BOJ Reports & Research Papers

Financial System Report Annex Series

Financial System Report – Annex

Financial Results of Japan's Banks for Fiscal 2023

FINANCIAL SYSTEM AND BANK EXAMINATION DEPARTMENT
BANK OF JAPAN

SEPTEMBER 2024

The total of major banks, regional banks, and *shinkin* banks covered in this *Report* is as follows (as of end-March 2024).

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 2023 to provide an annual analysis.

Abstract

The three main features of the financial results of Japan's banks for fiscal 2023 are as follows:

First, net income increased for major financial groups, regional banks, and *shinkin* banks. For all types of banks, net income was pushed up by an improvement in realized gains/losses on securities holdings as pre-provision net revenue (PPNR) excluding trading income and profits/losses from investment trusts due to cancellations, which indicates core profitability, increased.

Second, PPNR excluding trading income and profits/losses from investment trusts due to cancellations increased for all types of banks. It was mainly pushed up by an increase in net non-interest income at major banks, and an increase in net interest income at regional banks and *shinkin* banks.

Third, the capital adequacy ratios remained sufficiently above the regulatory requirements for all types of banks, as the ratios were more or less unchanged for domestic banks and increased for internationally active banks, for which valuation gains/losses on securities holdings are included in capital.

Contents

I. Outline of Financial Results of Japan's Banks for Fiscal 2023[1]

A. Profits and Losses

At major financial groups, net income for fiscal 2023 was about 3.4 trillion yen, increasing by 17.3 percent from the previous year. Net interest income decreased owing to a decline in profits from investment trusts due to cancellations, and general and administrative expenses increased against a background of rising personnel and non-personnel expenses. However, net income increased overall due to an increase in net non-interest income which was boosted primarily by fees and commissions associated with deposits and lending in the international business sector, as well as an improvement in realized gains/losses on bondholdings. Meanwhile, credit costs were at around the same level as fiscal 2022. Although loan-loss provisions were made for some large borrowers, the impact of accounting practices associated with the share transfer of a group company of a financial group recorded in the previous year dissipated.

At major banks (on a non-consolidated basis), net income for fiscal 2023 was about 2.2 trillion yen, a decrease of 12.3 percent from the previous year, mainly due to the dissipation of the effects of gains on sales of stocks of a subsidiary of a bank recorded in 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)		
	FY2023	y/y chg.	y/y % chg.	FY2023	y/y chg.	y/y % chg.
Net interest income	57,256	-5,783	-9.2	40,346	-4,539	-10.1
Net non-interest income	77,628	+12,334	+18.9	37,751	+7,031	+22.9
General and administrative expenses	-79,481	-5,595	+7.6	-41,409	-3,904	+10.4
PPNR excluding trading income	61,912	+2,327	+3.9	36,688	-1,411	-3.7
(excluding profits and losses from investment trusts due to cancellations)	(60,398)	(+7,149)	(+13.4)	(35,174)	(+3,410)	(+10.7)
Realized gains/losses on bondholdings	-5,710	+6,703	——	-5,682	+6,264	——
Realized gains/losses on stockholdings	5,283	-694	——	5,161	-498	——
Credit costs	-10,106	+140	——	-5,326	-2,637	——
(Credit cost ratio)	——	——	——	(14bps)	(+7bps)	——
Other profit and loss items	-4,597	-1,723	——	-1,185	-5,082	——
Net income before income taxes	46,782	+6,753	+16.9	29,654	-3,365	-10.2
Tax-related expenses	-12,097	-1,868	+18.3	-7,456	+263	-3.4
Net income	33,788	+4,981	+17.3	22,199	-3,102	-12.3

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 2023 was about 0.9 trillion yen, a 9.3 percent increase from the previous year. Net income was pushed up by factors such as an increase in net interest income due to a rise in loans outstanding, a decrease in realized losses on bondholdings, and a rise in realized gains on stockholdings.

At *shinkin* banks, net income for fiscal 2023 was about 0.3 trillion yen, an increase of 20.2 percent from the previous year. Net income was pushed up by an increase in net interest income due to a rise in loans outstanding and an improvement in realized gains/losses on stockholdings, although increases in general and administrative expenses and credit costs, as well as a decline in net non-interest income exerted downward pressure.

