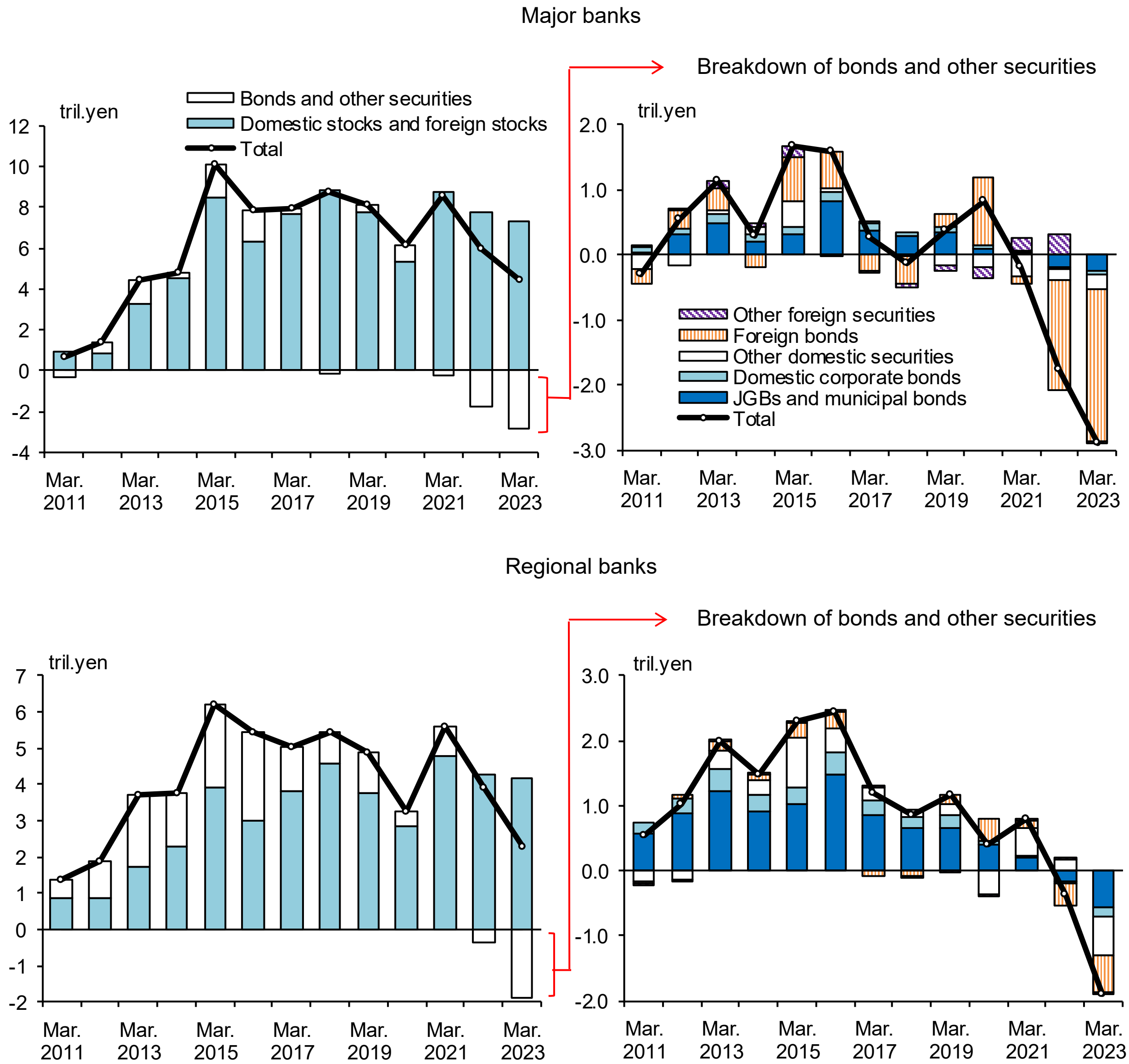


Source: BOJ.

2. Valuation Gains/Losses on Securities Holdings

Valuation gains/losses on available-for-sale securities holdings as of the end of March 2023 at major banks and regional banks stood at gains of about 4 trillion yen and about 2 trillion yen, respectively, maintaining a high level; however, such gains decreased from the level as of the end of March 2022. Looking at the breakdown, valuation gains on stockholdings, accounting for a large share of the total gains on securities holdings, decreased slightly at both major banks and regional banks, mainly reflecting a reduction in strategic stockholdings. Valuation losses on holdings of bonds and other securities increased at major banks and regional banks, as valuation losses on domestic and foreign bondholdings increased due to the rise in interest rates. At regional banks, there was also downward pressure from the fact that valuation gains/losses on "other domestic securities" such as investment trusts turned negative.

II-B-3: Valuation gains/losses on available-for-sale securities holdings



Notes: 1. The breakdown of bonds and other securities at both major and regional banks is shown on the right. "Other domestic securities" and "Other foreign securities" include investment trusts and funds.
2. The data are as of month-end.

Source: BOJ.

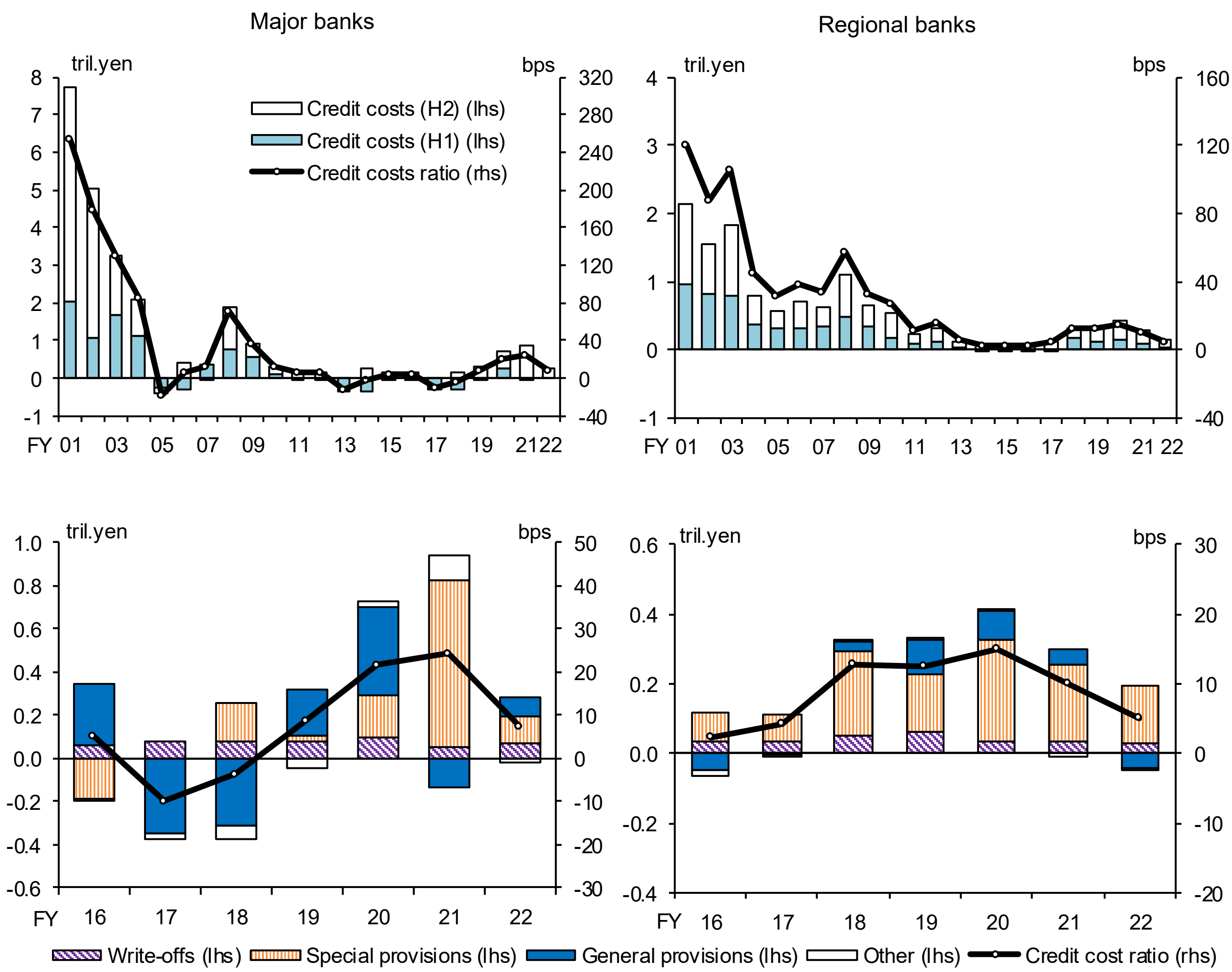
C. Credit Costs and Non-Performing Loans

1. Credit Costs

At major banks, credit costs decreased, partly because the effects of the previous year's rise in such costs associated with some large borrowers dissipated. At regional banks, credit costs decreased partly because precautionary loan-loss provisions had been recorded by the previous year.

