BOJ Reports & Research Papers

Financial System Report Annex Series

FSR – A
Financial System Report – Annex

Financial Results of Japan's Banks for Fiscal 2021

FINANCIAL SYSTEM AND BANK EXAMINATION DEPARTMENT
BANK OF JAPAN

SEPTEMBER 2022

The total of major banks, regional banks, and *shinkin* banks covered in this *Report* is as follows (as at March 31, 2022).

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; 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 2021 to provide an annual analysis.

Abstract

The three main features of the financial results of Japan's banks for fiscal 2021 are as follows:

First, net income increased for all types of banks: major banks, regional banks, and *shinkin* banks. For all types of banks, pre-provision net revenue (PPNR) (excluding trading income), which indicates core profitability, increased, while credit costs decreased. However, at major banks and regional banks, 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 overseas interest rates through the end of the fiscal year.

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). PPNR was also pushed up by an increase in net non-interest income at major banks and regional 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 unrealized gains/losses on securities holdings are included in capital.

Contents

I. Outline of Financial Results of Japan's Banks for Fiscal 2021[1]

A. Profits and Losses

At major financial groups, net income for fiscal 2021 was about 2.7 trillion yen, increasing by 28.6 percent from the previous year. Realized gains/losses on bondholdings turned negative, mainly due to losses on sales of bonds that resulted from the rise in overseas interest rates through the end of the fiscal year. However, overall net income increased because PPNR (excluding trading income) rose due to (1) an increase in net interest income mainly supported by interest and dividends on securities 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, net income was also pushed up by a decline in credit costs as the impact of COVID-19 subsided, despite an increase in such costs associated with some large borrowers and Russia.

At major banks (on a non-consolidated basis), net income for fiscal 2021 was about 1.4 trillion yen, an increase of 17.8 percent from the previous year.

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

100 mil.yen,%

	Major Financial Groups			Major Banks (non-consolidated)		
	FY2021	y/y chg.	y/y % chg.	FY2021	y/y chg.	y/y % chg.
Net interest income	54,393	+4,775	+9.6	38,931	+4,950	+14.6
Net non-interest income	57,012	+2,473	+4.5	24,532	+954	+4.0
General and administrative expenses	-70,293	-756	+1.1	-36,952	+252	-0.7
PPNR (excluding trading income)	46,268	+7,781	+20.2	26,510	+6,156	+30.2
(excluding profits and losses from investment trusts due to cancellations)	(45,335)	(+7,103)	(+18.6)	(25,577)	(+5,478)	(+27.3)
Realized gains/losses on bondholdings	-3,119	-5,308	——	-3,235	-5,105	——
Realized gains/losses on stockholdings	5,101	+2,695	——	4,745	+2,559	——
Credit costs	-9,761	+2,029	——	-8,065	-799	——
(Credit cost ratio)	——	——	——	(24bps)	(+3bps)	——
Other profit and loss items	-3,674	-832	——	-1,633	-67	——
Net income before income taxes	34,814	+6,364	+22.4	18,323	+2,744	+17.6
Tax-related expenses	-6,830	-328	+5.0	-4,705	-689	+17.2
Net income	27,024	+6,008	+28.6	13,618	+2,056	+17.8

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 2021 was about 0.8 trillion yen, a 23.9 percent increase from the previous year. An increase in realized losses on bondholdings and stockholdings exerted downward pressure; however, such downward pressure was outweighed by an increase in net interest income mainly attributable to an increase in loans outstanding related to COVID-19, a rise in net non-interest income, a decrease in general and administrative expenses, and a decline in credit costs.

At *shinkin* banks, net income for fiscal 2021 was about 0.3 trillion yen, an increase of 21.2 percent from the previous year. An increase in net interest income due to an increase in loans outstanding related to COVID-19, 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,%

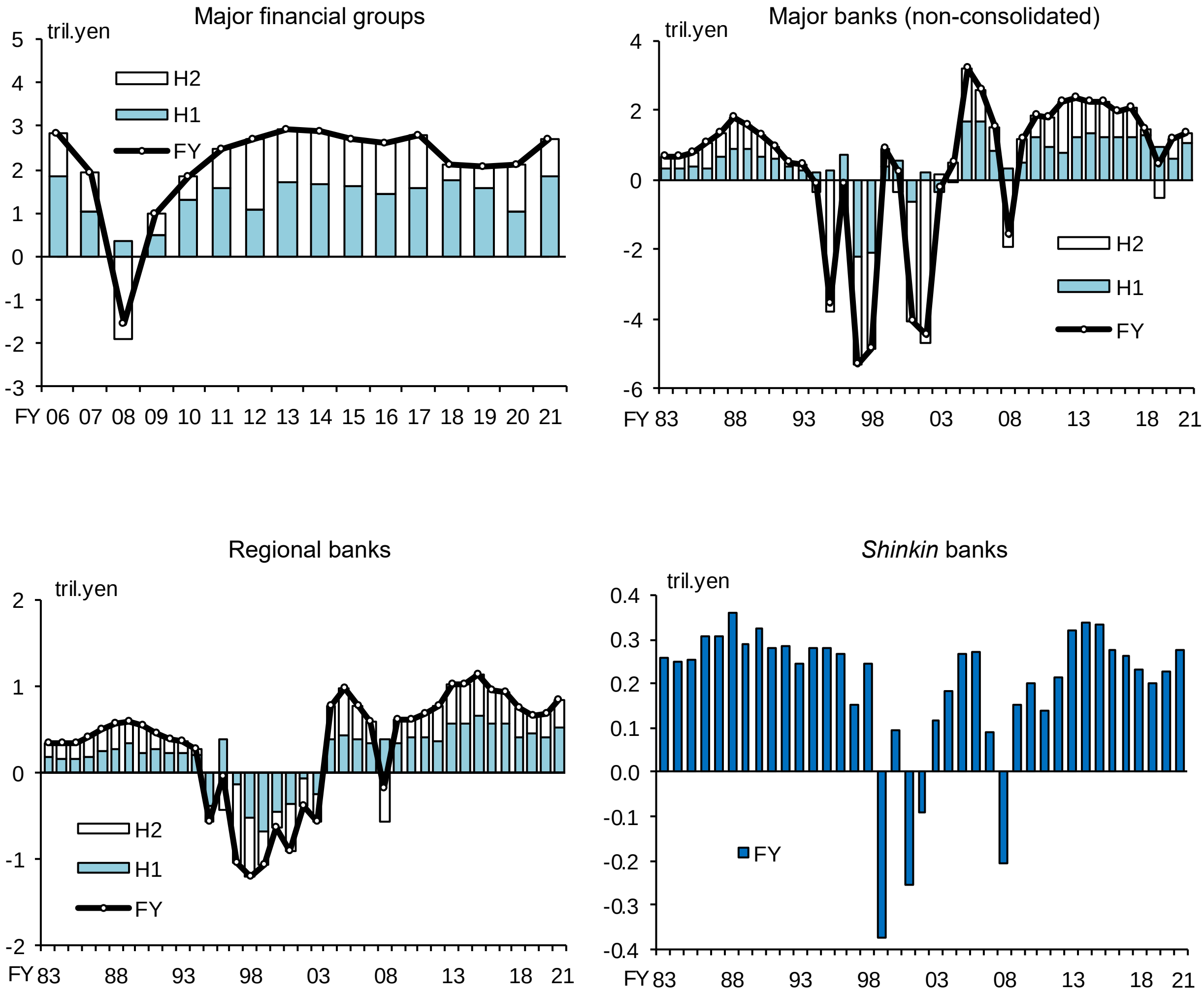
	Regional banks (non-consolidated)			*Shinkin* banks		
	FY2021	y/y chg.	y/y % chg.	FY2021	y/y chg.	y/y % chg.
Net interest income	36,584	+1,231	+3.5	16,074	+146	+0.9
Net non-interest income	6,362	+623	+10.9	730	-20	-2.7
General and administrative expenses	-28,060	+279	-1.0	-12,387	+208	-1.6
PPNR (excluding trading income)	14,892	+2,141	+16.8	4,417	+334	+8.2
(excluding profits and losses from investment trusts due to cancellations)	(14,210)	(+2,476)	(+21.1)	(4,125)	(+534)	(+14.9)
Realized gains/losses on bondholdings	-1,782	-940	——	-45	+29	——
Realized gains/losses on stockholdings	1,598	-589	——	387	+109	——
Credit costs	-2,901	+1,264	——	-1,041	+121	——
(Credit cost ratio)	(10bps)	(-5bps)	——	(13bps)	(-2bps)	——
Other profit and loss items	-23	+517	——	-7	+95	——
Net income before income taxes	11,784	+2,393	+25.5	3,712	+687	+22.7
Tax-related expenses	-3,387	-772	+29.5	-945	-204	+27.6
Net income	8,396	+1,621	+23.9	2,767	+483	+21.2

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 2021 for major banks (both on a consolidated and non-consolidated basis), regional banks, and *shinkin* banks increased for the second consecutive year.

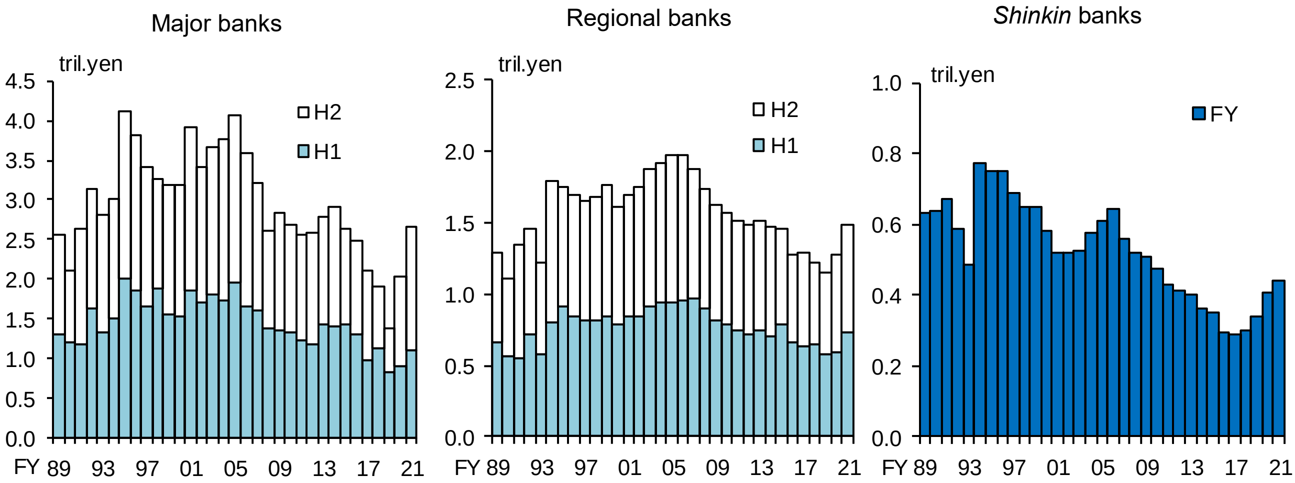
I-B-1: Net income



Source: BOJ.

With regard to core profitability, <u>at major banks, PPNR (excluding trading income) for fiscal 2021</u> rose by 30.2 percent from the previous year, increasing for the second consecutive year. At <u>regional banks</u>, PPNR (excluding trading income) increased by 16.8 percent from the previous year, also rising for the second consecutive year. At <u>*shinkin* banks</u>, such profits increased by 8.2 percent from the previous year, increasing for the fourth consecutive year.

I-B-2: PPNR (excluding trading income)



Source: BOJ.

C. Balance Sheets

Looking at developments in balance sheets for fiscal 2021 at major banks, total assets rose by 39.1 trillion yen, reflecting increases in cash and due from banks (such as current deposits held at the Bank of Japan), Japanese government bonds (JGBs), as well as loans and bills discounted in the international business sector. On the liability side, the main increases were in deposits and NCD as well as loans from the Bank.

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

tril.yen

	End-Mar. 2022	y/y chg.	Change from end-Sep. 2021		End-Mar. 2022	y/y chg.	Change from end-Sep. 2021
Loans and bills discounted	336.3	+9.1	+14.5	Deposits and NCD	613.7	+17.1	+21.6
Domestic business sector	230.1	-1.3	+2.9	Domestic business sector	492.4	+11.5	+13.0
International business sector	106.2	+10.3	+11.7	International business sector	121.3	+5.6	+8.6
Securities	176.6	+5.5	+0.5	Loans from BOJ	63.9	+4.1	+3.9
JGBs	80.2	+7.4	+8.7	Due to trust accounts	15.8	-1.5	-0.0
Stocks	14.9	-1.5	-1.8	Other liabilities	161.7	+21.6	+18.6
Foreign securities	55.9	-2.0	-6.9	Total liabilities	855.1	+41.3	+44.1
Cash and due from banks	265.5	+10.1	+14.1	Total net assets	31.3	-2.3	-3.0
Other assets	108.0	+14.5	+12.1	Retained earnings	12.3	+0.3	-0.4
Total assets	886.4	+39.1	+41.1	Net unrealized gains/losses on securities	4.2	-1.8	-2.0

Source: BOJ.

At regional banks, total assets increased by 31.9 trillion yen as cash and due from banks (such as current deposits held at the Bank) as well as loans and bills discounted increased. On the liability side, other liabilities (such as loans from the Bank) and deposits and NCD increased.

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

tril.yen

	End-Mar. 2022	y/y chg.	Change from end-Sep. 2021		End-Mar. 2022	y/y chg.	Change from end-Sep. 2021
Loans and bills discounted	290.5	+6.8	+4.6	Deposits and NCD	395.8	+13.2	+8.8
Securities	88.8	+1.1	-0.5	Current deposits	242.8	+14.3	+10.6
JGBs	17.8	+0.2	+0.7	Other liabilities	87.4	+19.3	+3.6
Cash and due from banks	114.0	+23.2	+6.4	Total liabilities	483.2	+32.5	+12.4
Other assets	13.2	+0.7	+0.7	Total net assets	23.2	-0.6	-1.1
Total assets	506.4	+31.9	+11.2	Net unrealized gains/losses on securities	2.7	-1.2	-1.4

Source: BOJ.

With regard to *shinkin* banks, total assets increased by 4.6 trillion yen as securities, cash and due from banks (such as current deposits held at the Bank, deposits at the Shinkin Central Bank), and loans and bills discounted increased. On the liability side, deposits and NCD and other liabilities (such as loans from the Bank) increased.

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

tril.yen

	End-Mar. 2022	y/y chg.		End-Mar. 2022	y/y chg.
Loans and bills discounted	78.5	+0.4	Deposits and NCD	158.5	+3.3
Securities	48.5	+2.1	Current deposits	72.8	+4.1
JGBs	8.4	+0.7	Other liabilities	11.5	+1.6
Cash and due from banks	48.6	+2.0	Total liabilities	170.0	+4.9
Other assets	3.6	+0.2	Total net assets	9.2	-0.3
Total assets	179.2	+4.6	Net unrealized gains/losses on securities	0.1	-0.5

Source: BOJ.