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

100 mil.yen,%

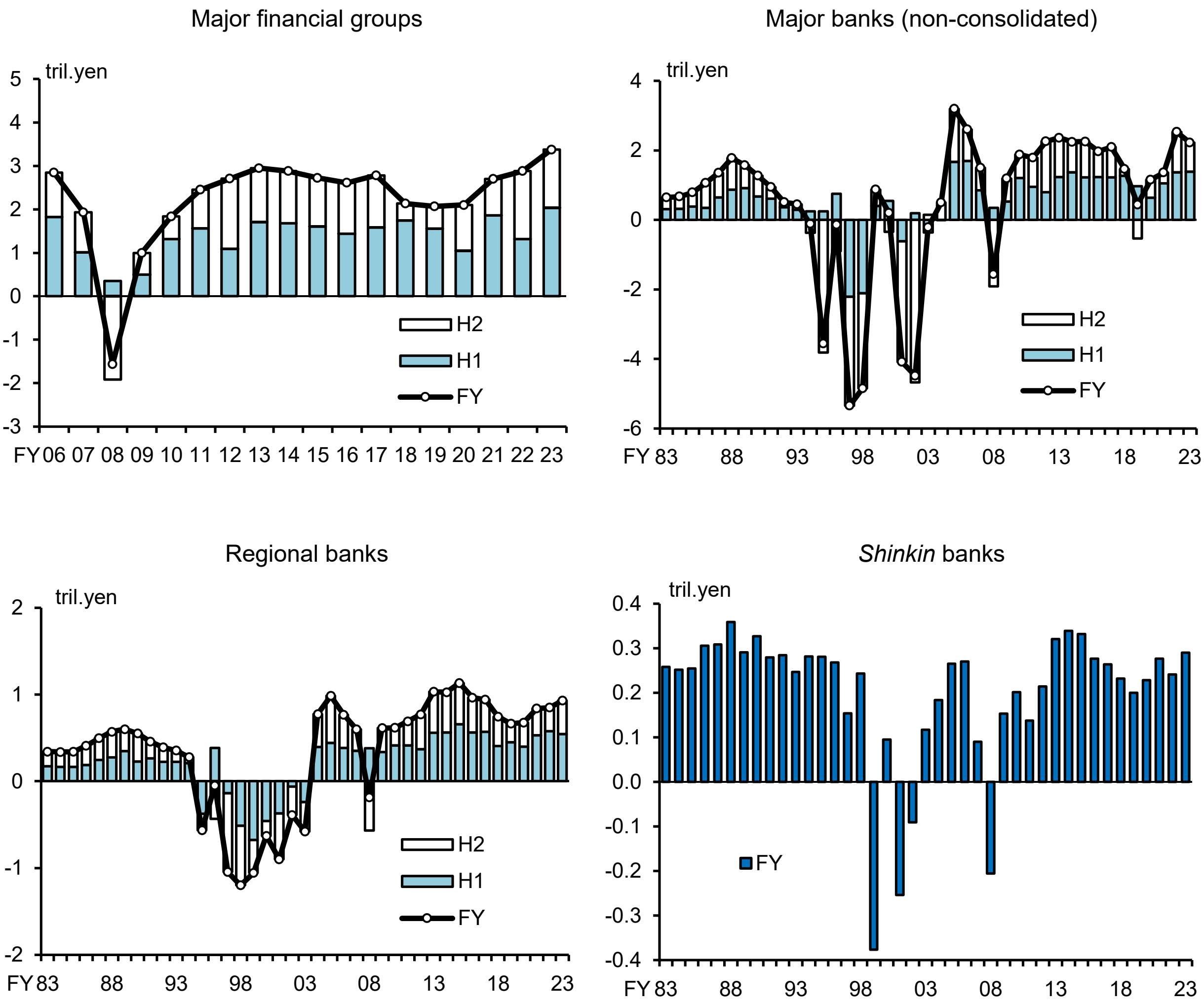
	Regional banks (non-consolidated)			*Shinkin* banks		
	FY2023	y/y chg.	y/y % chg.	FY2023	y/y chg.	y/y % chg.
Net interest income	38,001	+968	+2.6	16,589	+385	+2.4
Net non-interest income	5,849	-793	-11.9	497	-86	-14.8
General and administrative expenses	-27,850	-596	+2.2	-12,289	-122	+1.0
PPNR excluding trading income	16,000	-422	-2.6	4,796	+176	+3.8
(excluding profits and losses from investment trusts due to cancellations)	(15,575)	(+79)	(+0.5)	(4,663)	(+185)	(+4.1)
Realized gains/losses on bondholdings	-4,686	+1,737	——	-1,295	-23	——
Realized gains/losses on stockholdings	4,111	+964	——	955	+433	——
Credit costs	-1,988	-488	——	-526	-59	——
(Credit cost ratio)	(6bps)	(+1bps)	——	(7bps)	(+1bps)	——
Other profit and loss items	-502	-501	——	-66	+34	——
Net income before income taxes	12,934	+1,291	+11.1	3,865	+563	+17.0
Tax-related expenses	-3,629	-503	+16.1	-964	-75	+8.4
Net income	9,304	+788	+9.3	2,901	+488	+20.2