The credit cost ratio (= credit costs / total loans outstanding) was 8 basis points (a decrease of 17 basis points from the previous year) at major banks and 5 basis points (a decrease of 5 basis points from the previous year) at regional banks.

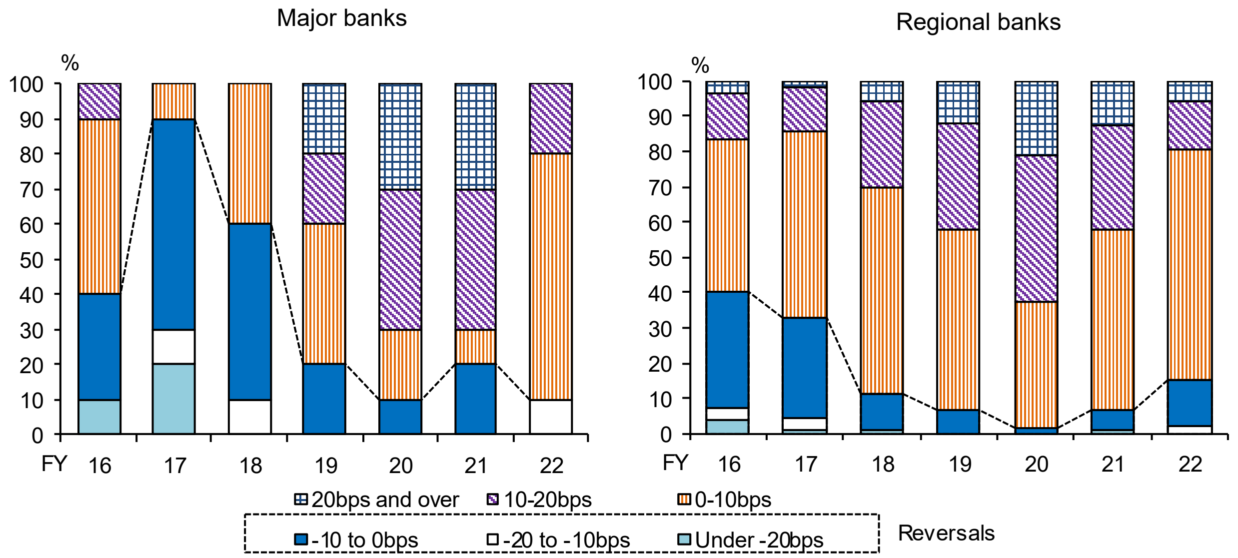
II-C-1: Credit costs and credit cost ratios



Note: The lower charts show the breakdown of credit costs at major banks and regional banks, respectively.
Source: BOJ.

The distribution of credit cost ratios among banks shows that, at major banks, the share of those with credit costs of 10 basis points or greater declined, but the share of banks incurring credit costs as a whole turned to an increase. For regional banks, the share of banks with credit costs of 10 basis points or greater declined, and the share of those with credit costs reversed increased.

II-C-2: Credit cost ratio distribution



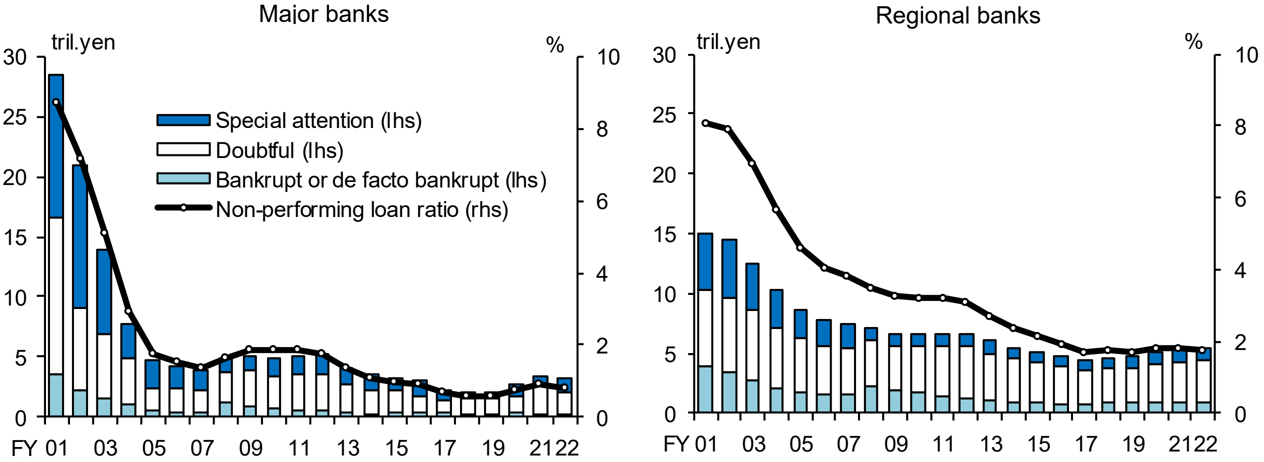
Note: Proportion of the number of banks by credit cost ratio.
Source: BOJ.

2. Non-Performing Loans

Non-performing loan (NPL) ratios at both major banks and regional banks were more or less unchanged while remaining at low levels. The NPL ratios for foreign loans at the three major banks were flat on the whole, although the ratios for loans to Asia rose, mainly reflecting the downgrading of a major real estate developer due to the sluggish Chinese real estate market.

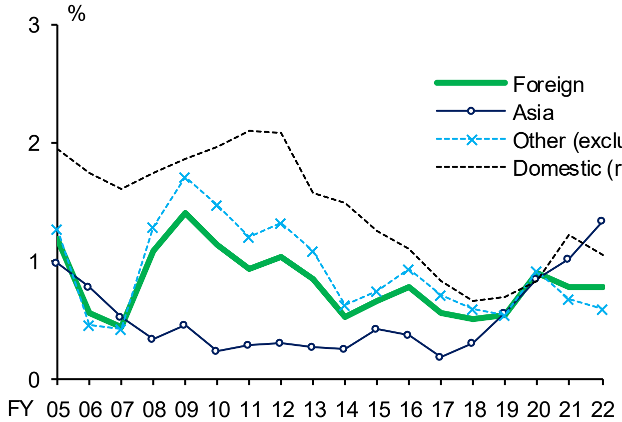
Looking at the proportion of loans outstanding by borrower classification, the ratio of "normal" loans remained high, exceeding 95 percent at major banks and reaching almost 90 percent at regional banks.

II-C-3: Non-performing loans outstanding and non-performing loan ratios



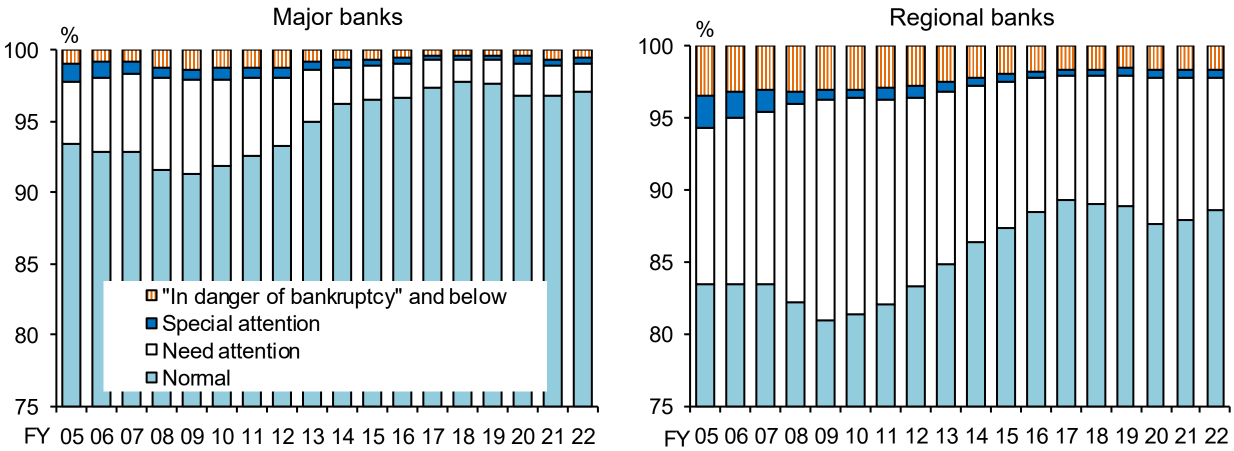
Source: BOJ.

II-C-4: Non-performing foreign loan ratios (three major banks)



Source: Published accounts of each bank.

II-C-5: Proportion of loans outstanding by borrower classification



Notes: 1. The data are calculated on a write-off basis.

2. "Need attention" indicates "Need attention excluding special attention."