II. Financial Results of Japan's Major Banks and Regional Banks for Fiscal 2021

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

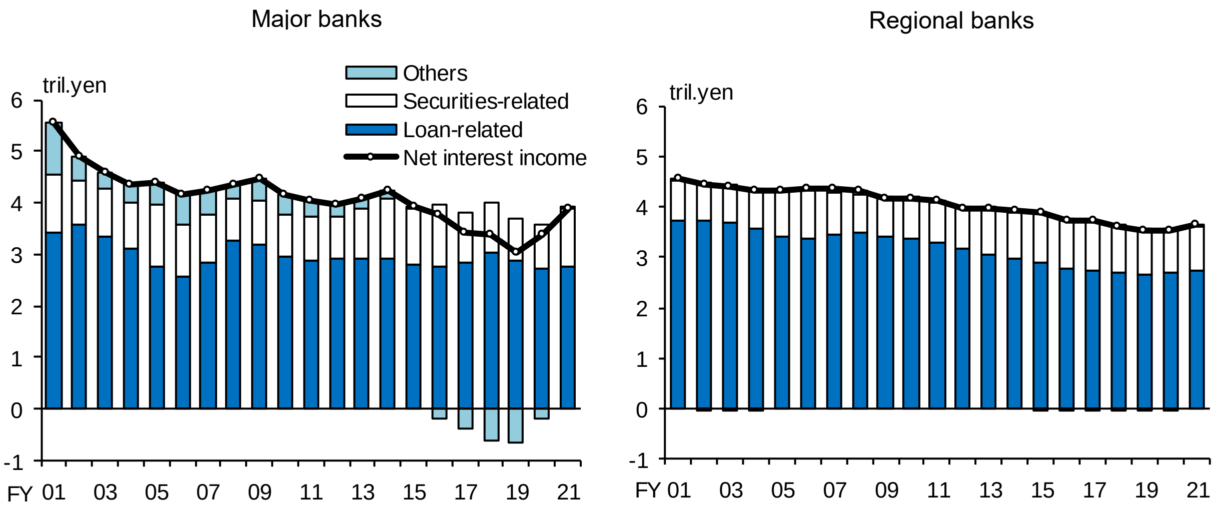
A. Core Profitability

1. Net Interest Income

At major banks, net interest income for fiscal 2021 increased by 14.6 percent from the previous year. Securities-related income increased while loan-related income was almost unchanged.

At regional banks, net interest income for fiscal 2021 increased by 3.5 percent from the previous year. Loan-related income was firm, reflecting an increase in the outstanding amount of loans related to COVID-19, while securities-related income increased. Moreover, various measures to pay interest on current account balances held at the Bank, including the "Special Deposit Facility to Enhance the Resilience of the Regional Financial System" (hereafter referred to as "the Special Deposit Facility"), also pushed up net interest income.

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.

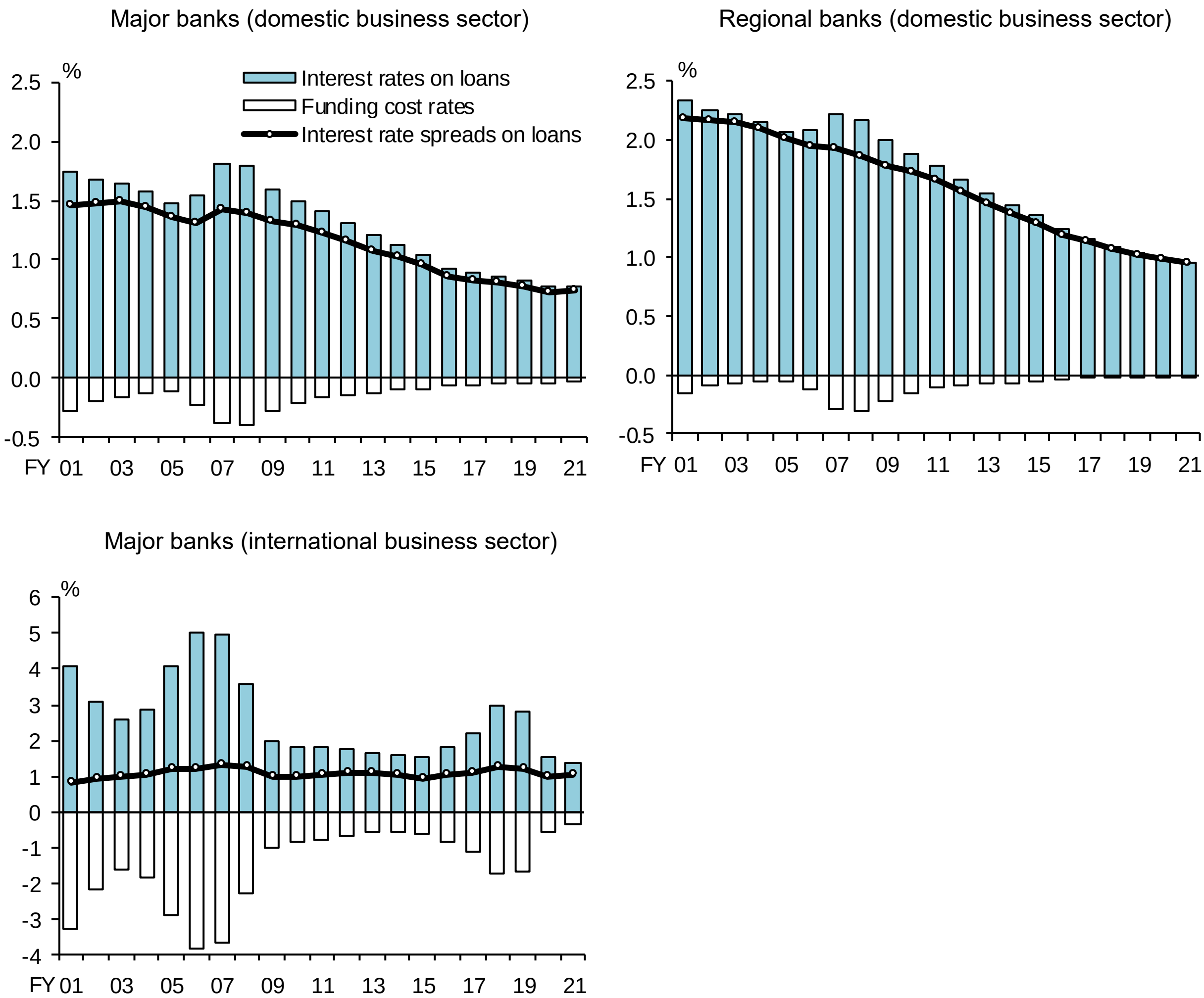
2. Interest Rate Spreads on Loans and Loans Outstanding

(1) Interest Rate Spreads on Loans

Interest rate spreads on loans in the domestic business sector were almost unchanged at major banks as interest rates on loans stopped declining. At regional banks, the spreads continued to narrow as the decline in interest rates on loans exceeded the decline in funding cost rates.

At major banks, interest rate spreads on loans in the international business sector started to widen. This was because the decline in funding cost rates due mainly to a reduction in high-interest deposits exceeded the decline in interest rates on loans.

II-A-2: Interest rate spreads on loans

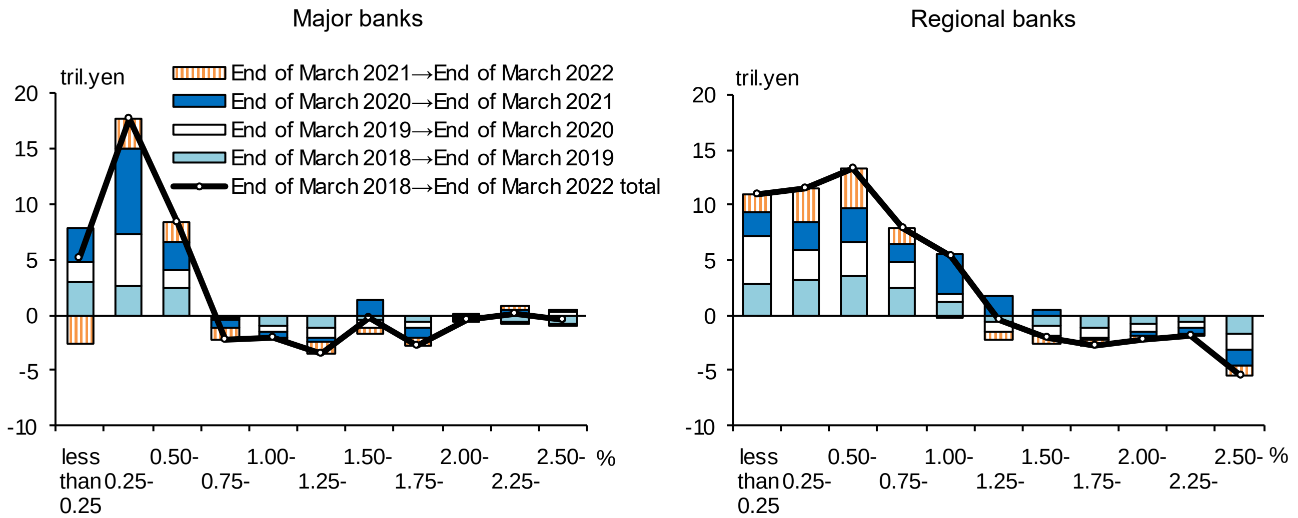


Note: In calculating the interest rate spreads, interest expenses on interest rate swaps are deducted from funding costs.
Source: BOJ.

(2) Loans Outstanding by Lending Rate

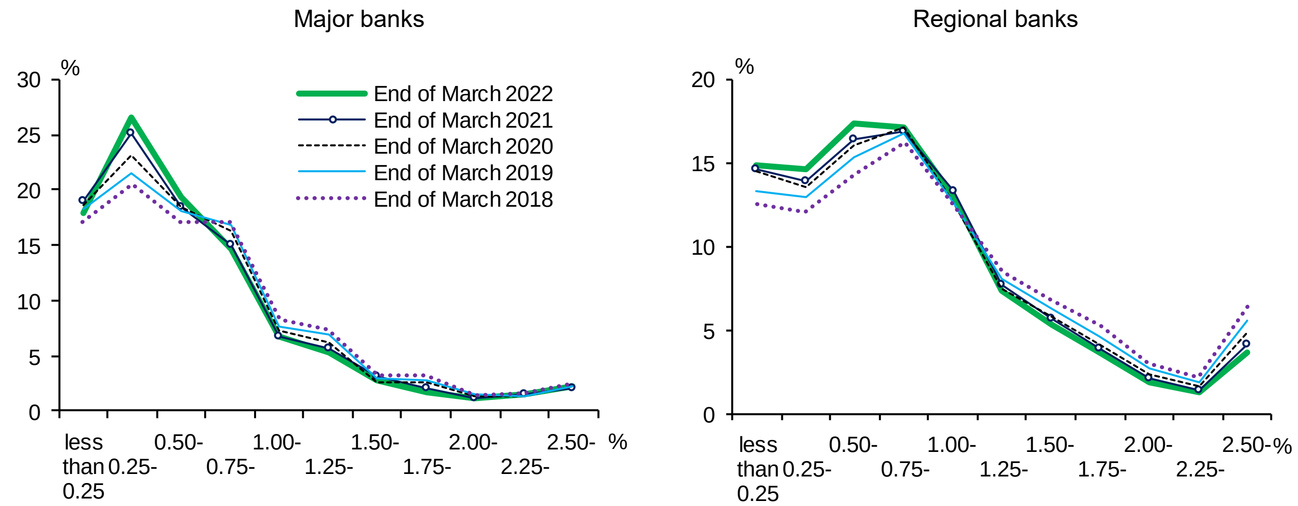
Looking at developments in loans outstanding by lending rate (yen loans outstanding in the domestic business sector) at both major banks and regional banks, those with low lending rates continued to increase. However, at major banks, the outstanding amount of some low interest rate loans turned to a decline due to a decrease in the outstanding amount of loans related to COVID-19.

II-A-3: Changes in loans outstanding by lending rate (from the end of March 2018 to the end of March 2022)



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 2018 to the end of March 2022)

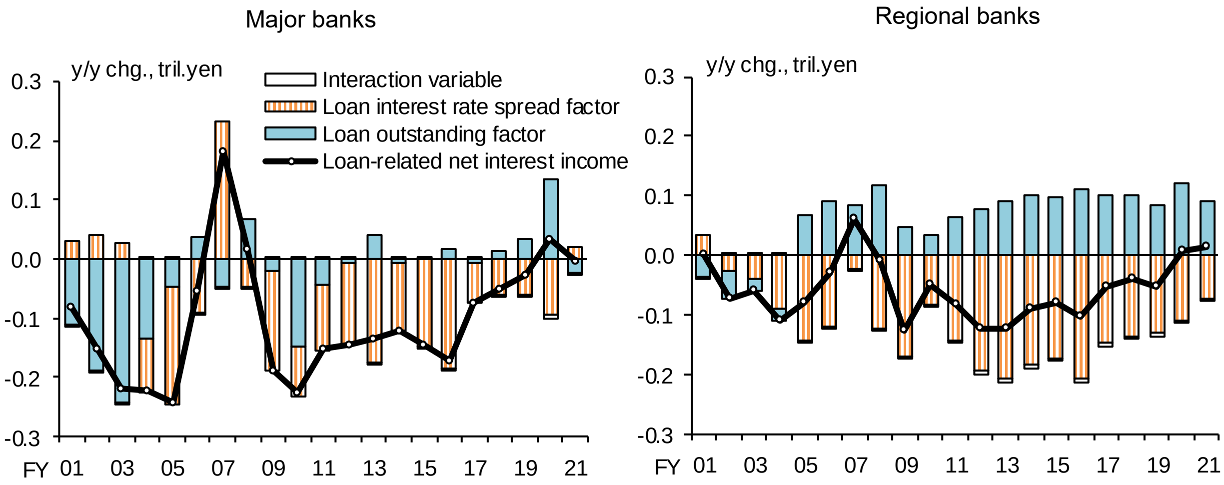


Note: The data are for yen loans outstanding in the domestic business sector (excluding loans to the financial sector) based on the amount outstanding at month-end.
Source: BOJ.

(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, loan-related net interest income was more or less unchanged at major banks, with the negative contribution of a decline in loans outstanding and the positive contribution of interest rate spreads offsetting each other. At regional banks, such income increased, with the positive contribution of an increase in the outstanding amount outweighing the negative contribution of the narrowing of interest rate spreads.