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 2023 for major financial groups and regional banks increased for the fourth consecutive year and that for *shinkin* banks increased for the first time in two years. Meanwhile, net income for major banks (on a non-consolidated basis) decreased for the first time in four years.

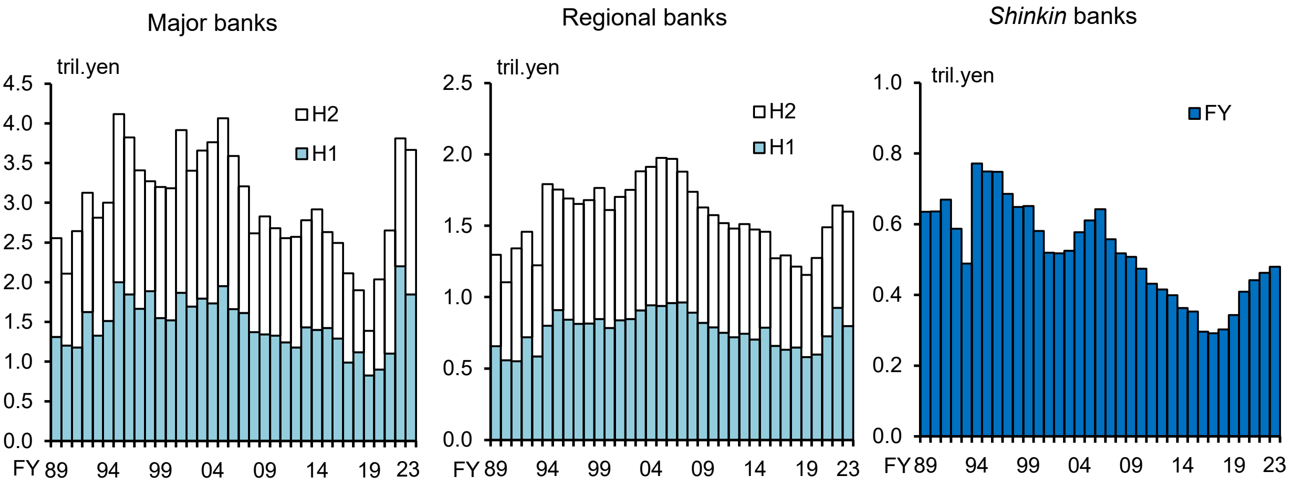
I-B-1: Net income



Source: BOJ.

With regard to core profitability, PPNR excluding trading income for fiscal 2023 for major banks and regional banks declined by 3.7 percent and 2.6 percent, respectively, from the previous year. At *shinkin* banks, such profits increased by 3.8 percent from the previous year. Looking at PPNR excluding trading income and profits/losses from investment trusts due to cancellations to remove temporary fluctuations, such profits increased for all types of banks.

I-B-2: PPNR excluding trading income



Source: BOJ.