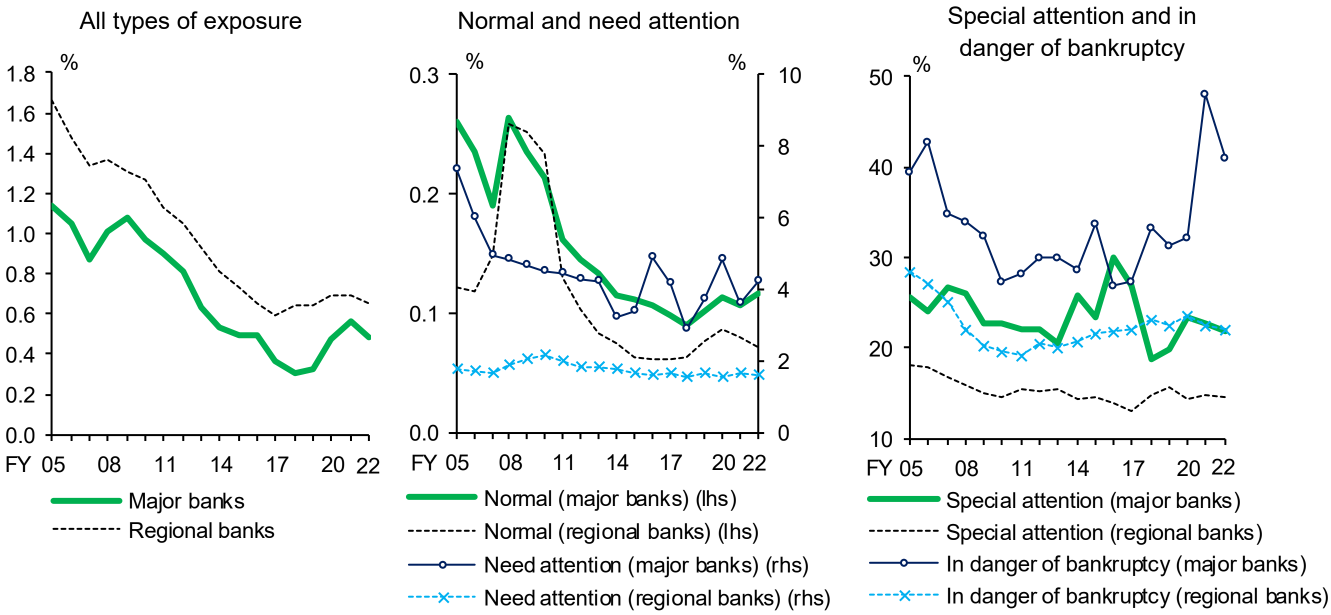
Source: BOJ.

3. Loan-Loss Provisions

(1) Loan-Loss Provision Ratios

The average loan-loss provision ratio for all types of exposure at major banks decreased from the previous year as loan-loss provision ratios for "in danger of bankruptcy" loans declined. At regional banks, such ratios decreased slightly.

II-C-6: Loan-loss provision ratios

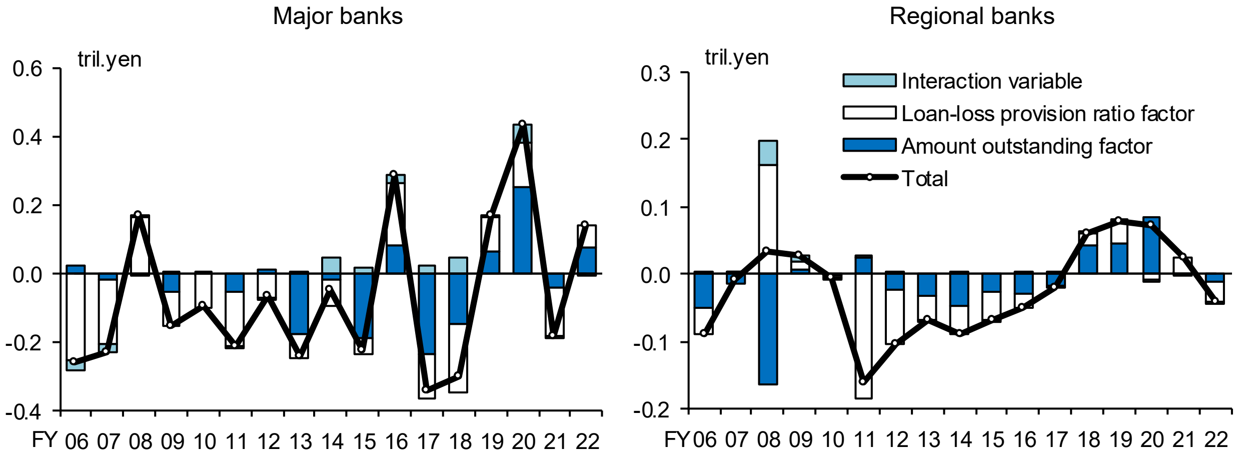


Notes: 1. The data include loans to which the discounted cash flow method is applied.
2. The loan-loss provision ratio is calculated as loan-loss provisions divided by the total amount of claims (not the uncovered amount of claims).
3. "Need attention" indicates "Need attention excluding special attention."
Source: BOJ.

(2) Outstanding Amount of Loan-Loss Provisions

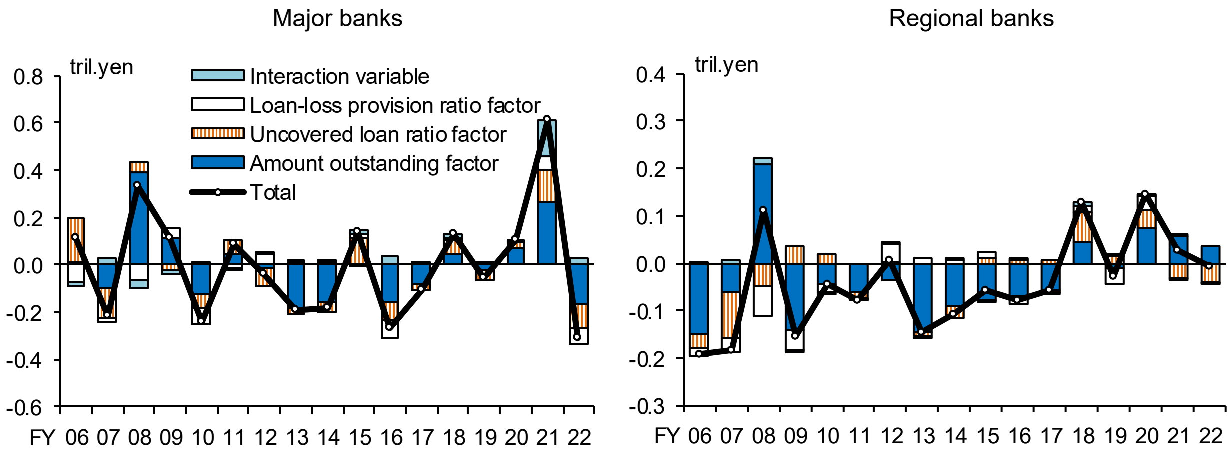
Looking at the outstanding amount of loan-loss provisions at major banks, while general provisions increased, special provisions turned to a decline due mainly to a dissipation of the effects of the previous year's loan-loss provisions for some large borrowers. At regional banks, with general provisions turning to a decline mainly reflecting a decrease in loan-loss provision ratios, special provisions were more or less unchanged.

II-C-7: Factors of change in general loan-loss provisions



Note: Each factor represents the sum of the amount calculated by borrower classification.
Source: BOJ.

II-C-8: Factors of change in special loan-loss provisions



Note: Each factor represents the sum of the amount calculated by borrower classification.
Source: BOJ.

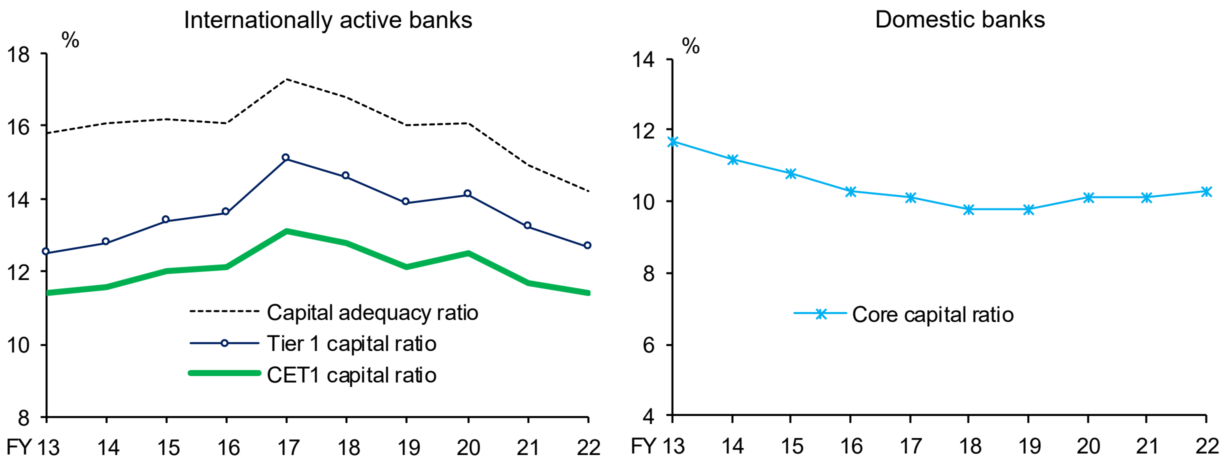
D. Capital Adequacy Ratios, Dividends, and Share Repurchases

1. Capital Adequacy Ratios

Both the common equity Tier 1 capital ratio (CET1 capital ratio) and the capital adequacy ratio of internationally active banks on a consolidated bank basis declined, but remained sufficiently above the regulatory requirements. This was because risk-weighted assets increased mainly due to an increase in lending and the depreciation of the yen, and because valuation gains on available-for-sale securities holdings, which are included in CET1 capital, declined reflecting the rise in foreign interest rates in particular.