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

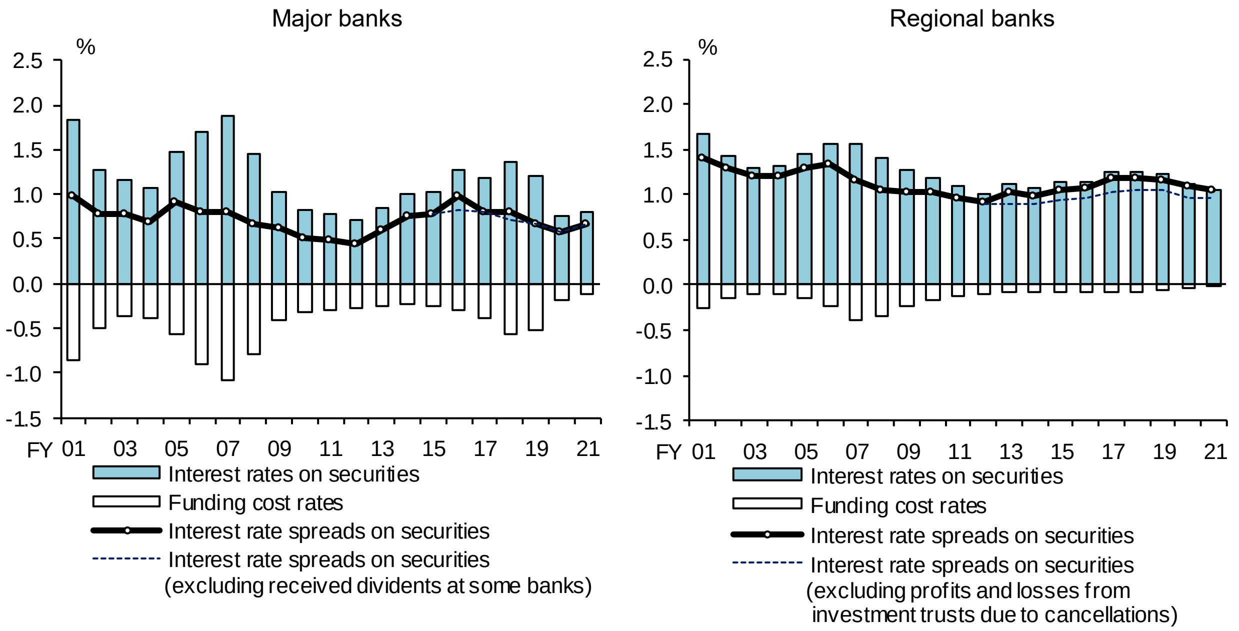


Notes: 1. In calculating the interest rate spreads, interest expenses on interest rate swaps are deducted from funding costs.
2. Loan-related net interest income = (average amount of loans outstanding) * (interest rate spreads on loans).
Source: BOJ.

3. Interest Rate Spreads on Securities

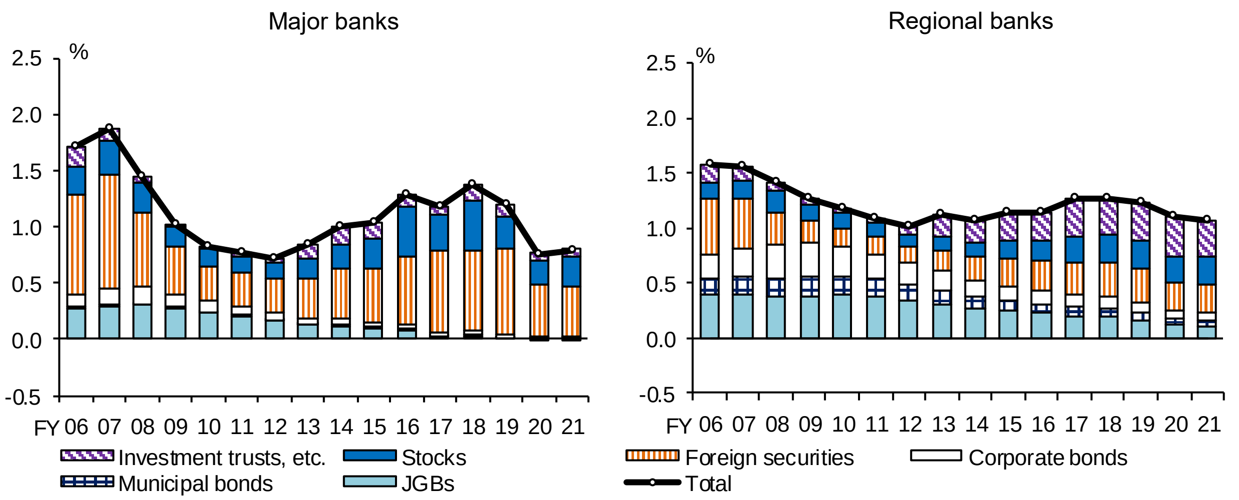
Interest rate spreads on securities widened at major banks because interest rates on securities rose and funding cost rates, particularly of foreign currency, declined. With regard to such spreads on securities at regional banks on a basis excluding profits and losses from investment trusts due to cancellations, the impact of factors such as the redemption of JGBs and other securities with relatively high yields was mostly offset by an increase in dividends from stocks, etc. At major banks, while the profitability of domestic bonds (JGBs, municipal bonds, and corporate bonds) continued to decrease, foreign securities and stocks continued to function as important contributors to positive interest rate spreads on securities. At regional banks, the roles of investment trusts, foreign securities, 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.

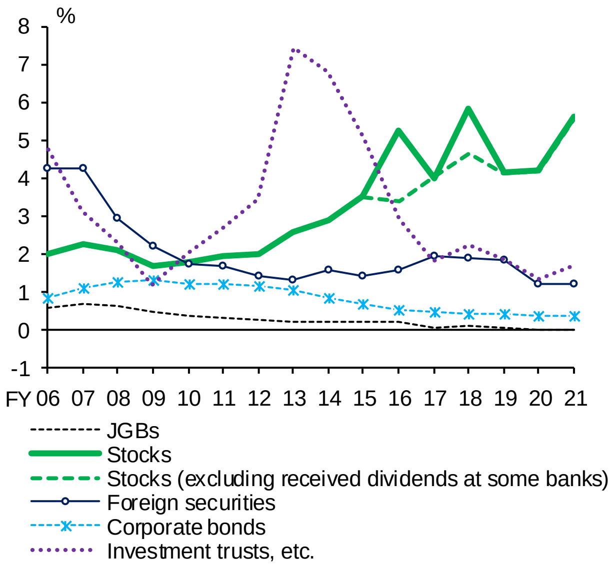
II-A-7: Decomposition of interest rate spreads on securities by product type

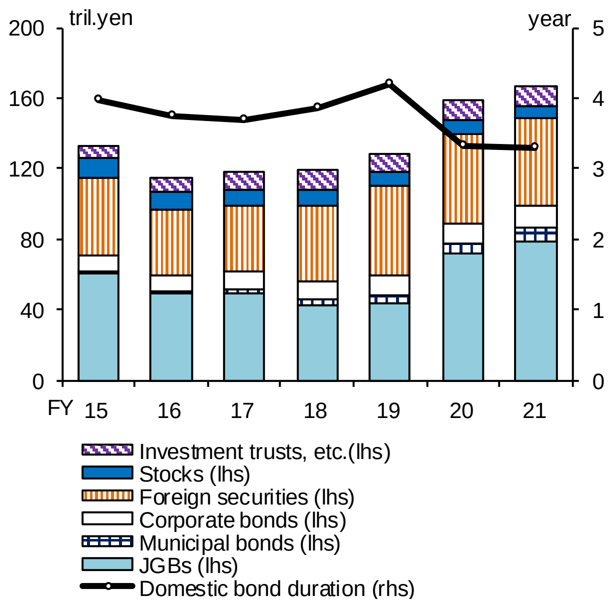


Note: For major banks, the rises in interest rate spreads on stocks in fiscal 2016 and 2018 reflect dividends received from subsidiaries at some banks.
Source: BOJ.

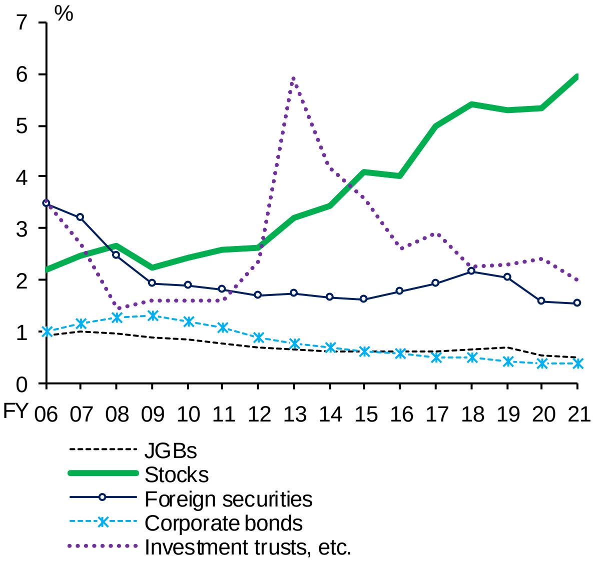
II-A-8: Interest rates on securities holdings and amounts outstanding by product type (at fiscal year-end)

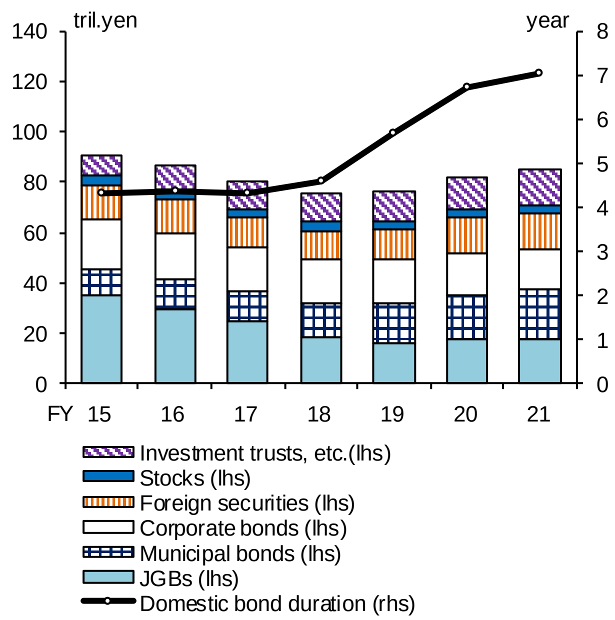
Major banks





Regional banks



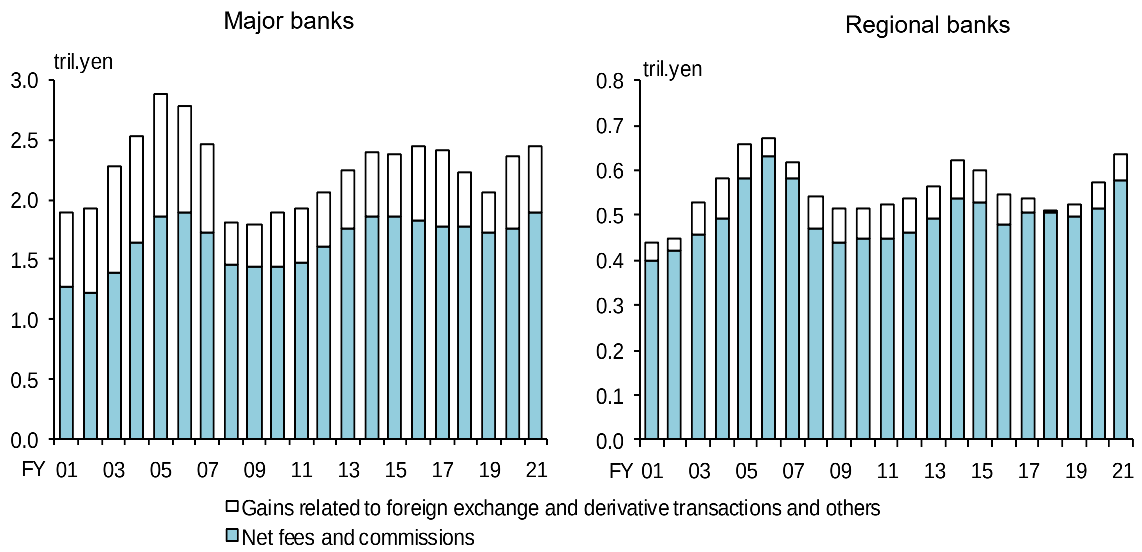


Source: BOJ.

4. Net Non-Interest Income

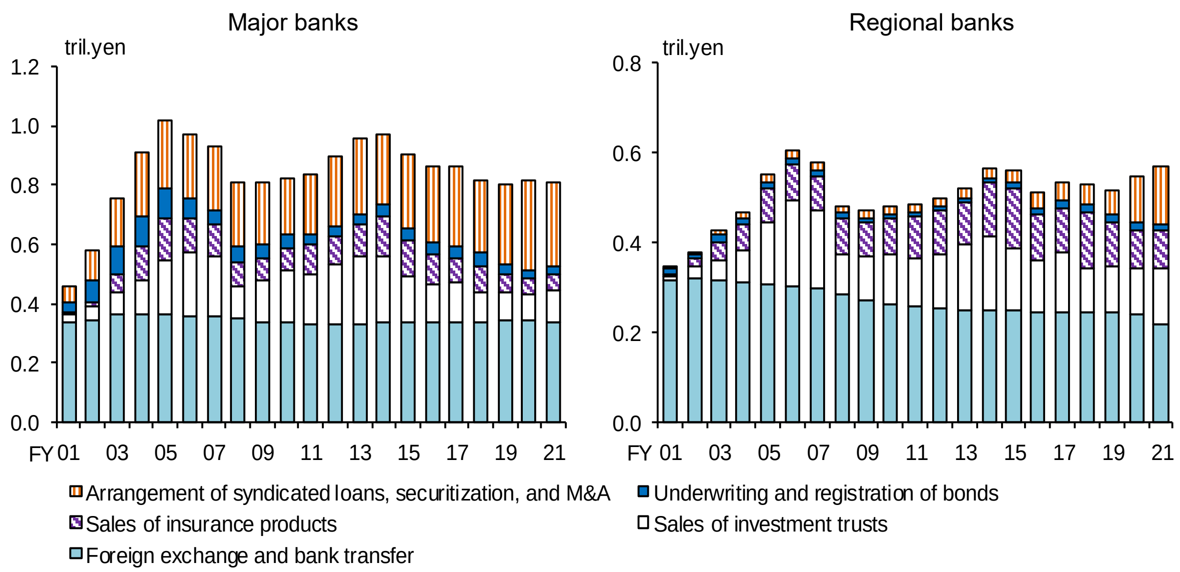
At major banks, net non-interest income increased by 4.0 percent from the previous year. Specifically, income from fees and commissions increased as that associated with deposits and lending accumulated in the international business sector. At regional banks, net non-interest income increased by 10.9 percent from the previous year. Although fees and commissions received declined, reflecting the review of those related to domestic funds transfer, net non-interest income was pushed up mainly because sales activities rebounded from the downturn in the previous year and income from sales of investment trusts and services to corporate clients increased.

II-A-9: Net non-interest income



Source: BOJ.

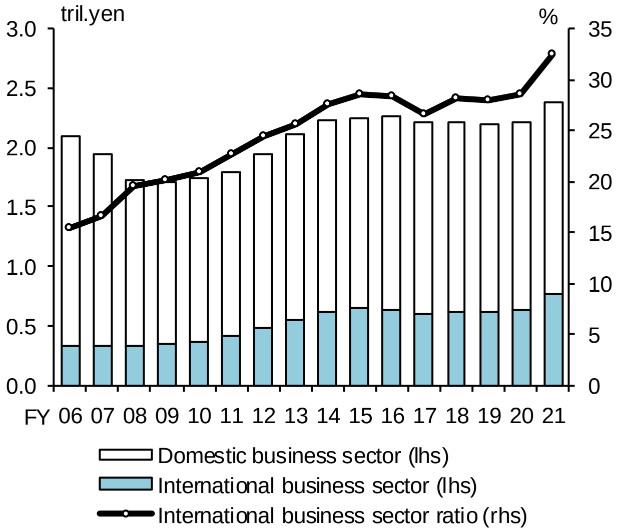
II-A-10: Income from fees and commissions (domestic business sector)



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.