C. Balance Sheets

Looking at developments in balance sheets for fiscal 2023 at major banks, total assets rose by 50.7 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

tril.yen

	End-Mar. 2024	y/y chg.	Change from end-Sep. 2023		End-Mar. 2024	y/y chg.	Change from end-Sep. 2023
Loans and bills discounted	380.4	+22.0	+10.5	Deposits and NCD	682.3	+31.2	+18.1
Domestic business sector	250.5	+11.4	+10.1	Domestic business sector	523.1	+12.7	+14.7
International business sector	130.0	+10.6	+0.4	International business sector	159.3	+18.5	+3.3
Securities	179.9	+6.6	-6.1	Loans from BOJ	45.7	+2.6	+3.1
JGBs	61.6	-6.9	-10.1	Due to trust accounts	11.6	-3.7	-4.5
Stocks	16.3	+2.4	+0.9	Other liabilities	220.3	+18.6	-6.5
Foreign securities	76.6	+12.5	+3.6	Total liabilities	959.9	+48.7	+10.2
Cash and due from banks	292.4	+7.8	+16.7	Total net assets	32.8	+2.0	+1.7
Other assets	140.1	+14.4	-9.1	Retained earnings	14.0	+0.4	-0.2
Total assets	992.8	+50.7	+11.9	Net valuation gains/losses on securities	5.3	+2.2	+2.2

Source: BOJ.

At regional banks, total assets rose by 14.7 trillion yen since loans and bills discounted and securities increased. On the liability side, deposits and NCD in particular increased.

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

tril.yen

	End-Mar. 2024	y/y chg.	Change from end-Sep. 2023		End-Mar. 2024	y/y chg.	Change from end-Sep. 2023
Loans and bills discounted	313.9	+10.0	+5.0	Deposits and NCD	411.4	+7.9	+4.9
Securities	92.9	+7.7	+4.2	Current deposits	264.1	+10.9	+8.1
JGBs	17.8	+2.5	+2.5	Other liabilities	69.2	+4.7	+0.4
Cash and due from banks	84.1	-2.3	+0.0	Total liabilities	480.6	+12.6	+5.3
Other assets	14.2	-0.7	-2.3	Total net assets	24.5	+2.1	+1.6
Total assets	505.0	+14.7	+7.0	Net valuation gains/losses on securities	3.1	+1.5	+1.7

Source: BOJ.

With regard to *shinkin* banks, total assets increased by 1.0 trillion yen, reflecting rises in loans and bills discounted as well as cash and due from banks (such as current deposits held at the Bank). On the liability side, deposits and NCD in particular increased.

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

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	End-Mar. 2024	y/y chg.		End-Mar. 2024	y/y chg.
Loans and bills discounted	80.3	+0.7	Deposits and NCD	160.6	+0.9
Securities	46.0	-0.2	Current deposits	79.0	+3.1
JGBs	7.4	-0.3	Other liabilities	5.7	-0.4
Cash and due from banks	45.0	+0.3	Total liabilities	166.3	+0.5
Other assets	4.0	+0.2	Total net assets	9.0	+0.5
Total assets	175.2	+1.0	Net valuation gains/losses on securities	-0.6	+0.3

Source: BOJ.

II. Financial Results of Japan's Major Banks and Regional Banks for Fiscal 2023

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.