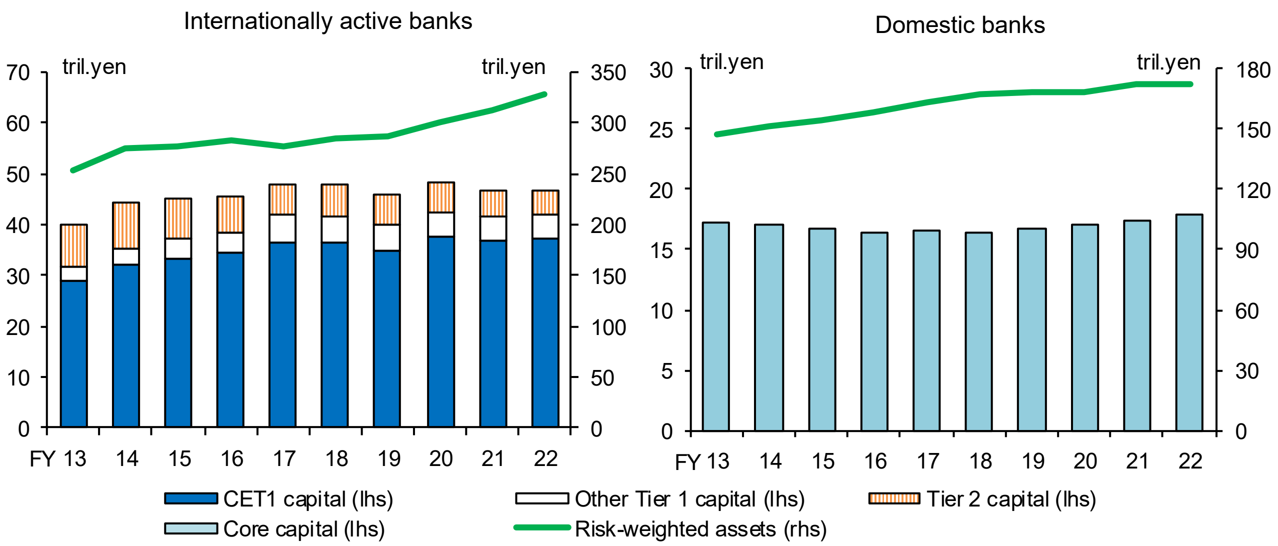
The capital adequacy ratio of domestic banks rose as the increase in risk-weighted assets was contained and retained earnings were accumulated, allowing the ratio to remain sufficiently above the regulatory requirements.

II-D-1: Capital adequacy ratios



Note: The figures include those of banks that were early to adopt finalized Basel III standards.
Source: BOJ.

II-D-2: Capital components and risk-weighted assets

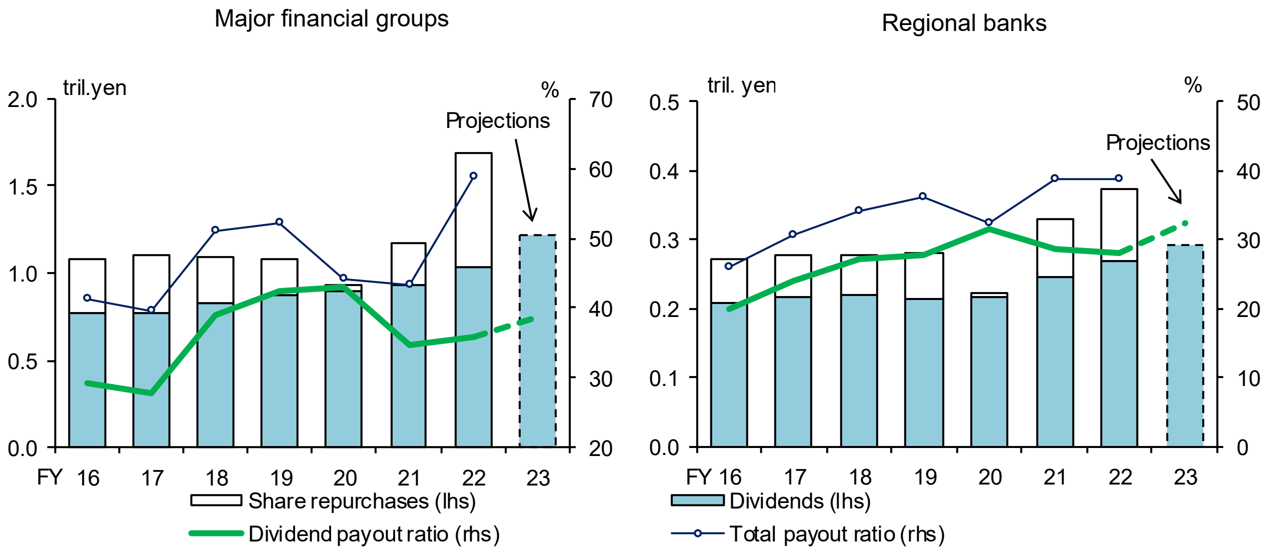


Notes: 1. The numerator of the capital adequacy ratio at domestic banks has been referred to as "Core capital" in order to distinguish the definition of "capital" in the current Financial Services Agency public notice from that in the former public notice (the same applies to Charts III-D-1 and III-D-2).
2. The figures include those of banks that were early to adopt finalized Basel III standards.
Source: BOJ.

2. Dividends and Share Repurchases

Looking at payouts to shareholders by major banks and regional banks, the amount of both dividends and share repurchases increased. In fiscal 2023, dividends are projected to increase at both major banks and regional banks as their profits are expected to rise.

II-D-3: Banks' payouts to shareholders



Notes: 1. The figures are on a financial group basis (those for some regional banks are on a consolidated bank basis).
2. Regional banks' share repurchases exclude preferred equities. Their projections for fiscal 2023 cover only banks that have announced their dividend projections.

Source: Published accounts of each financial group and bank.

Box: Banks' profit projections for fiscal 2023

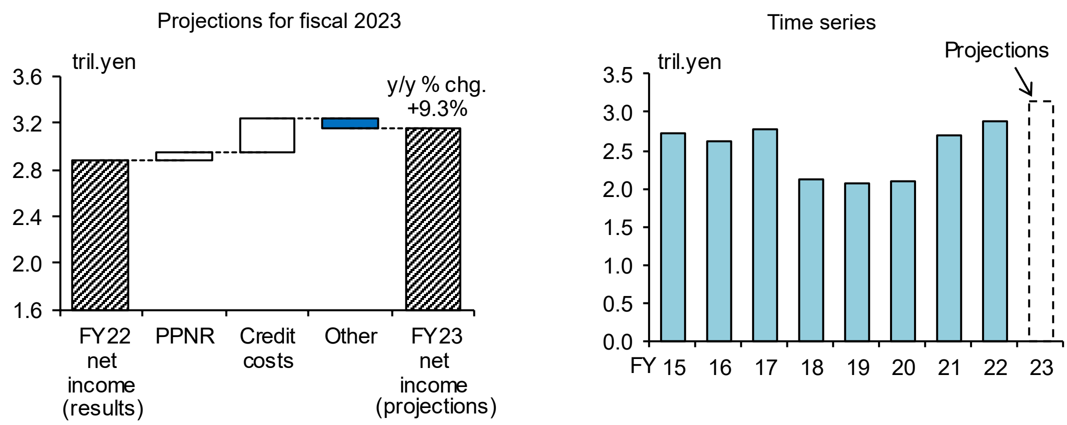
Net income for fiscal 2023 is projected to increase at both major financial groups and regional banks (on a non-consolidated basis).

Looking at factors behind changes in the net income of major financial groups from the previous year, PPNR is projected to be pushed up mainly by the replacement of products with higher yielding assets and the accumulation of assets, particularly in the corporate banking sector abroad. Credit costs are expected to decline as the impact of accounting practices associated with the share transfer of a group company of a financial group in fiscal 2022 dissipates.

At regional banks as a whole, net income is projected to increase by about 5 percent from fiscal 2022.