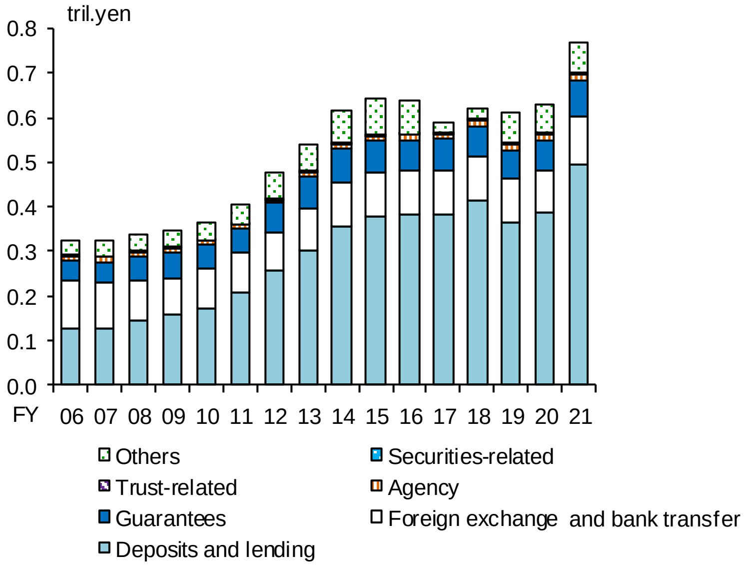
Source: BOJ.

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



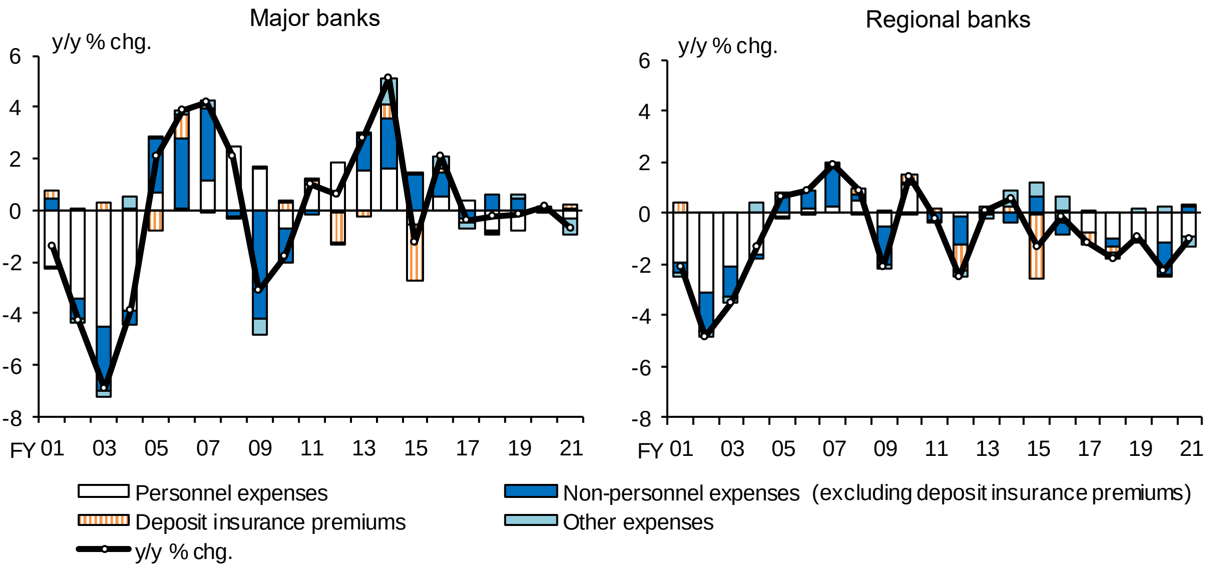
Note: The figures are categorized based on each bank's internal definition. Thus, there are variations on such categorization. "Deposits and lending" includes income from fees and commissions related to the arrangement of syndicated loans, commitment lines, securitization, and M&A transactions.

Source: BOJ.

5. General and Administrative Expenses

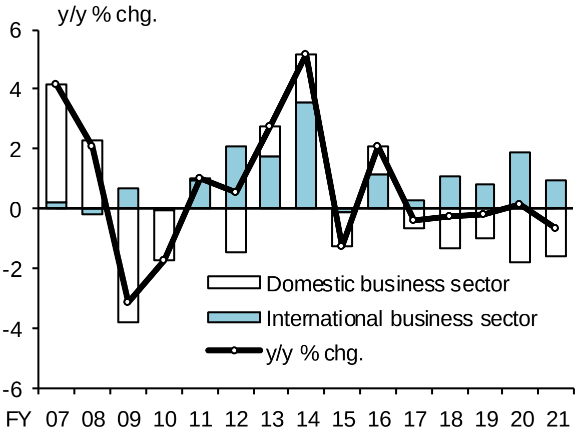
At major banks, general and administrative expenses decreased by 0.7 percent from the previous year, decreasing in the domestic business sector while continuing to increase in the international business sector. At regional banks, general and administrative expenses decreased by 1.0 percent from the previous year. 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 both major banks and 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



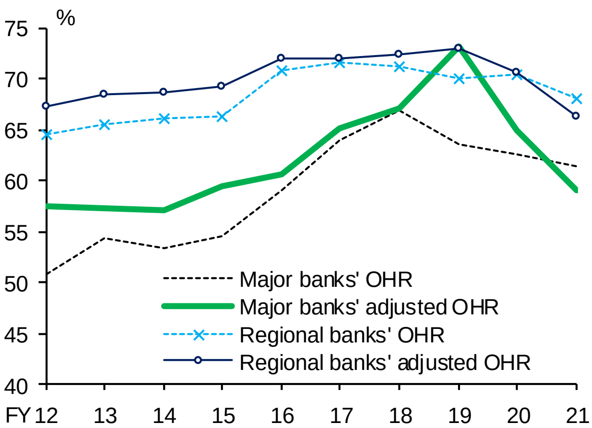
Source: BOJ.

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.

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[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).

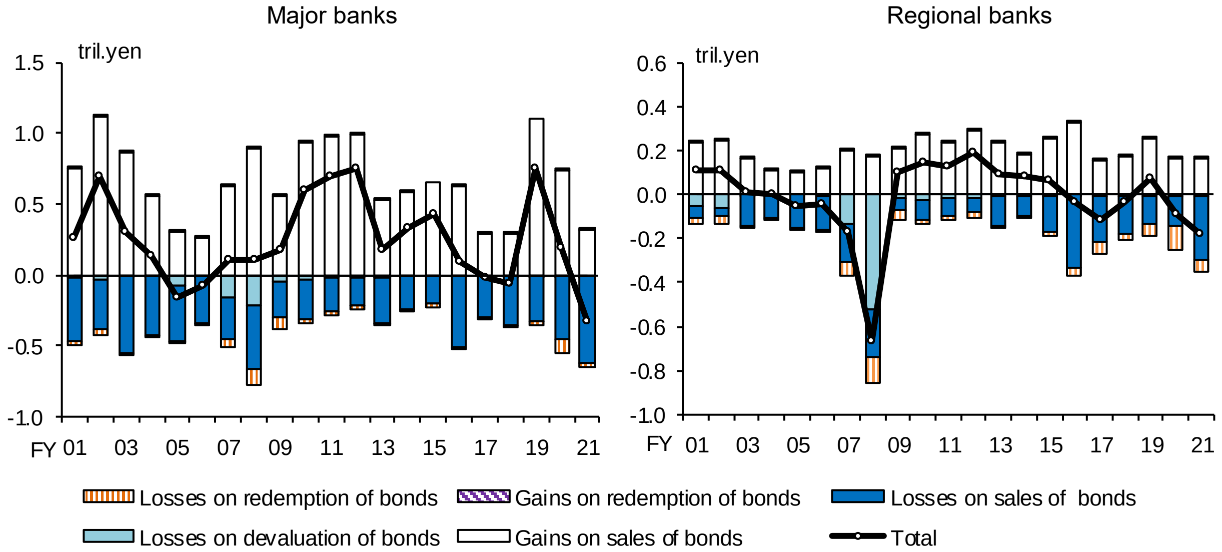
B. Realized and Unrealized Gains/Losses on Securities Holdings

1. Realized Gains/Losses on Securities Holdings

Realized gains/losses on bondholdings turned negative at major banks. Profits from sales of foreign bonds decreased and losses on sales of foreign securities accumulated due to the rise in overseas interest rates toward the end of the fiscal year. At regional banks, realized losses expanded because of an increase in losses on sales of foreign bonds.

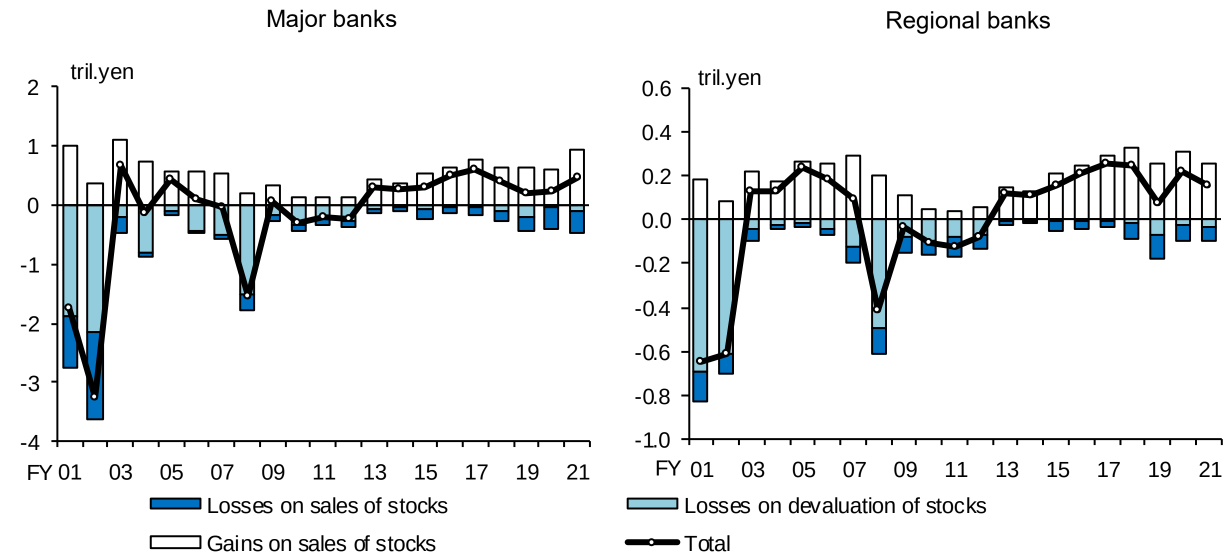
As for realized gains/losses on stockholdings, realized gains expanded at major banks because of an increase in gains on sales, while such gains decreased at regional banks due to a decline in gains on sales.

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



Source: BOJ.

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

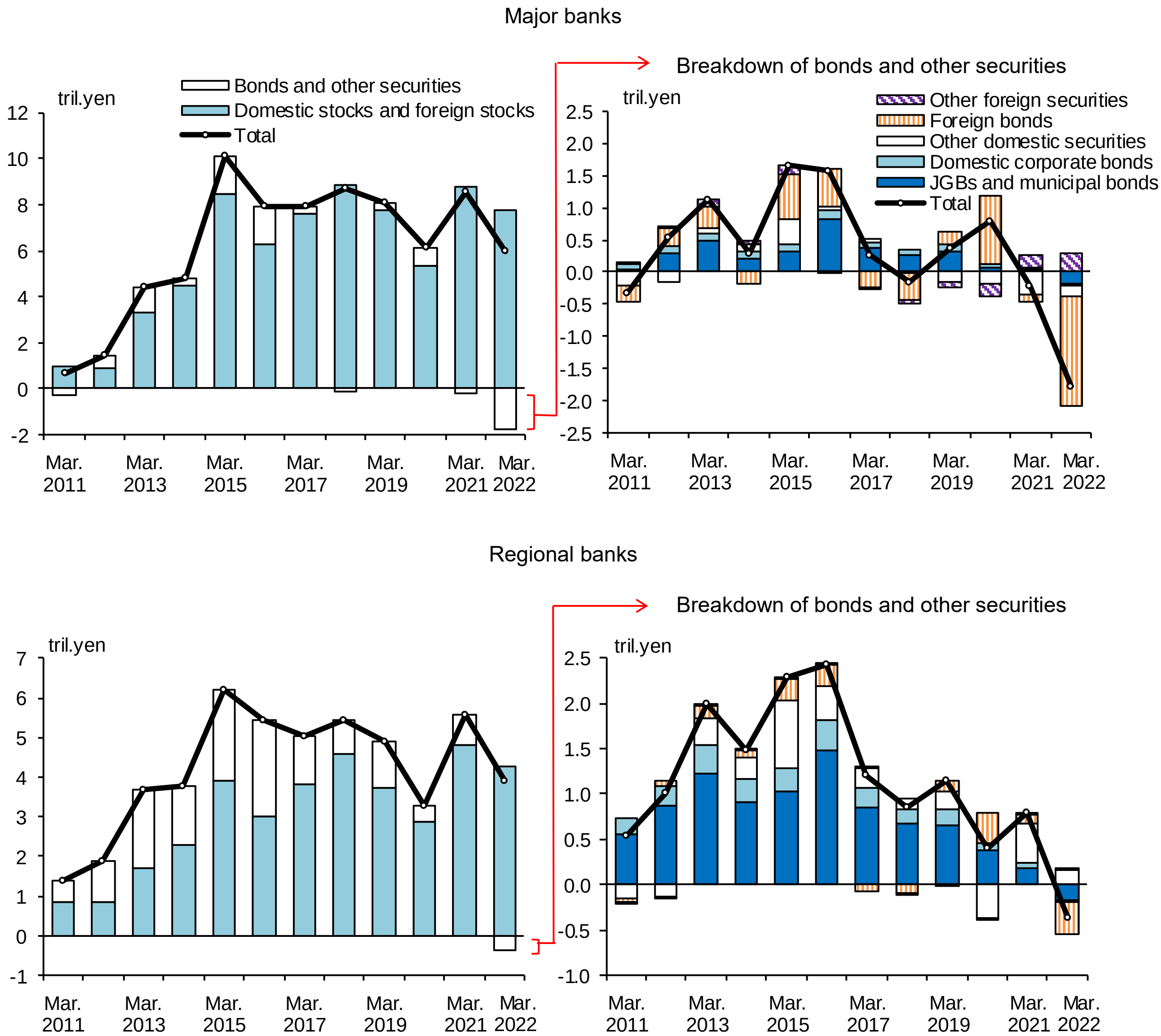


Source: BOJ.

2. Unrealized Gains/Losses on Securities Holdings

Unrealized gains/losses on available-for-sale securities holdings as of the end of March 2022 at major banks and regional banks stood at gains of about 6 trillion yen and about 4 trillion yen, respectively, maintaining a high level; however, such gains decreased from the level as of the end of March 2021. Looking at the breakdown, unrealized gains of stockholdings, accounting for a large share of the total gains on securities holdings, decreased at both major banks and regional banks, reflecting a decline in stock prices. Unrealized losses on holdings of bonds and other securities increased at major banks and such gains/losses turned negative at regional banks, as unrealized losses on domestic and foreign bondholdings increased due to the rise in interest rates.