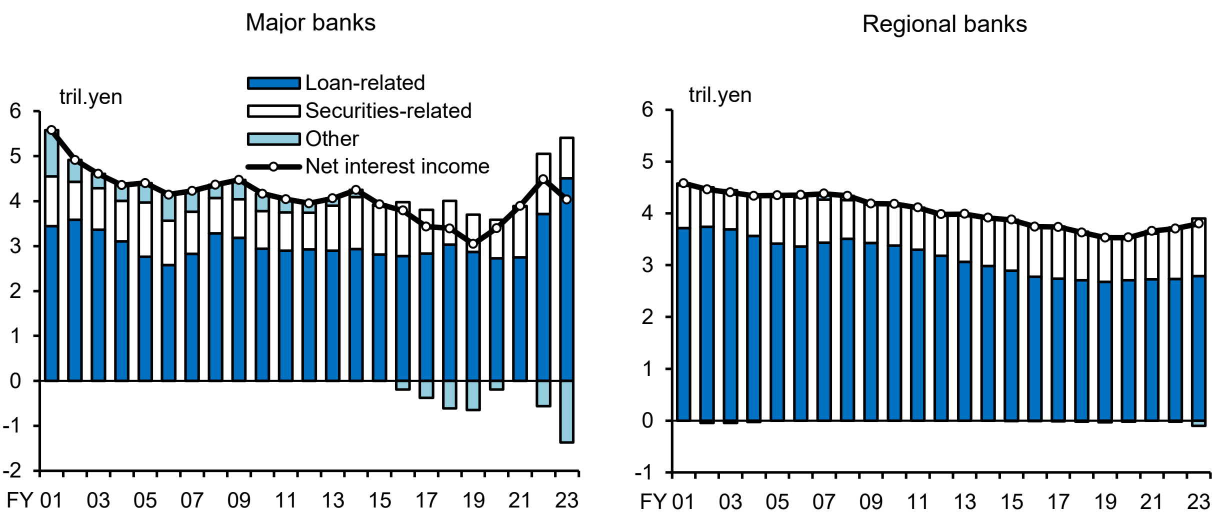
A. Core Profitability

1. Net Interest Income

At major banks, net interest income for fiscal 2023 decreased by 10.1 percent from the previous year. Although loan-related income increased due to a rise in foreign interest rates, net interest income was pushed down by a decrease in securities-related income reflecting rising foreign currency funding costs and by a decline in profits from investment trusts due to cancellations that were recorded at some banks in the previous year.

At regional banks, net interest income for fiscal 2023 increased by 2.6 percent from the previous year. Loan-related income increased due to a rise in the outstanding amount of loans, reflecting increased demand driven by higher raw material input costs and the pick-up in economic activity. Meanwhile, securities-related income also 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.

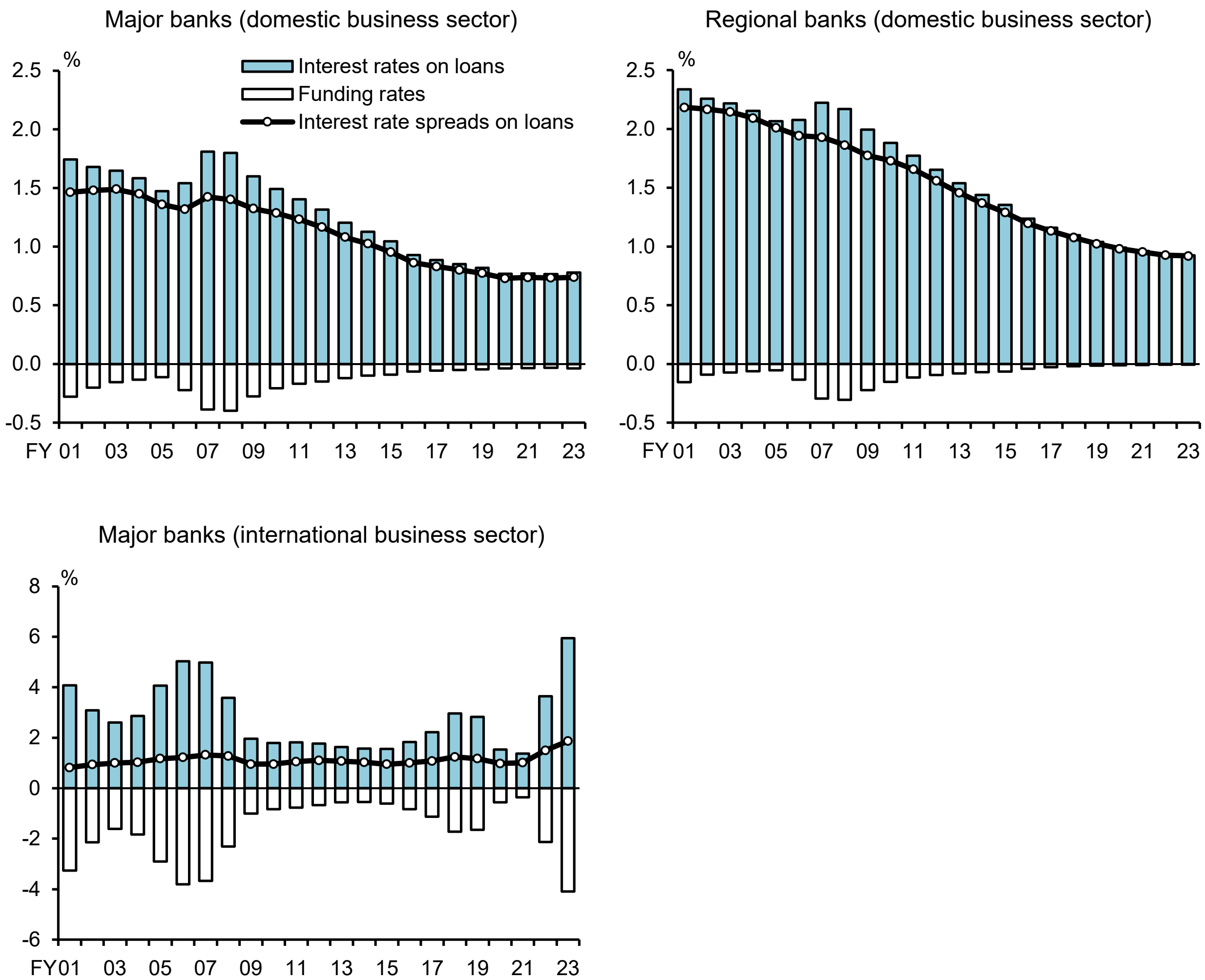
2. Interest Rate Spreads on Loans and Loans Outstanding