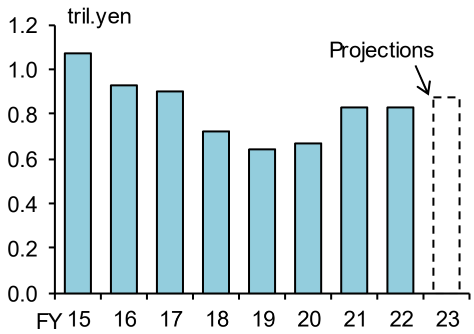
It should be noted that there is uncertainty, including over developments in economic activity and prices at home and abroad on which the above profit projections are based, the situation in Ukraine going forward, and developments in financial and foreign exchange markets considering such factors.

B-1: Net income of major financial groups



Sources: Published accounts of each major financial group; BOJ.

B-2: Net income of regional banks



Note: On a non-consolidated basis. Covers only banks that have announced their net income projections for fiscal 2023.

Sources: Published accounts of each bank; BOJ.

III. Financial Results of Japan's *Shinkin* Banks for Fiscal 2022

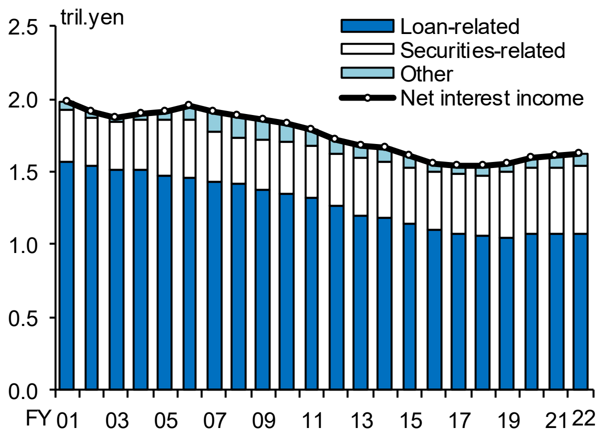
This chapter outlines *shinkin* banks' core profitability (net interest income, net non-interest income, and general and administrative expenses), realized and valuation gains/losses on securities holdings, credit costs and non-performing loans, as well as capital adequacy ratios.

A. Core Profitability

1. Net Interest Income

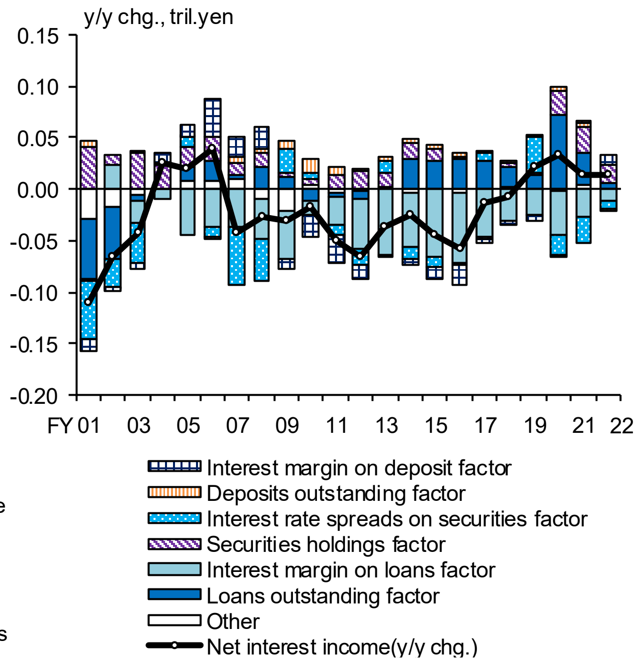
Net interest income increased by 0.8 percent from the previous year. While interest rate spreads on loans and securities were more or less unchanged, the average outstanding amount of securities holdings increased and loans outstanding also rose, mainly reflecting loan demand due to the rise in energy and raw material costs and improvement in economic activity.

III-A-1: Net interest income



Notes: 1. "Other" includes interest income on deposits at the Shinkin Central Bank and at the Bank of Japan.
2. Loan-related = (average loans outstanding) * (interest rate spreads on loans).
Securities-related = (average outstanding securities holdings) * (interest rate spreads on securities).
Source: BOJ.

III-A-2: Decomposition of net interest income (change from the previous year)



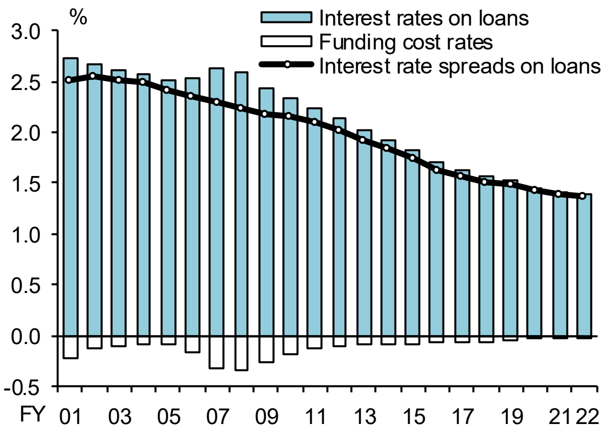
Source: BOJ.

2. Interest Rate Spreads on Loans and Loans Outstanding

(1) Interest Rate Spreads on Loans

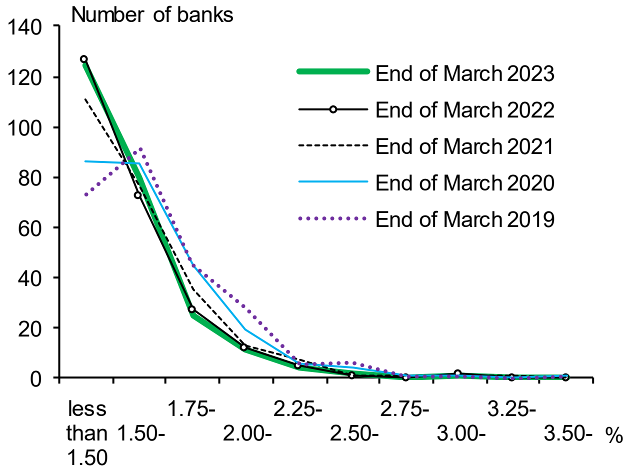
Interest rate spreads on loans were more or less flat. The distribution of interest rate spreads for individual *shinkin* banks was almost unchanged from the previous year.

III-A-3: Interest rate spreads on loans



Note: In calculating the interest rate spreads, interest expenses on interest rate swaps are deducted from funding costs. The same applies to Chart III-A-4.
Source: BOJ.

III-A-4: Distribution of interest rate spreads on loans

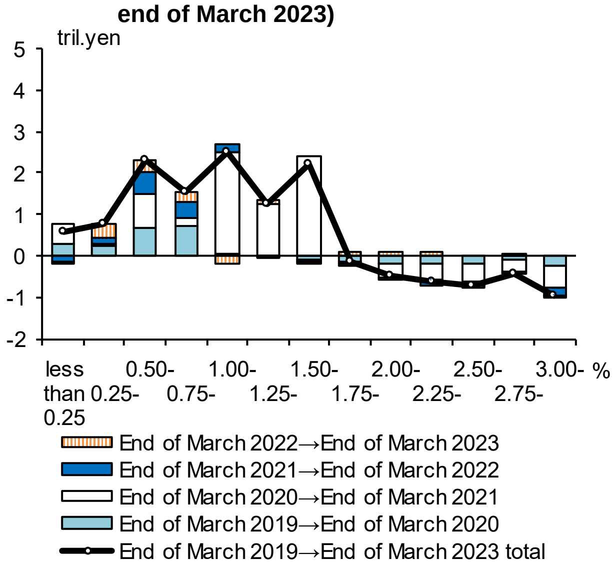


Source: BOJ.

(2) Loans Outstanding by Lending Rate

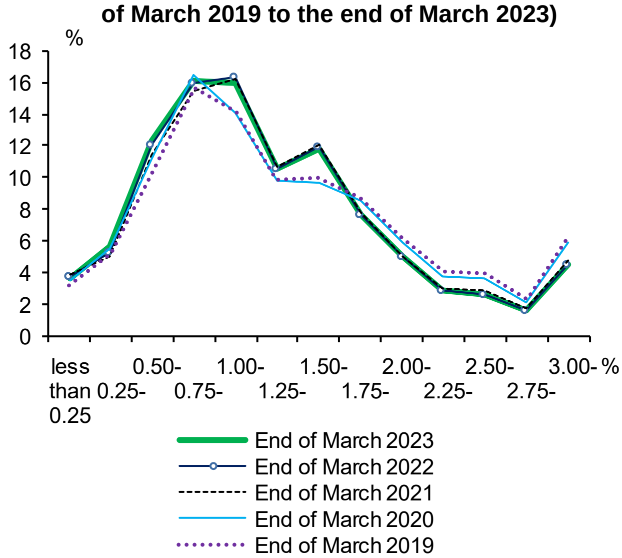
Looking at developments in loans outstanding by lending rate, those with low lending rates increased somewhat. As for the proportion of loans outstanding by lending rate, that of effectively interest-free and unsecured loans with low lending rates (reflecting interest subsidies from local governments) -- primarily in the range of 1.00-1.75 percent -- remained relatively high, as in the previous year. Moreover, the outstanding amount of loans with relatively high lending rates in the range of 1.75-2.50 percent turned to an increase.