II-B-3: Unrealized 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 at month-end.

Source: BOJ.

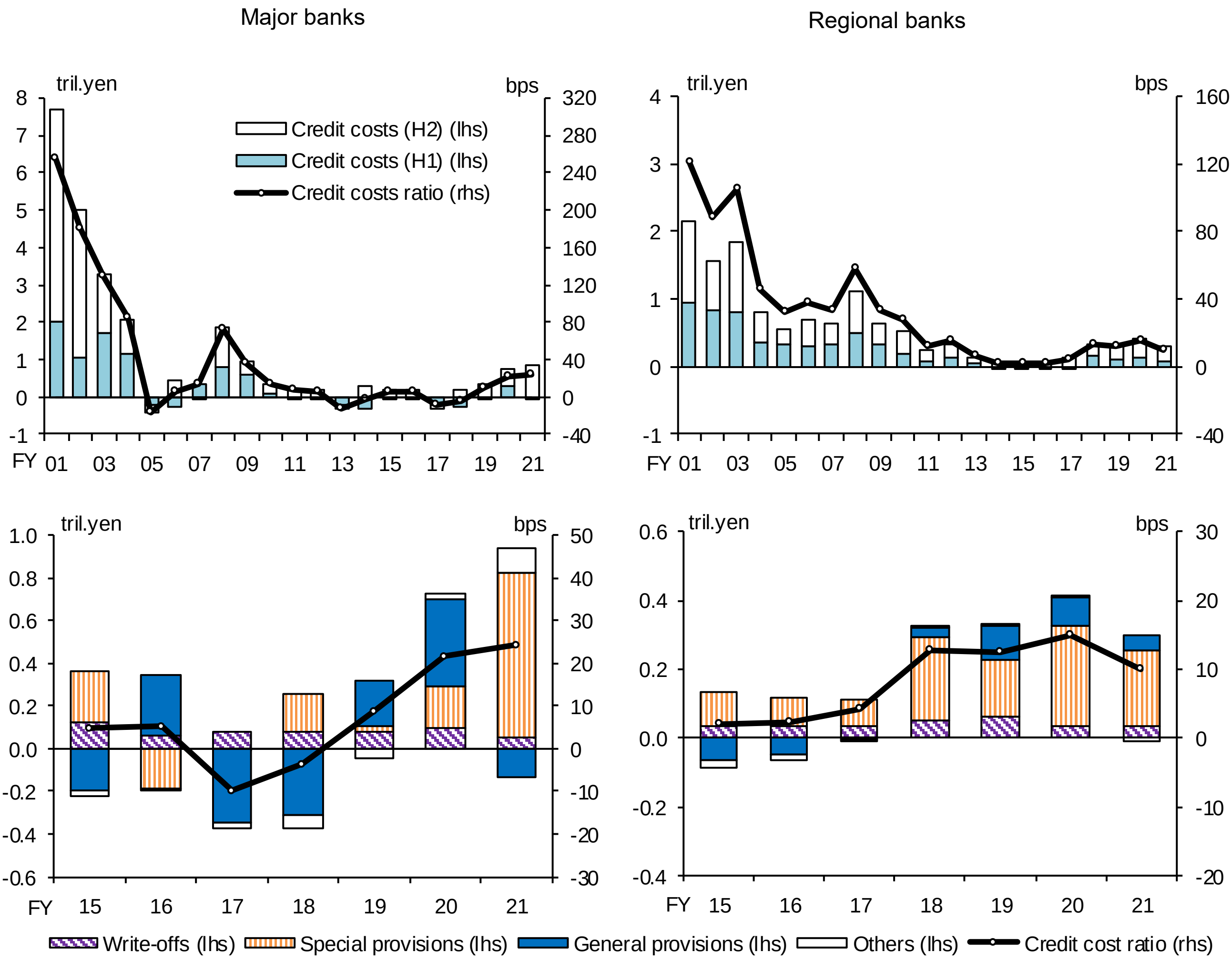
C. Credit Costs and Non-Performing Loans

1. Credit Costs

At major banks, credit costs increased due in part to a rise in such costs associated with some large borrowers and Russia, despite the reversal of pandemic-related precautionary loan-loss provisions (see Box 2 for details on Russia-related credit costs). At regional banks, credit costs decreased partly because precautionary loan-loss provisions had been recorded by fiscal 2020.

The credit cost ratio (= credit costs / total loans outstanding) was 24 basis points (an increase of 3 basis points from the previous year) at major banks and 10 basis points (a decrease of 5 basis points from the previous year) at regional banks.

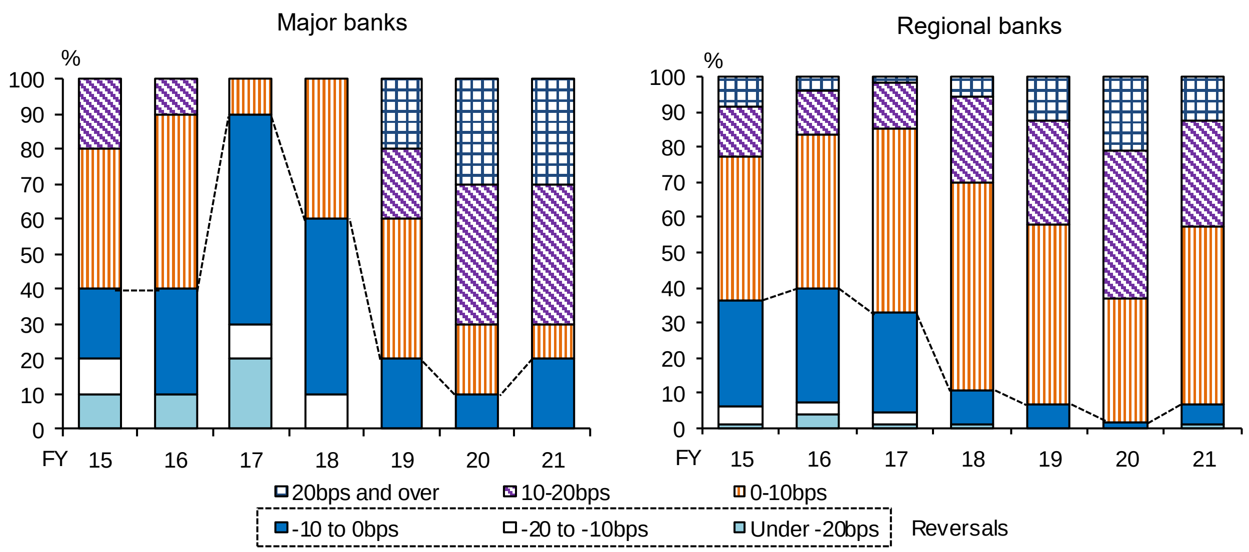
II-C-1: Credit costs and credit cost ratios



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 was more or less unchanged. For regional banks, the share of banks with credit costs of 10 basis points or greater turned to a decline, but more than 90 percent of regional banks continued to incur credit costs.

II-C-2: Credit cost ratio distribution



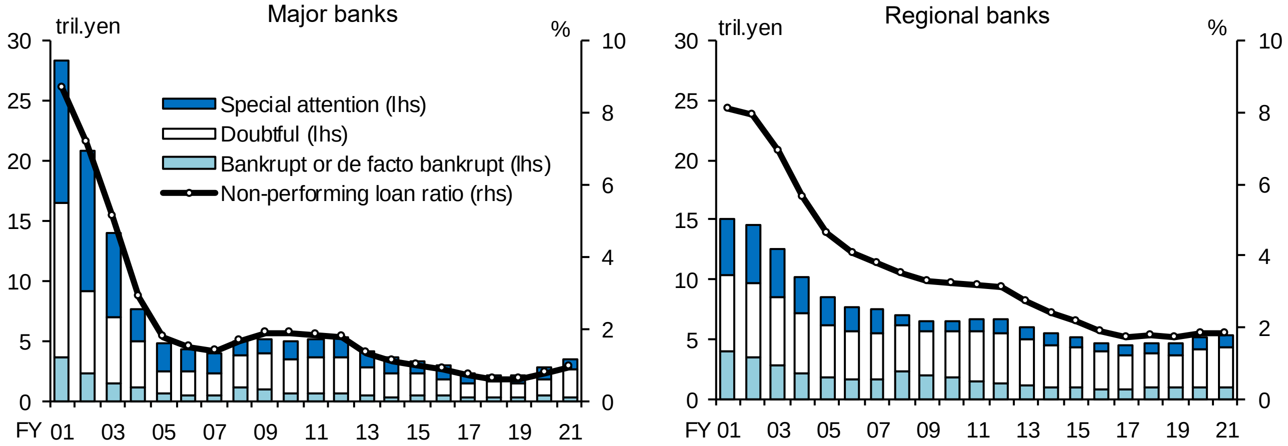
Note: Proportion of the number of banks by credit cost ratio.
Source: BOJ.

2. Non-Performing Loans

Non-performing loan (NPL) ratios increased slightly, but remained at low levels overall, at both major banks and regional banks. The rise in the NPL ratios for overseas loans at the three major banks came to a halt, except for loans to Asia, where the resumption of economic activity has been delayed.

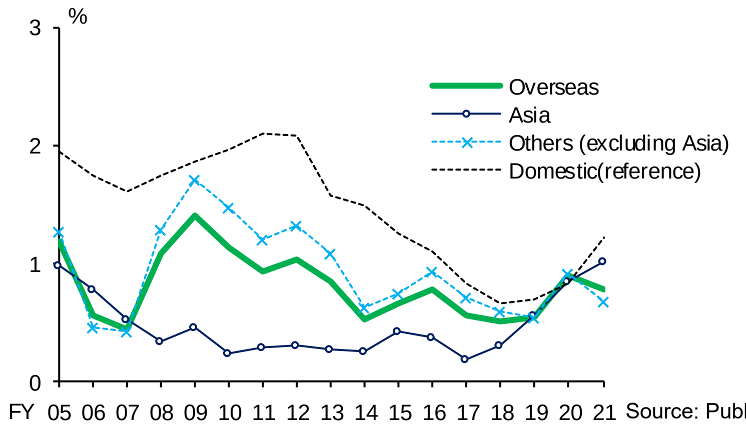
Looking at the proportion of loans outstanding by borrower classification, the ratio of "normal" loans remained high, exceeding 95 percent at major banks, and reaching almost 90 percent at regional banks.

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



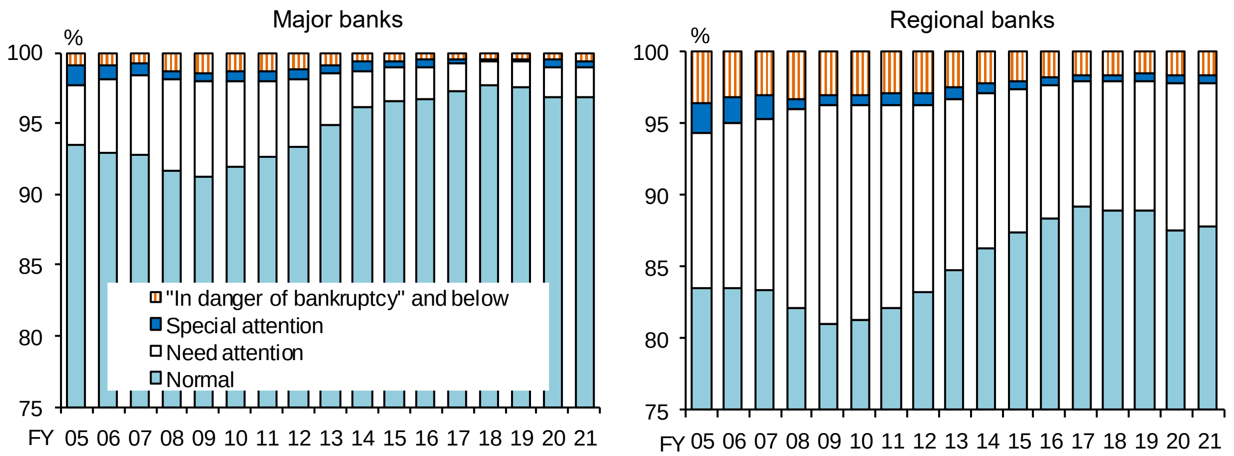
Source: BOJ.

II-C-4: Non-performing overseas 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."

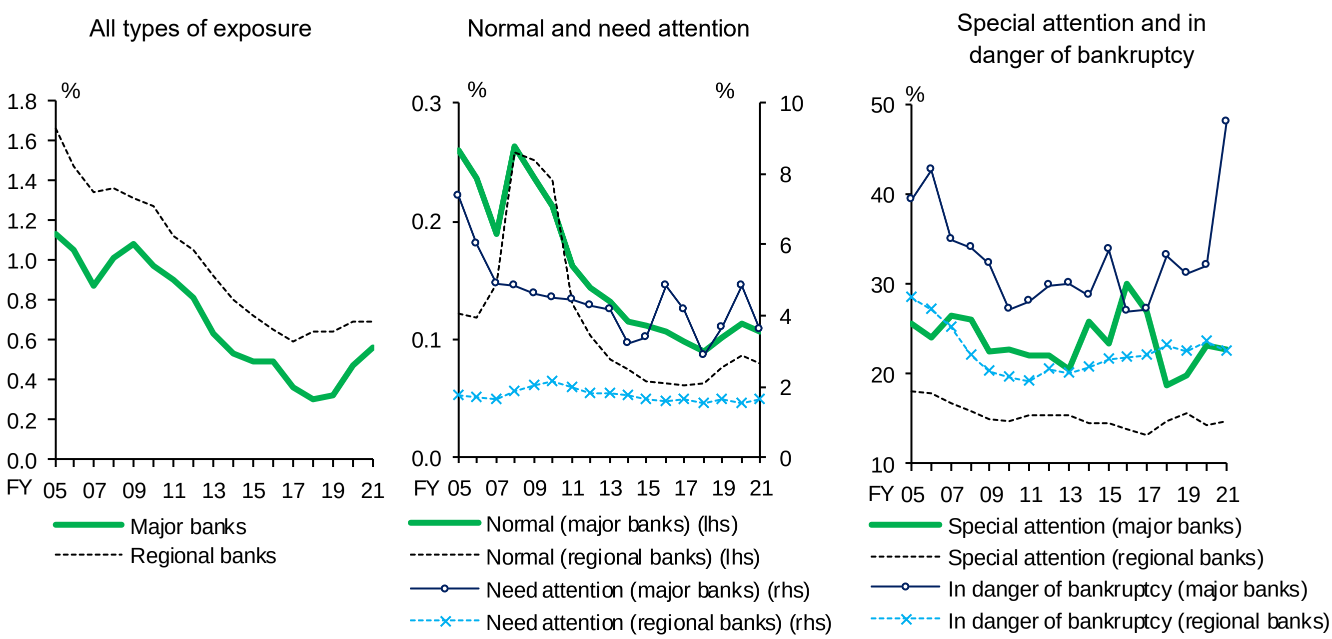
Source: BOJ.

3. Loan-Loss Provisions

(1) Loan-Loss Provision Ratios

The average loan-loss provision ratio for all types of exposure at major banks increased from the previous year as loan-loss provision ratios for "in danger of bankruptcy" loans increased due to a rise in loan-loss provisions for some large borrowers. At regional banks, such ratios were more or less unchanged for all types of exposure after having increased slightly in the previous year.