(1) Interest Rate Spreads on Loans

Interest rate spreads on loans in the domestic business sector were almost unchanged at major banks and regional banks as both interest rates on loans and funding rates were flat.

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 rates.

II-A-2: Interest rate spreads on loans

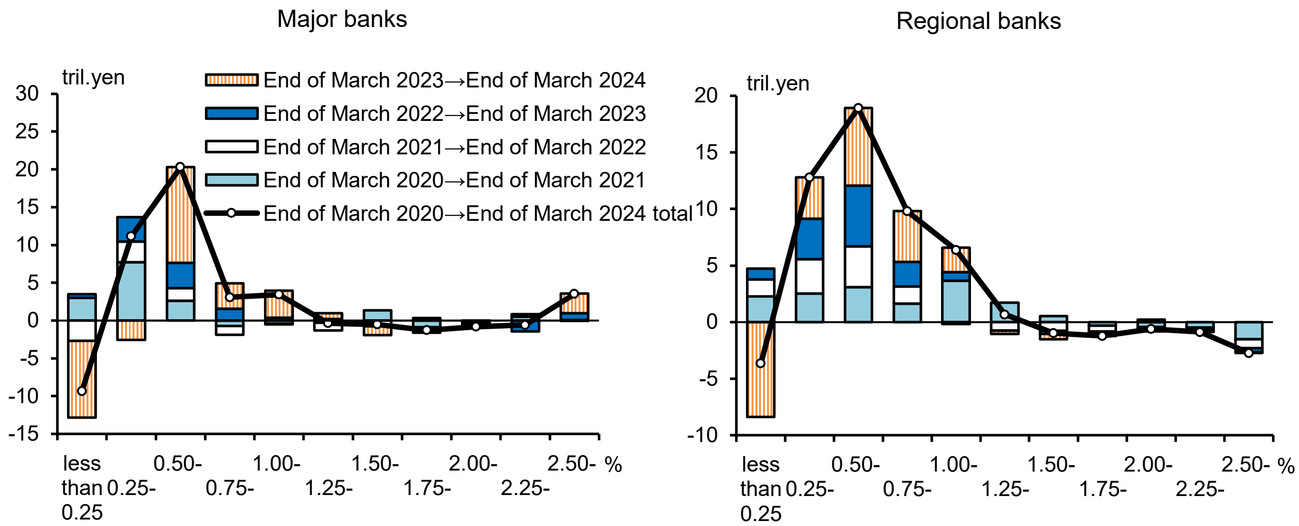


Note: In calculating the interest rate spreads, interest expenses on interest rate swaps are deducted from funding costs.
Source: BOJ.