III-A-5: Changes in loans outstanding by lending rate (from the end of March 2019 to the end of March 2023)



Source: BOJ.

III-A-6: Changes in proportion of loans outstanding by lending rate (from the end of March 2019 to the end of March 2023)

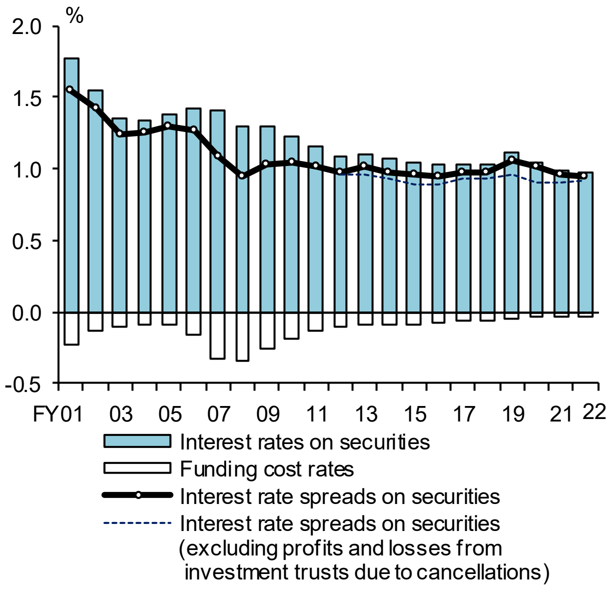


Source: BOJ.

3. Interest Rate Spreads on Securities

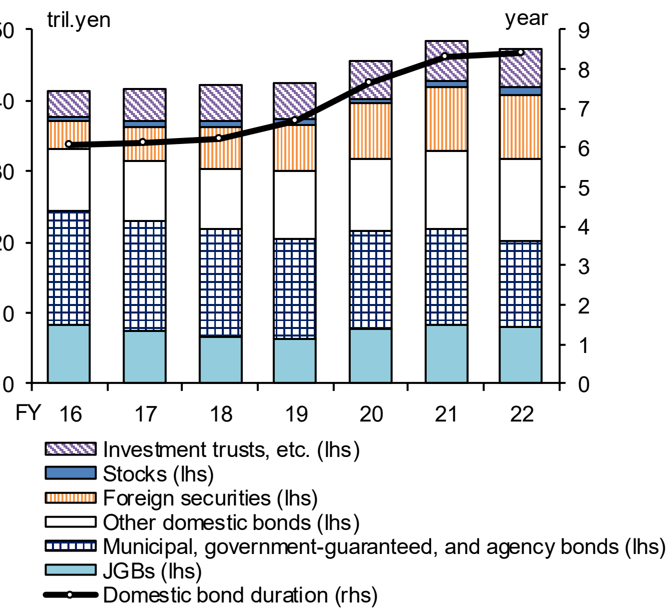
Interest rate spreads on securities were more or less unchanged on the whole. The outstanding amount of securities, particularly domestic bonds, declined somewhat.

III-A-7: Interest rate spreads on securities



Note: In calculating the interest rate spreads, interest expenses on interest rate swaps are deducted from funding costs.
Source: BOJ.

III-A-8: Outstanding amounts of securities by product type (at fiscal year-end)

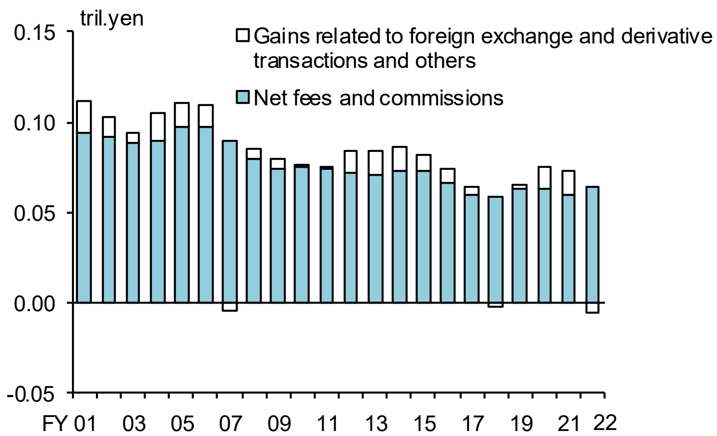


Source: BOJ.

4. Net Non-Interest Income

Net non-interest income decreased by 20.1 percent from the previous year, mainly reflecting a decline in gains related to foreign exchange and derivative transactions and others.

III-A-9: Net non-interest income

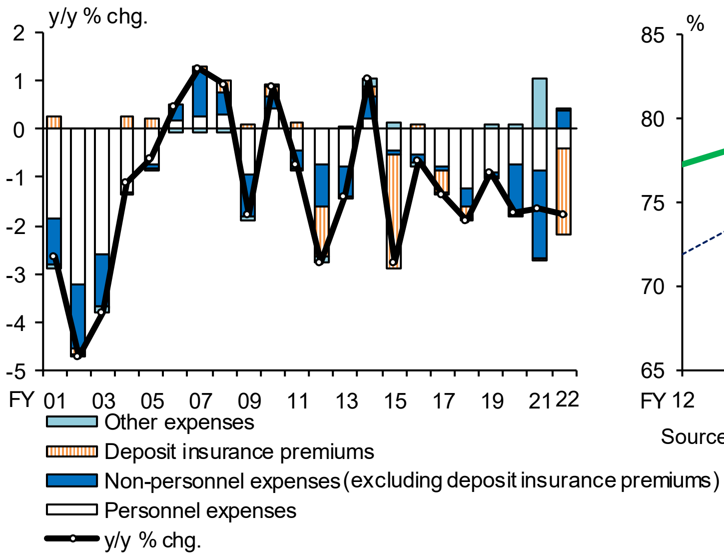


Source: BOJ.

5. General and Administrative Expenses

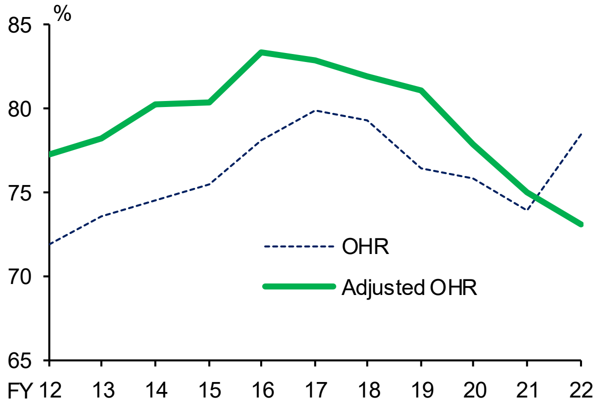
General and administrative expenses decreased by 1.8 percent from the previous year, mainly because deposit insurance premiums declined due to premium rate cuts. The adjusted OHR (= overhead costs / core gross operating profits, excluding profits and losses from investment trusts due to cancellations) decreased as core gross operating profits increased and administrative expenses declined.

III-A-10: Decomposition of general and administrative expenses



Source: BOJ.

III-A-11: OHRs



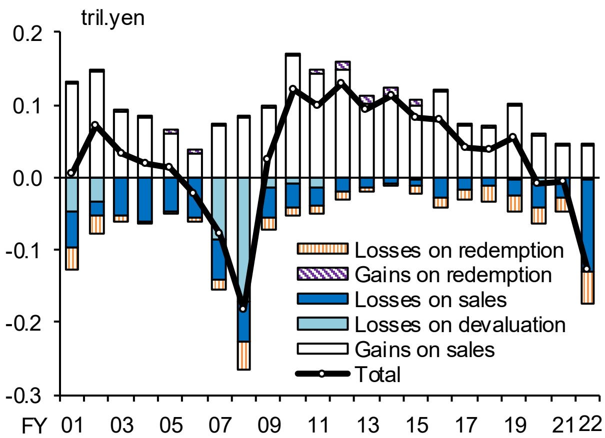
Source: BOJ.