II-C-6: Loan-loss provision ratios



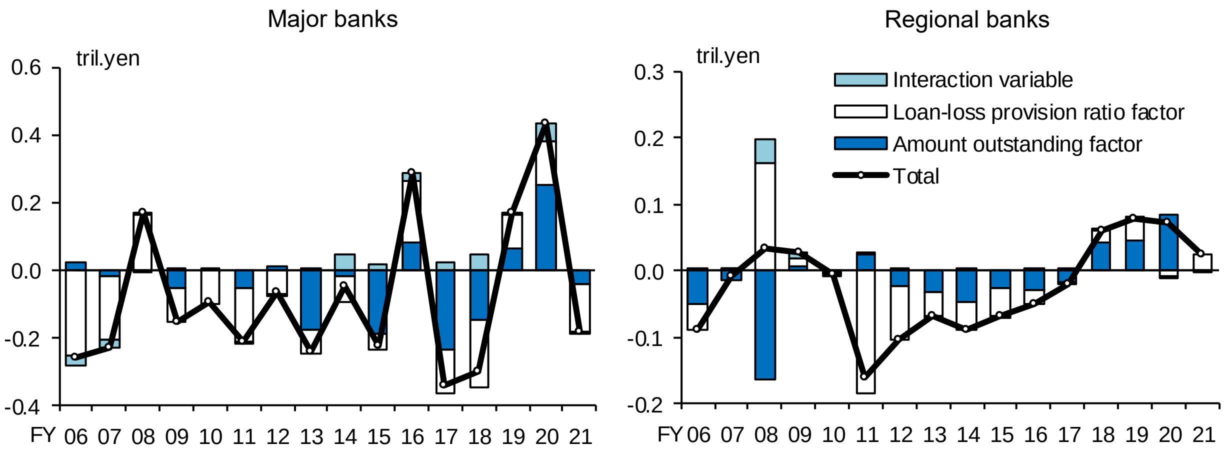
Notes: 1. The data include loans to which the discounted cash flow method is applied.
2. The loan-loss provision ratio is calculated as loan-loss provisions divided by the total amount of claims (not the uncovered amount of claims).
3. "Need attention" indicates "Need attention excluding special attention."

Source: BOJ.

(2) Outstanding Amount of Loan-Loss Provisions

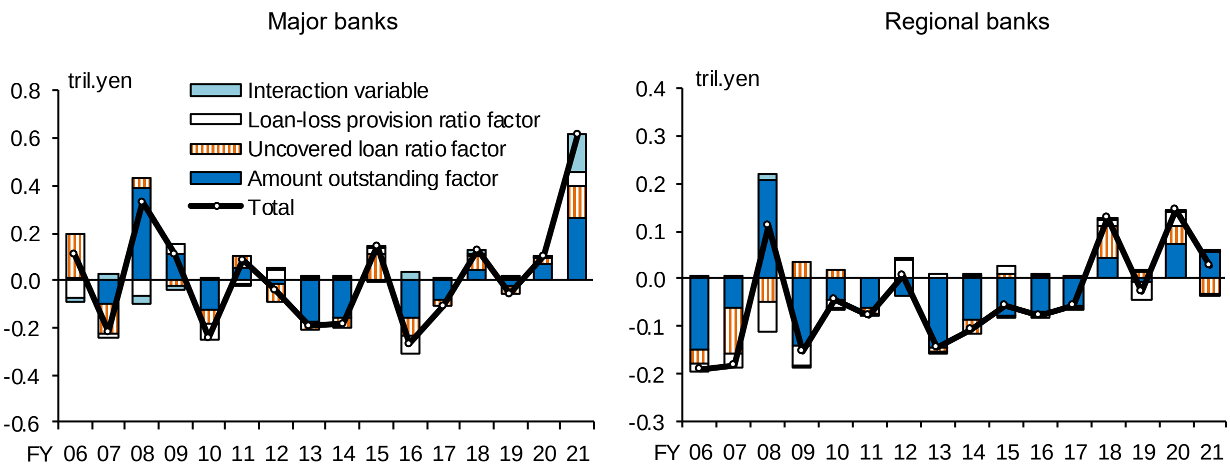
Looking at the outstanding amount of loan-loss provisions, while general provisions turned to a decline at major banks due mainly to a decrease in loan-loss provision ratios, they increased slightly at regional banks, reflecting a rise in loan-loss provision ratios, particularly for "need attention excluding special attention" loans. Meanwhile, special provisions rose at major banks due to loan-loss provisions for some large borrowers. Such provisions rose slightly at regional banks due to an increase in the outstanding loan amounts.

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



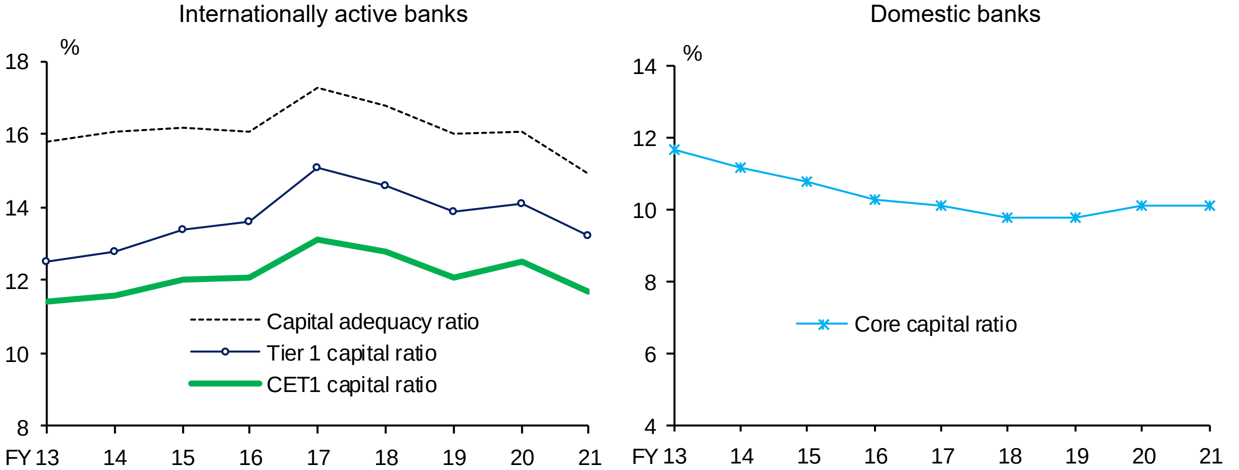
Note: Each factor represents the sum of the amount calculated by borrower classification.
Source: BOJ.

D. Capital Adequacy Ratios

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 because unrealized gains on available-for-sale securities holdings, which are included in CET1 capital, declined.

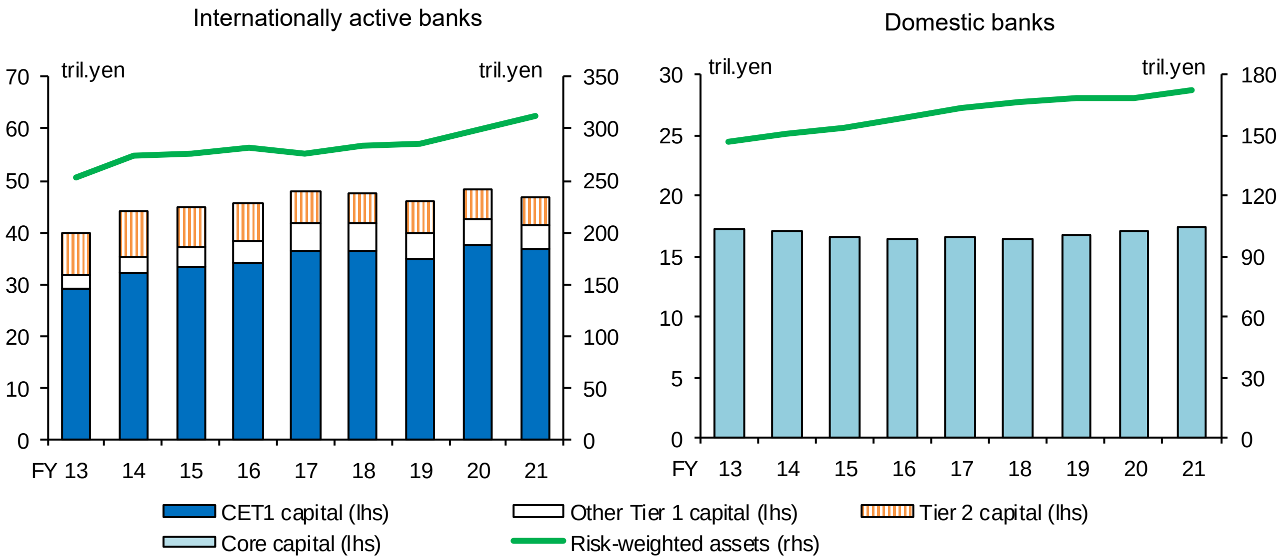
The capital adequacy ratio of domestic banks was more or less unchanged as risk-weighted assets increased while retained earnings were accumulated, remaining sufficiently above the regulatory requirements.

II-D-1: Capital adequacy ratios



Source: BOJ.

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



Note: 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).
Source: BOJ.

Box 1: Banks' profit projections for fiscal 2022

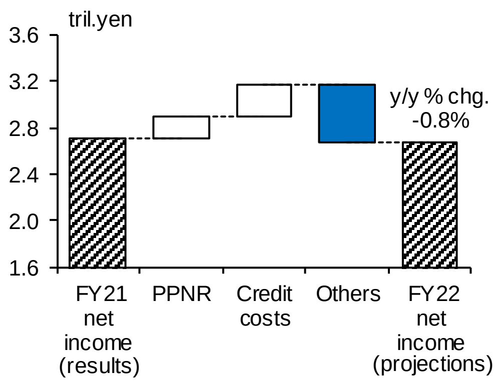
Net income for fiscal 2022 is projected to remain more or less at the same level as fiscal 2021 at major financial groups and increase at regional banks (on a non-consolidated basis).

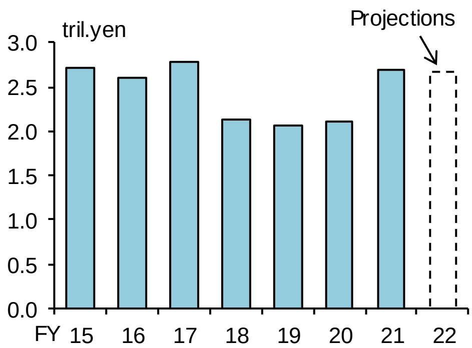
Looking at factors behind changes in the net income of major financial groups from the previous year, under the assumption that domestic and overseas economies will recover on the whole, it is projected that PPNR -- particularly interest and dividends on securities and net fees and commissions -- will remain firm and credit costs will decline. Meanwhile, other gains/losses, including those on stockholdings, are expected to deteriorate considering the recent market environment. Thus, overall net income is projected to remain more or less at the same level as fiscal 2021.

At regional banks as a whole, net income is projected to increase by slightly less than 5 percent from fiscal 2021.

With regard to developments in domestic and overseas economies on which the above profit projections are based, it should be noted that there is high uncertainty over factors including the course of COVID-19, the situation in Ukraine going forward, and developments in financial and foreign exchange markets considering such factors.

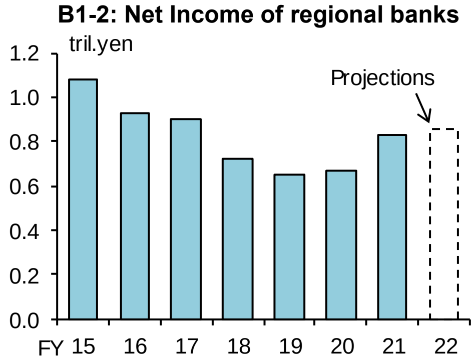
B1-1: Net Income of major financial groups





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

B1-2: Net Income of regional banks



Note: On a non-consolidated basis. Covers only banks that have announced their net income projections for fiscal 2022.

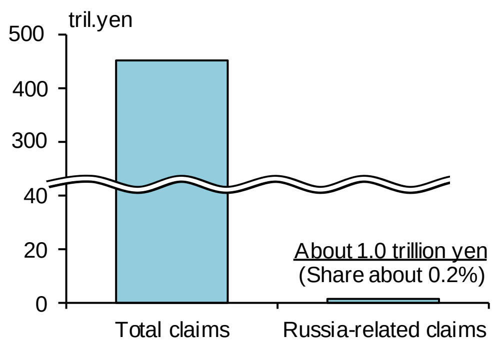
Sources: Published accounts of each bank; BOJ.

Box 2: Russia-related credit costs of the three major financial groups

The three major financial groups' outstanding amount of Russia-related claims is about 1 trillion yen, representing only around 0.2 percent of their total claims. In fiscal 2021, they recorded loan-loss provisions worth about 300 billion yen in total for these claims. Such provisions include those against country risk, i.e., allowance for specific foreign credits, as well as a large amount of precautionary loan-loss provisions.

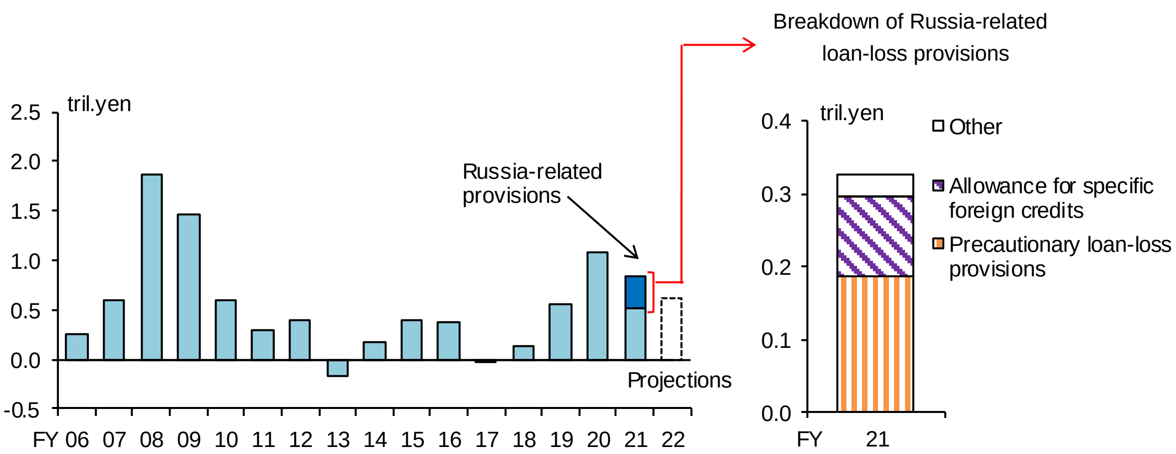
Due to these precautionary measures, overall credit costs for fiscal 2022 are projected to decline compared to fiscal 2021.

B2-1: Three major financial groups' outstanding amount of Russia-related claims (as of end-March 2022)



Note: The figures include estimates by the authorities. Some financial institutions' exposure to Russia includes leased aircraft, and impairment procedures were applied to part of these aircraft in fiscal 2021.
Sources: Published accounts of each financial group.