B. Realized and Valuation Gains/Losses on Securities Holdings

1. Realized Gains/Losses on Securities Holdings

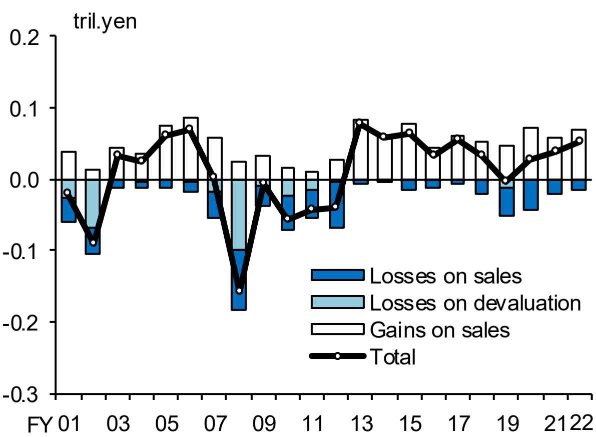
Realized losses on bondholdings were relatively large due to losses on sales of foreign bond investment trusts. Realized gains/losses on stockholdings remained positive.

III-B-1: Realized gains/losses on bondholdings



Source: BOJ.

III-B-2: Realized gains/losses on stockholdings

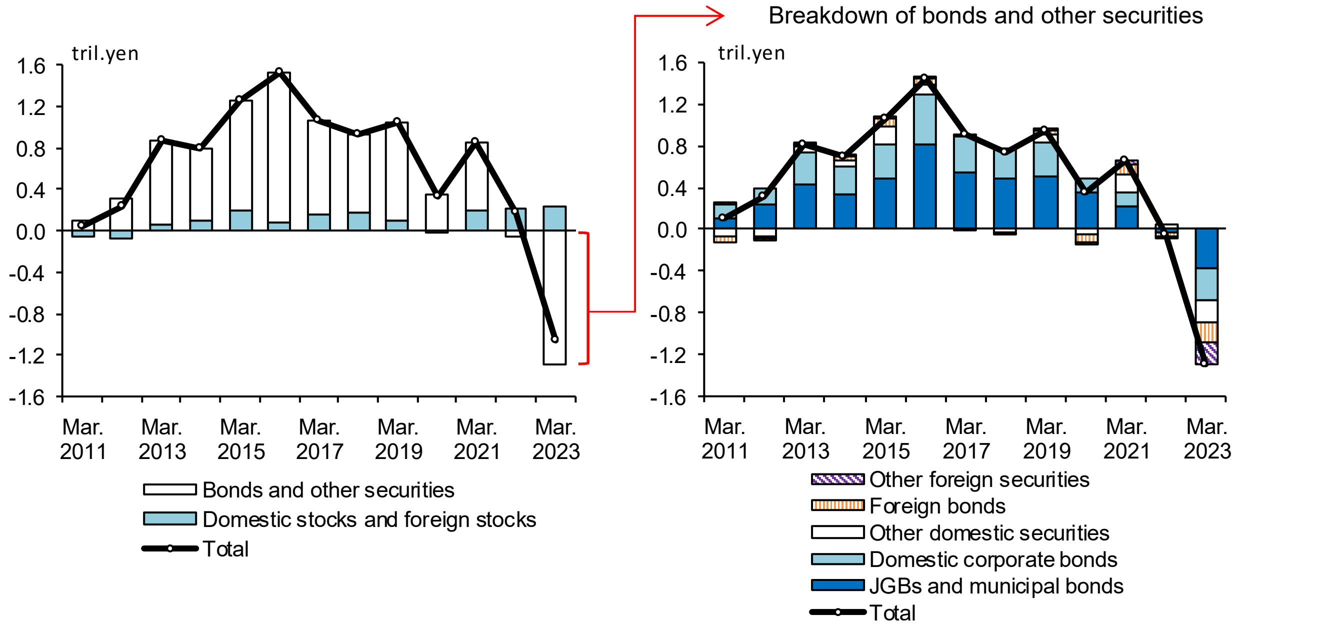


Source: BOJ.

2. Valuation Gains/Losses on Securities Holdings

Valuation gains/losses on available-for-sale securities holdings as of the end of March 2023 turned substantially negative. Due to a rise in interest rates, valuation gains/losses on a wide range of bonds and investment trusts deteriorated.

III-B-3: Valuation gains/losses on available-for-sale securities holdings



Notes: 1. "Other domestic securities" and "Other foreign securities" include investment trusts and funds.

2. The data are as of month-end.

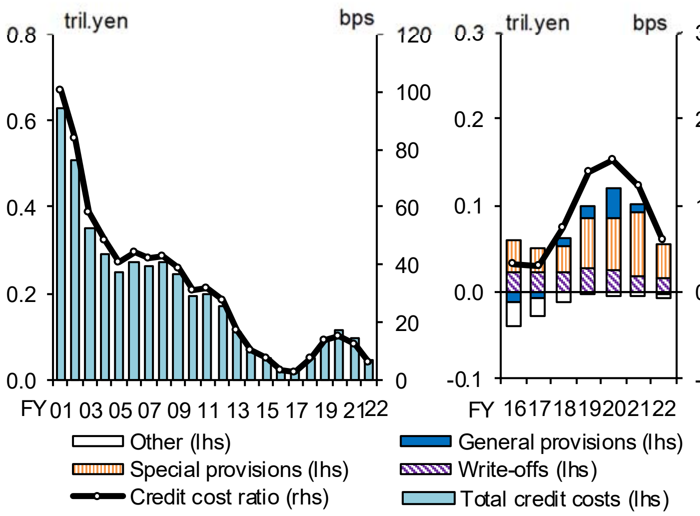
Source: BOJ.

C. Credit Costs and Non-Performing Loans

1. Credit Costs

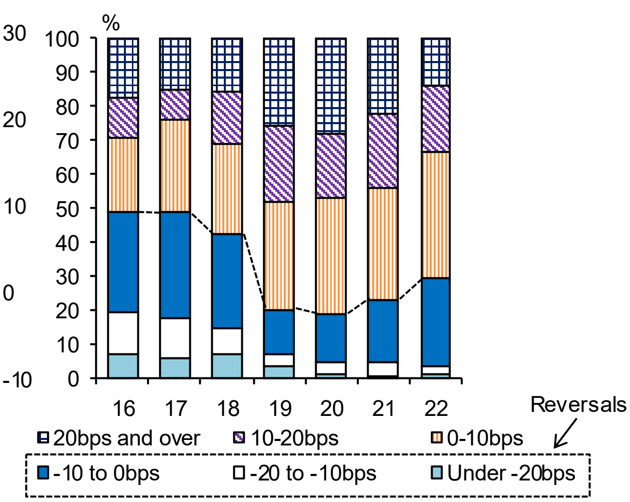
Credit costs, particularly those associated with special provisions, decreased, partly because precautionary loan-loss provisions had been recorded by the previous year. As a result, the credit cost ratio was 6 basis points (a decrease of 6 basis points from the previous year).

III-C-1: Credit costs and credit cost ratio



Source: BOJ.

III-C-2: Distribution of credit cost ratios



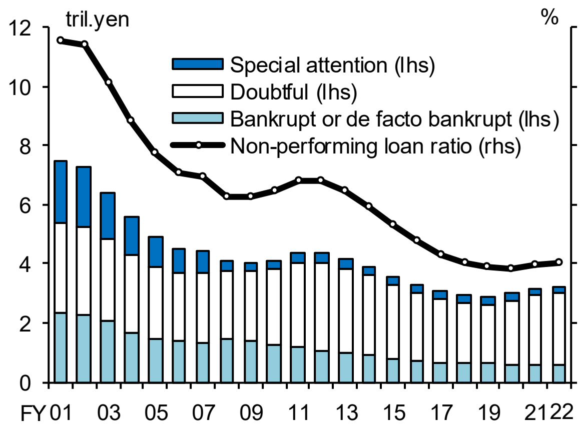
Note: Proportion of number of banks by credit cost ratio.

Source: BOJ.

2. Non-Performing Loans

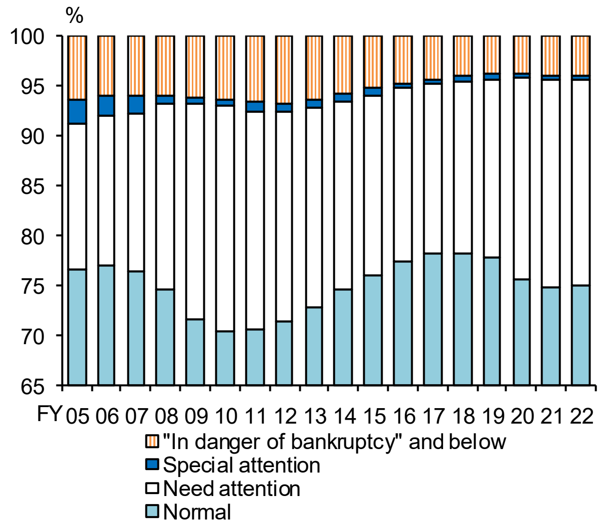
The NPL ratio remained at a low level. The increase in the proportion of outstanding for "need attention excluding special attention" loans came to a halt, and the proportion of outstanding for "normal" loans remained large.

III-C-3: Non-performing loans outstanding and non-performing loan ratio



Source: BOJ.

III-C-4: Proportion of loans outstanding by borrower classification



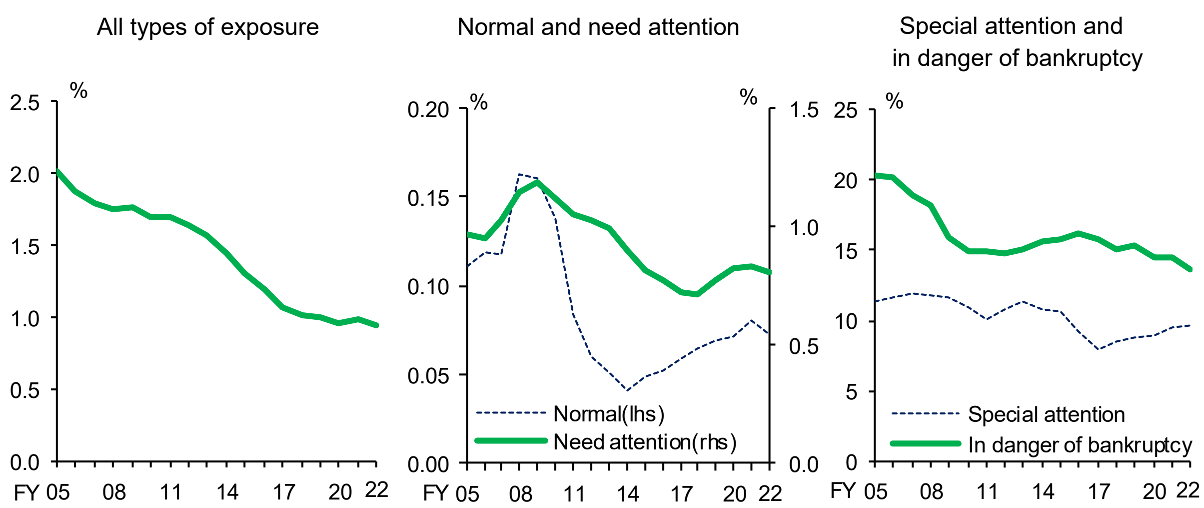
Notes: 1. The data are calculated on a write-off basis.
2. "Need attention" indicates "Need attention excluding special attention."
Source: BOJ.

3. Loan-Loss Provisions

(1) Loan-Loss Provision Ratios

The average loan-loss provision ratios for all types of exposure were more or less unchanged.

III-C-5: Loan-loss provision ratios

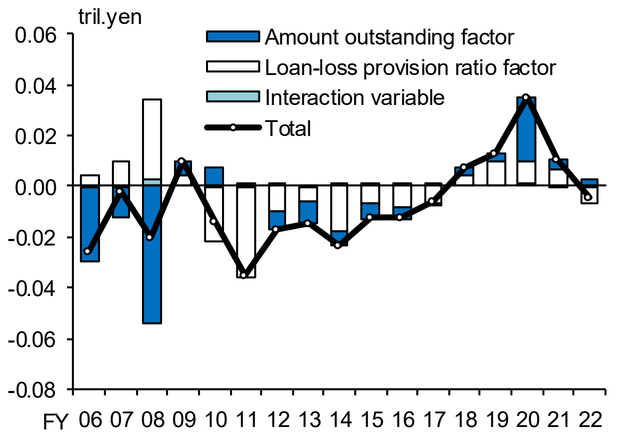


Notes: 1. The data include loans to which the discounted cash flow method is applied.
2. The loan-loss provision ratio is calculated by dividing loan-loss provisions by the total amount of claims (not the uncovered amount of claims).
3. "Need attention" indicates "Need attention excluding special attention."
Source: BOJ.

(2) Outstanding Amount of Loan-Loss Provisions

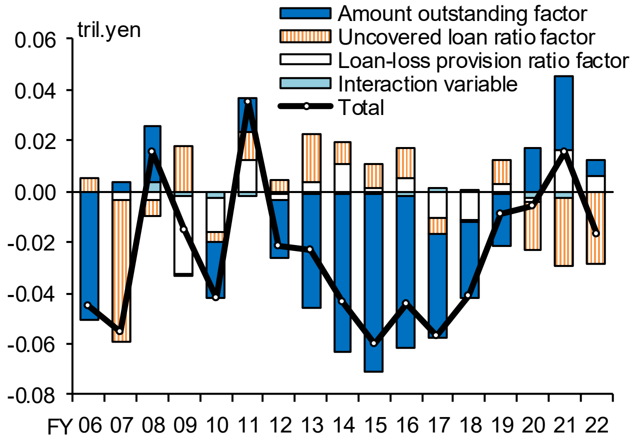
As for the outstanding amount of loan-loss provisions, general provisions decreased slightly due to the decline in loan-loss provision ratios. Special provisions decreased reflecting the rise in the coverage ratio (i.e., negative contribution of "uncovered loan ratio factor").

III-C-6: Factors of change in general loan-loss provisions



Note: Each factor represents the sum of the amount calculated by borrower classification.
Source: BOJ.

III-C-7: Factors of change in special loan-loss provisions

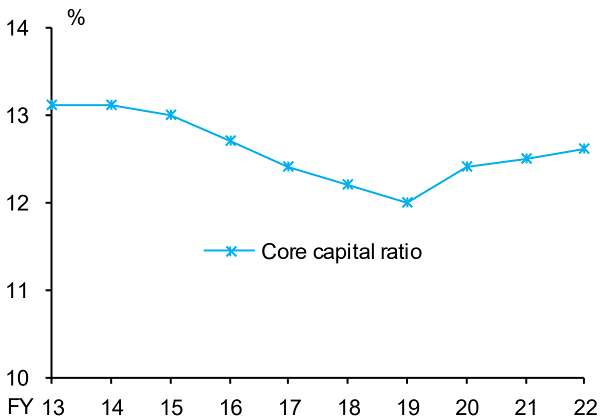


Note: Each factor represents the sum of the amount calculated by borrower classification.
Source: BOJ.

D. Capital Adequacy Ratios

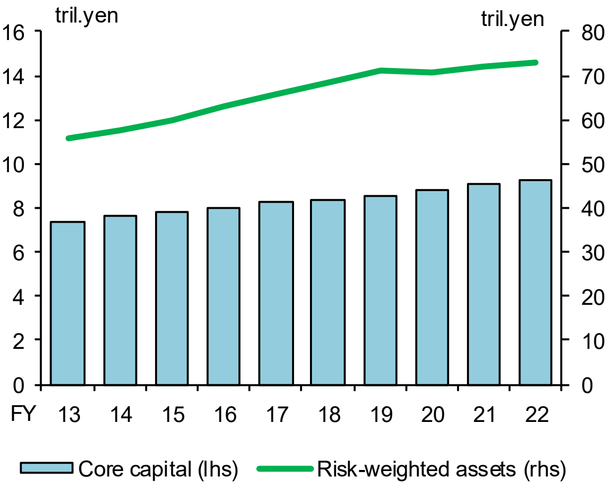
The capital adequacy ratio was more or less unchanged as risk-weighted assets increased while retained earnings were accumulated, remaining sufficiently above the regulatory requirements.

III-D-1: Capital adequacy ratios



Source: BOJ.

III-D-2: Capital and risk-weighted assets



Source: BOJ.

Glossary

Financial statements of financial institutions

Net income = operating profits from core business + realized gains/losses on stockholdings + realized gains/losses on bondholdings – credit costs ± others (such as extraordinary gains/losses)

Gross operating profits from core business = core gross operating profits = net interest income + net non-interest income

Operating profits from core business = pre-provision net revenue (PPNR) excluding trading income = net interest income + net non-interest income – general and administrative expenses

Net interest income = interest income – interest expenses

Net non-interest income = net fees and commissions + profits on specified transactions + other operating profits – realized gains/losses on bondholdings

Realized gains/losses on stockholdings = gains on sales of stocks – losses on sales of stocks – losses on devaluation of stocks

Realized gains/losses on bondholdings = gains on sales of bonds + gains on redemption of bonds – losses on sales of bonds – losses on redemption of bonds – losses on devaluation of bonds

Credit costs = loan-loss provisions + write-offs + losses on credit sales – recoveries of write-offs

Credit cost ratio = credit costs / total loans outstanding

Capital adequacy ratios of internationally active banks

Common equity Tier 1 (CET1) capital ratio = CET1 capital / risk-weighted assets

CET1 capital comprises common equities and retained earnings.

Risk-weighted assets are financial institutions' risk-weighted assets.

Tier 1 capital ratio = Tier 1 capital / risk-weighted assets

Tier 1 capital includes CET1 capital and equities such as preferred equities that meet certain conditions.

Total capital adequacy ratio = Total capital / risk-weighted assets

Total capital includes Tier 1 capital and subordinated bonds that meet certain conditions.

Capital adequacy ratios of domestic banks

Core capital ratio = core capital / risk-weighted assets

Core capital includes common equities and retained earnings as well as equities such as preferred equities that meet certain conditions.

Risk-weighted assets are financial institutions' risk-weighted assets.