B2-2: Credit costs of the three major financial groups



Note: "Allowance for specific foreign credits" may be affected in part by factors that are not related to Russia.
Sources: Published accounts of each financial group.

III. Financial Results of Japan's *Shinkin* Banks for Fiscal 2021

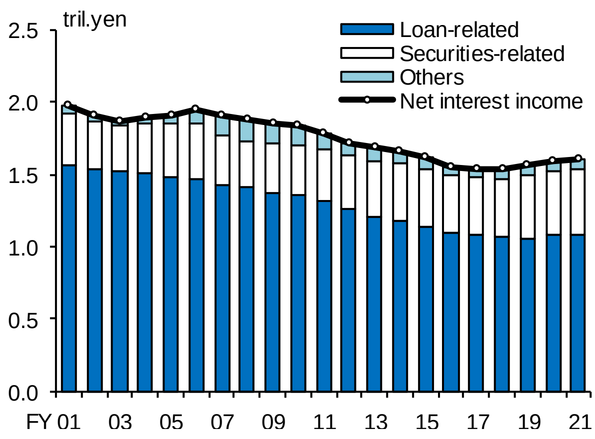
This chapter outlines *shinkin* banks' core profitability (net interest income, net non-interest income, and general and administrative expenses), realized and unrealized gains/losses on securities holdings, credit costs and non-performing loans, as well as capital adequacy ratios.[3]

A. Core Profitability

1. Net Interest Income

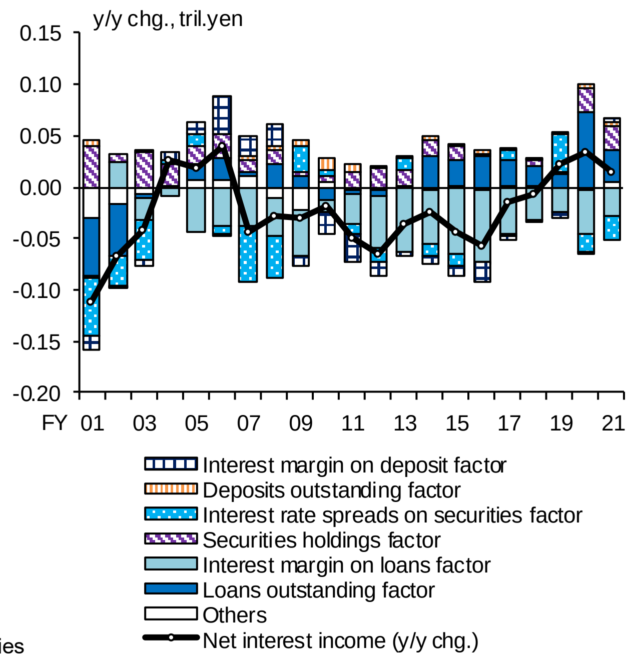
Net interest income increased by 0.9 percent from the previous year, mainly due to an increase in the outstanding amount of loans related to COVID-19, although interest rate spreads on loans continued to narrow. Moreover, various measures to pay interest on current account balances held at the Bank, including the Special Deposit Facility, also pushed up net interest income.

III-A-1: Net interest income



Notes: 1. "Others" 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.

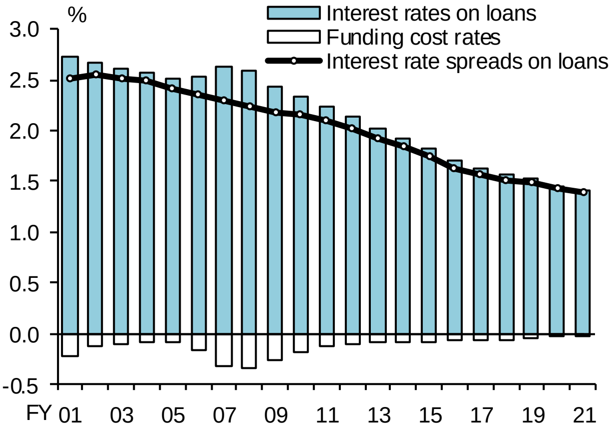
[3] Since many *shinkin* banks shifted their accounting policies from the tax inclusion method to the tax exclusion method in fiscal 2021, there is discontinuity in the data, particularly for net fees and commissions as well as general and administrative expenses.

2. Interest Rate Spreads on Loans and Loans Outstanding

(1) Interest Rate Spreads on Loans

Interest rate spreads on loans continued to narrow due to a decline in interest rates on loans. The distribution of interest rate spreads for individual *shinkin* banks also continued to shrink.

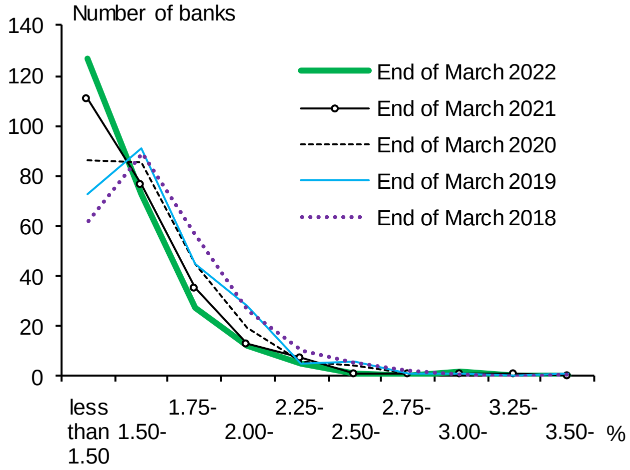
III-A-3: Interest rate spreads on loans



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

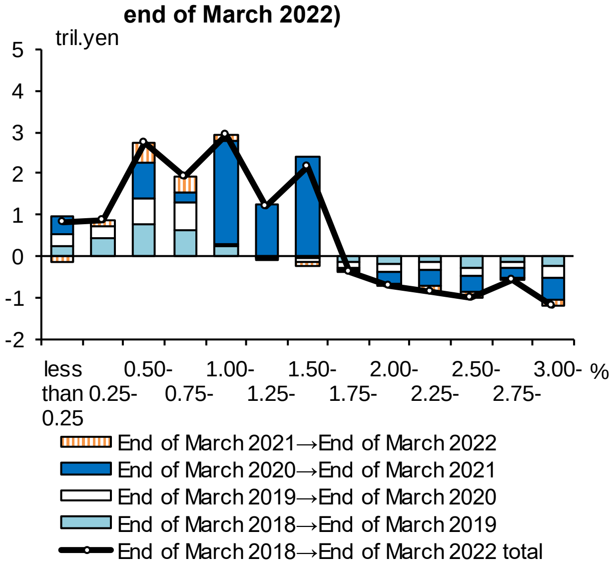


Source: BOJ.

(2) Loans Outstanding by Lending Rate

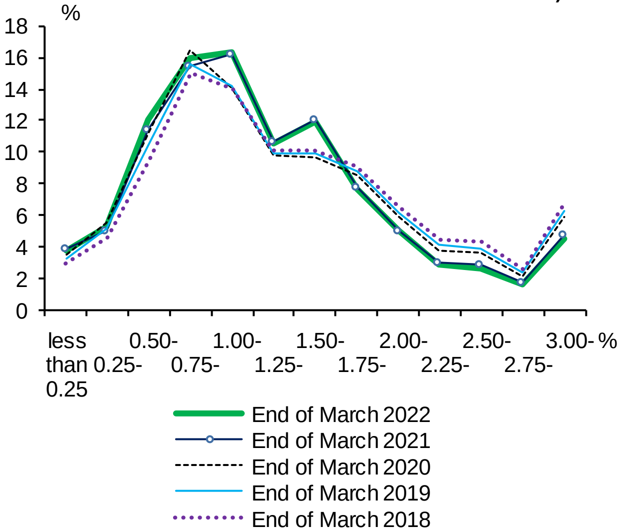
Looking at developments in loans outstanding by lending rate, those with low lending rates increased. As for the proportion of loans outstanding by lending rate, that of effectively interest-free and unsecured loans with low lending rates (reflecting interest subsidies from local governments) remained relatively high, as in the previous year.

III-A-5: Changes in loans outstanding by lending rate (from the end of March 2018 to the end of March 2022)



Source: BOJ.

III-A-6: Changes in proportion of loans outstanding by lending rate (from the end of March 2018 to the end of March 2022)

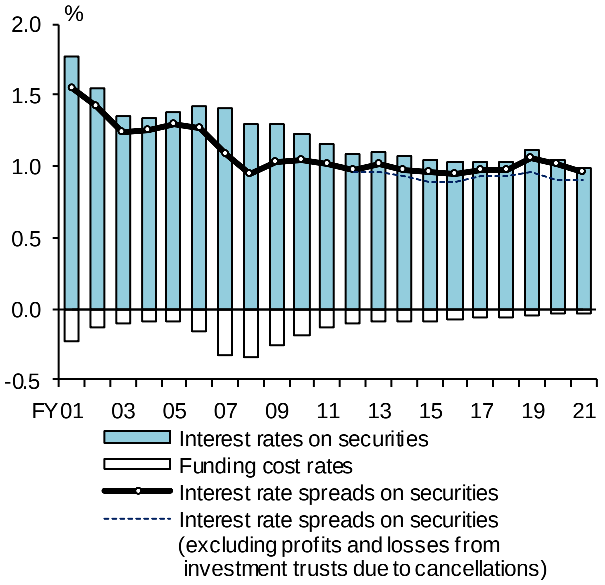


Source: BOJ.

3. Interest Rate Spreads on Securities

Interest rate spreads on securities narrowed, mainly due to a decline in profits from investment trusts due to cancellations.

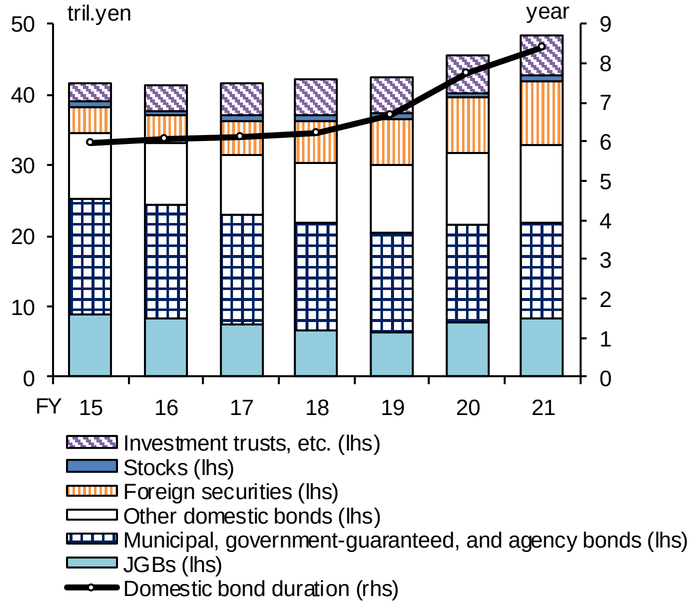
III-A-7: Interest rate spreads on securities



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)

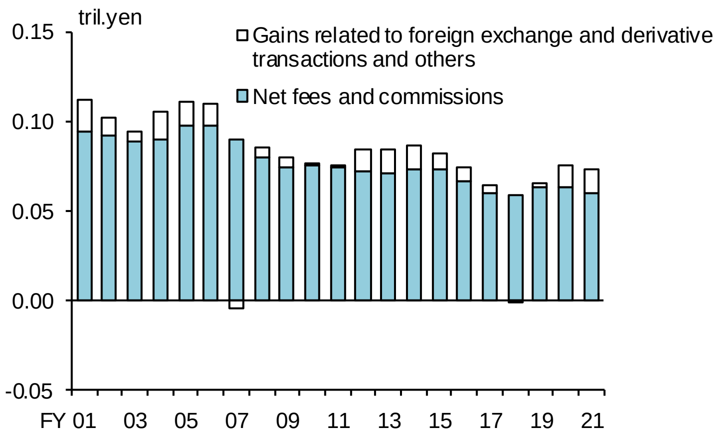


Source: BOJ.

4. Net Non-Interest Income

On the whole, net non-interest income decreased by 2.7 percent from the previous year, as fees and commissions received declined, reflecting the review of those related to domestic funds transfer.

III-A-9: Net non-interest income

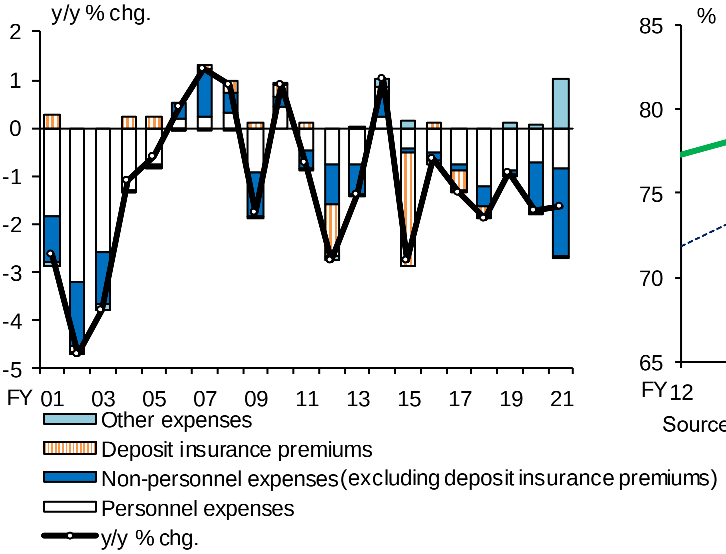


Source: BOJ.

5. General and Administrative Expenses

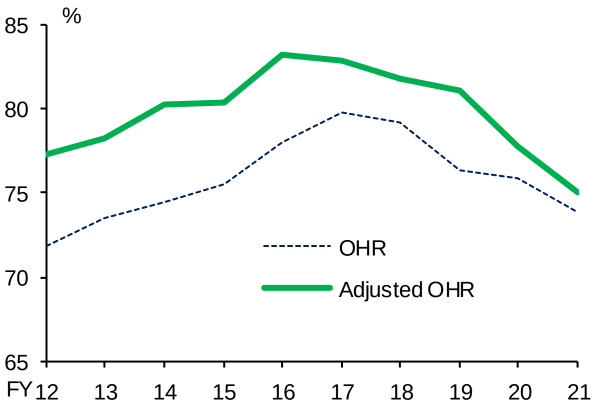
General and administrative expenses decreased by 1.6 percent from the previous year. The adjusted OHR (= overhead costs / core gross operating profits, excluding profits and losses from investment trusts due to cancellations) decreased as core gross operating profits increased and administrative expenses declined.

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



Source: BOJ.

III-A-11: OHRs



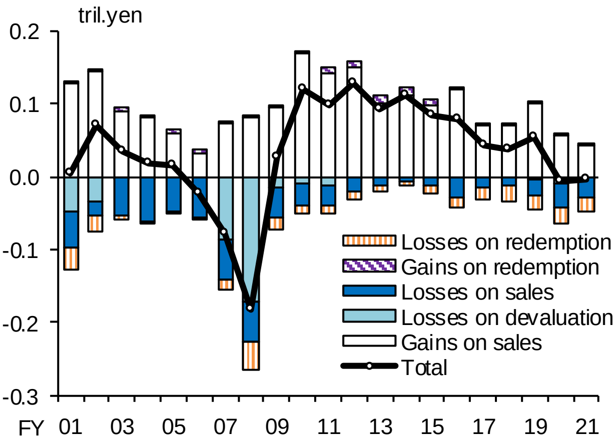
Source: BOJ.

B. Realized and Unrealized Gains/Losses on Securities Holdings

1. Realized Gains/Losses on Securities Holdings

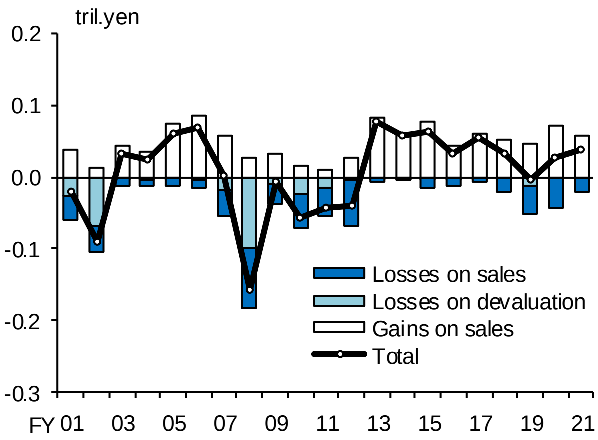
Realized gains/losses on bondholdings were slightly negative. Those on stockholdings remained positive.

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



Source: BOJ.

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

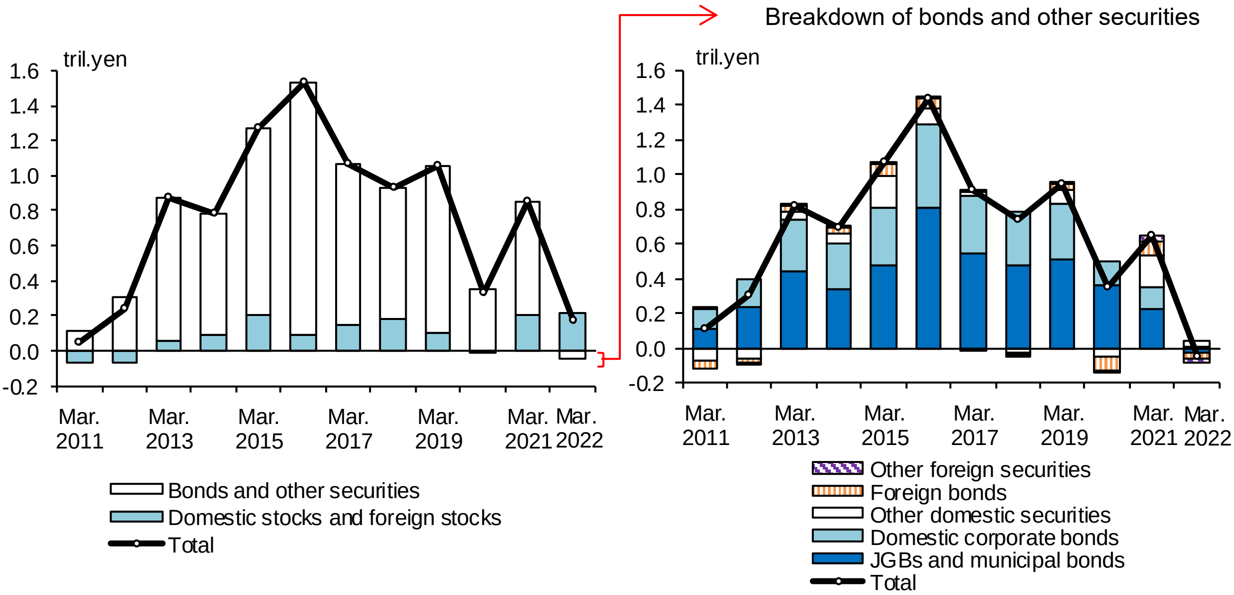


Source: BOJ.

2. Unrealized Gains/Losses on Securities Holdings

Unrealized gains on available-for-sale securities holdings as of the end of March 2022 decreased. Due to a rise in interest rates, unrealized gains/losses on domestic bonds, foreign bonds, and other domestic securities (including investment trusts) deteriorated.

III-B-3: Unrealized 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 at month-end.

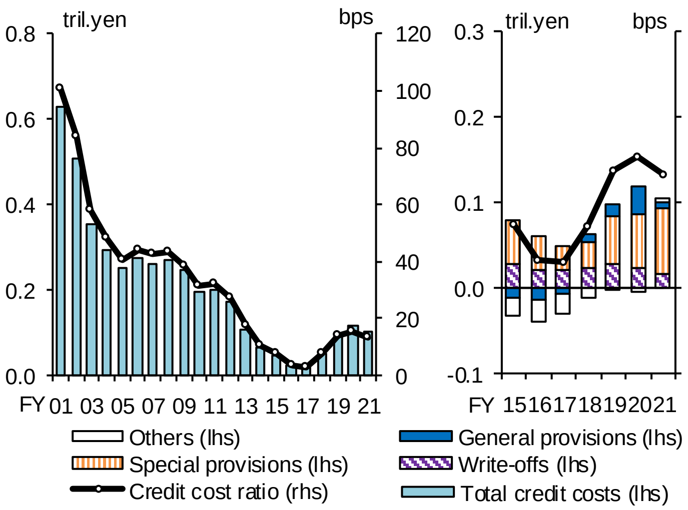
Source: BOJ.

C. Credit Costs and Non-Performing Loans

1. Credit Costs

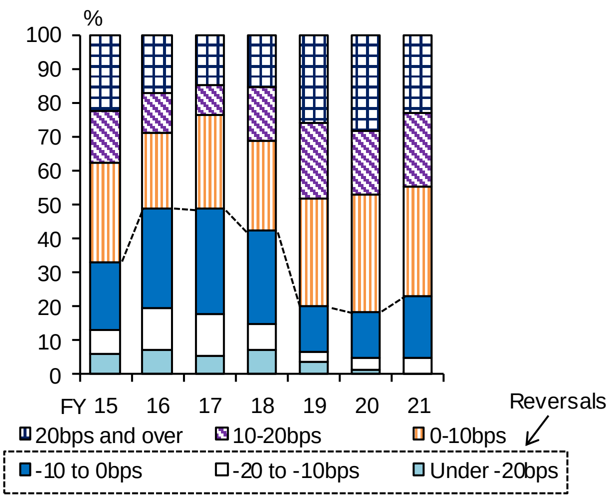
Credit costs decreased partly because precautionary loan-loss provisions had been recorded by fiscal 2020. As a result, the credit cost ratio was 13 basis points (a decrease of 2 basis points from the previous year).

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



Source: BOJ.

III-C-2: Distribution of credit cost ratios



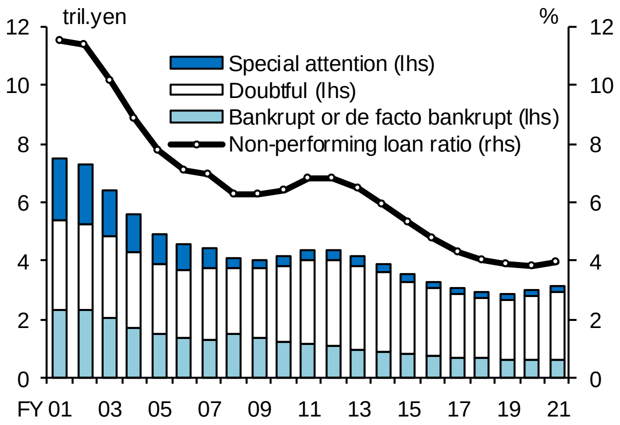
Note: Proportion of number of banks by credit cost ratio.

Source: BOJ.

2. Non-Performing Loans

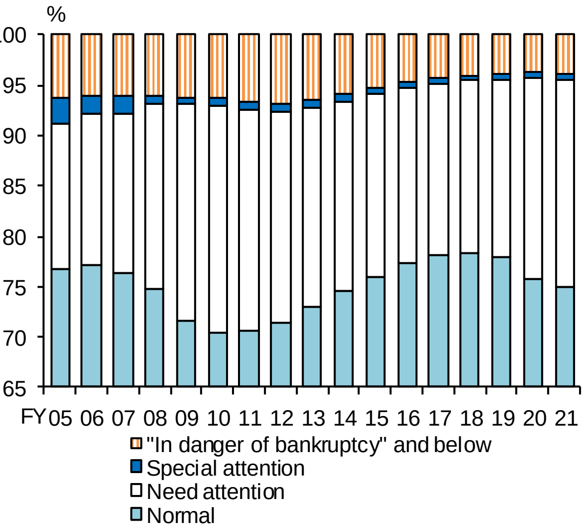
The NPL ratio remained at a low level despite rising slightly. The pace of increase in the proportion of outstanding for "need attention excluding special attention" loans decelerated, and the proportion of outstanding for "normal" loans remained large.

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."

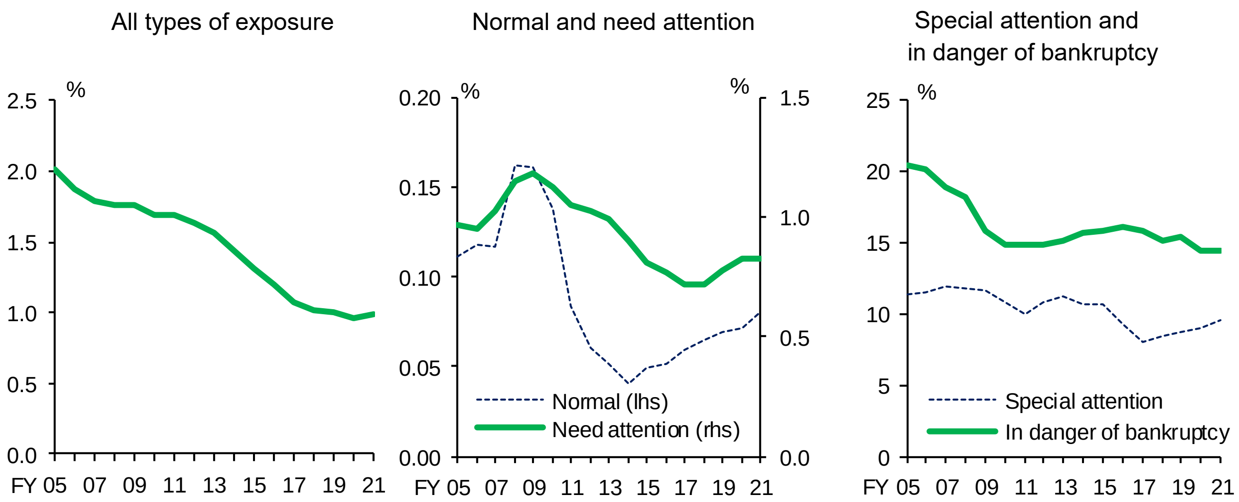
Source: BOJ.

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



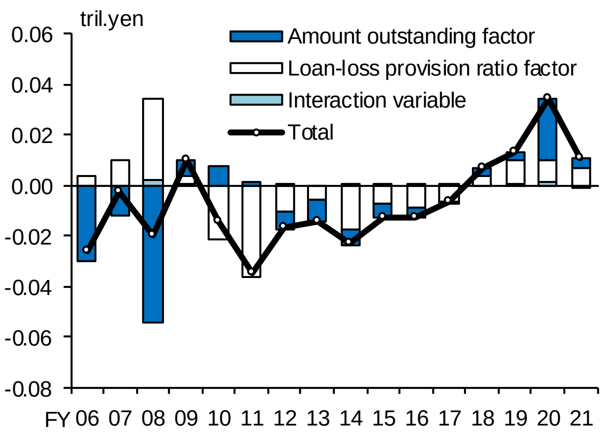
Notes: 1. The data include loans to which the discounted cash flow method is applied.
2. The loan-loss provision ratio is calculated by dividing loan-loss provisions by the total amount of claims (not the uncovered amount of claims).
3. "Need attention" indicates "Need attention excluding special attention."

Source: BOJ.

(2) Outstanding Amount of Loan-Loss Provisions

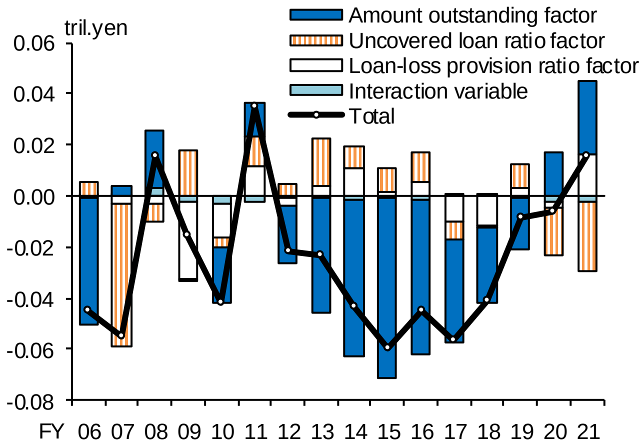
As for the outstanding amount of loan-loss provisions, general provisions increased slightly, mainly due to the rise in loan-loss provision ratios. Special provisions rose as the outstanding amount of relevant loans increased.

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

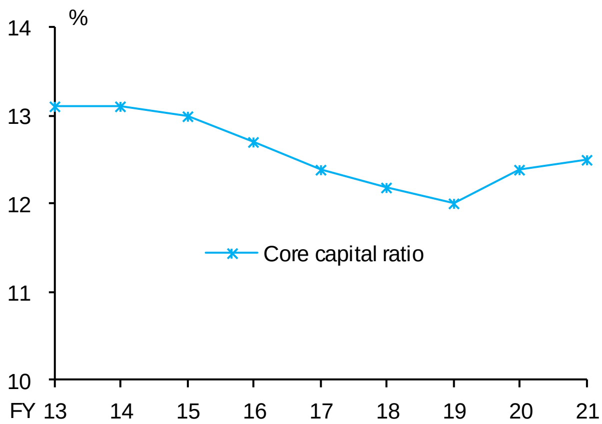


Note: Each factor represents the sum of the amount calculated by borrower classification.
Source: BOJ.

D. Capital Adequacy Ratios

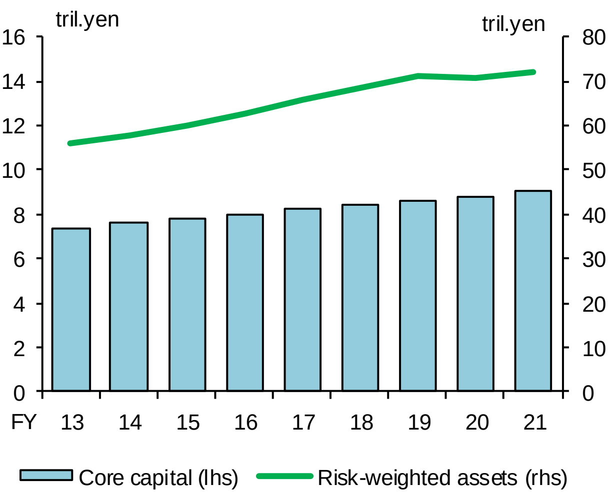
The capital adequacy ratio was more or less unchanged as risk-weighted assets increased while retained earnings were accumulated, remaining sufficiently above the regulatory requirements.

III-D-1: Capital adequacy ratios



Source: BOJ.

III-D-2: Capital components 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.