(2) Loans Outstanding by Lending Rate

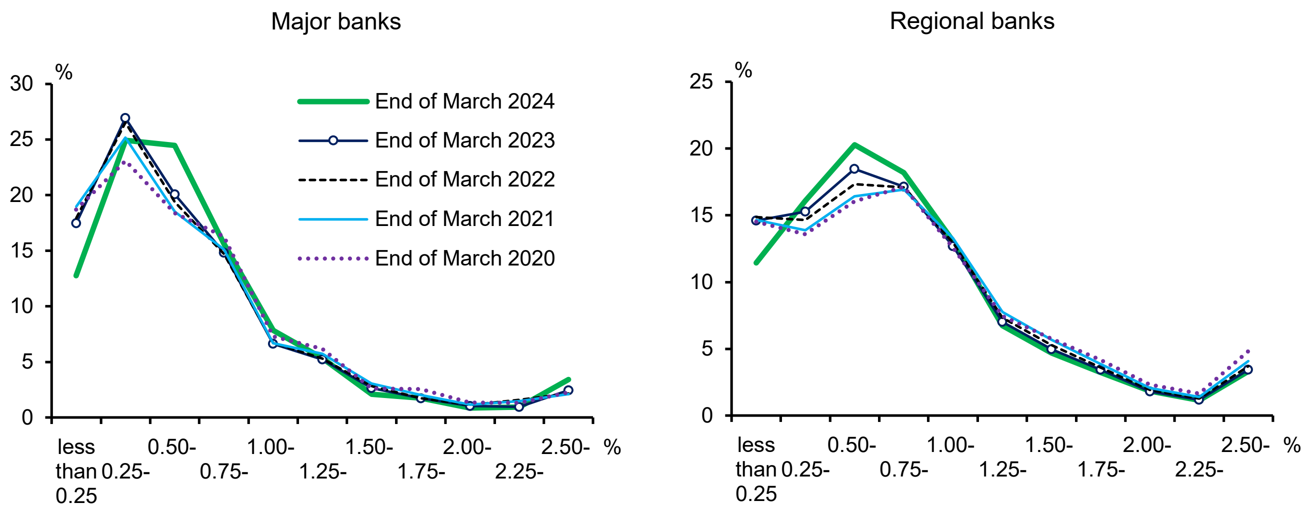
Looking at developments in loans outstanding by lending rate (yen loans outstanding in the domestic business sector) at both major banks and regional banks, those with lending rates of less than 0.25 percent decreased while those with lending rates of around 0.5-1.0 percent increased. Meanwhile, at major banks, the outstanding amount of some loans with high lending rates increased 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 2020 to the end of March 2024)



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 2020 to the end of March 2024)



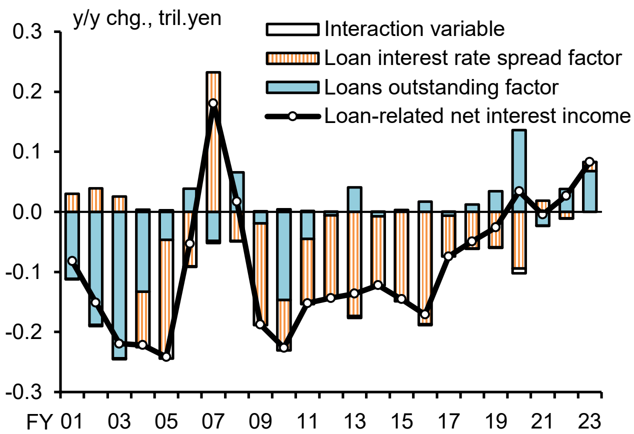
Note: The data are for yen loans outstanding in the domestic business sector (excluding loans to the financial sector) based on the amount outstanding at month-end.
Source: BOJ.

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

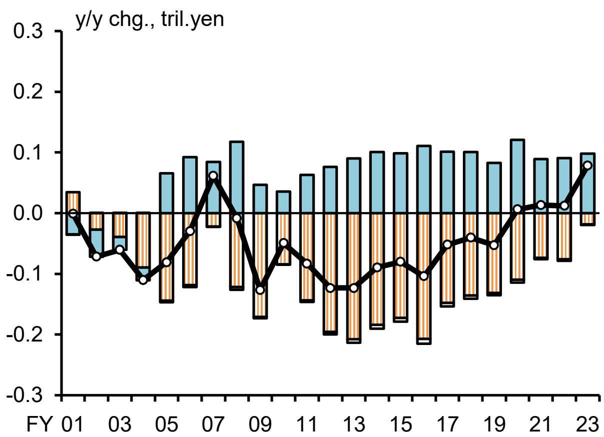
Looking at the changes in net interest income from domestic lending activities by loan interest rate spread and loans outstanding factor, at major banks, loan-related net interest income was pushed up by an increase in loans outstanding against a background of increased demand for working capital amid the recovery in economic activity, demand for real estate-related loans, and loan demand mainly associated with merger and acquisition (M&A) deals. At regional banks, such income was pushed up by an increase in loans outstanding, as interest rate spreads were more or less unchanged.

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

Major banks



Regional banks

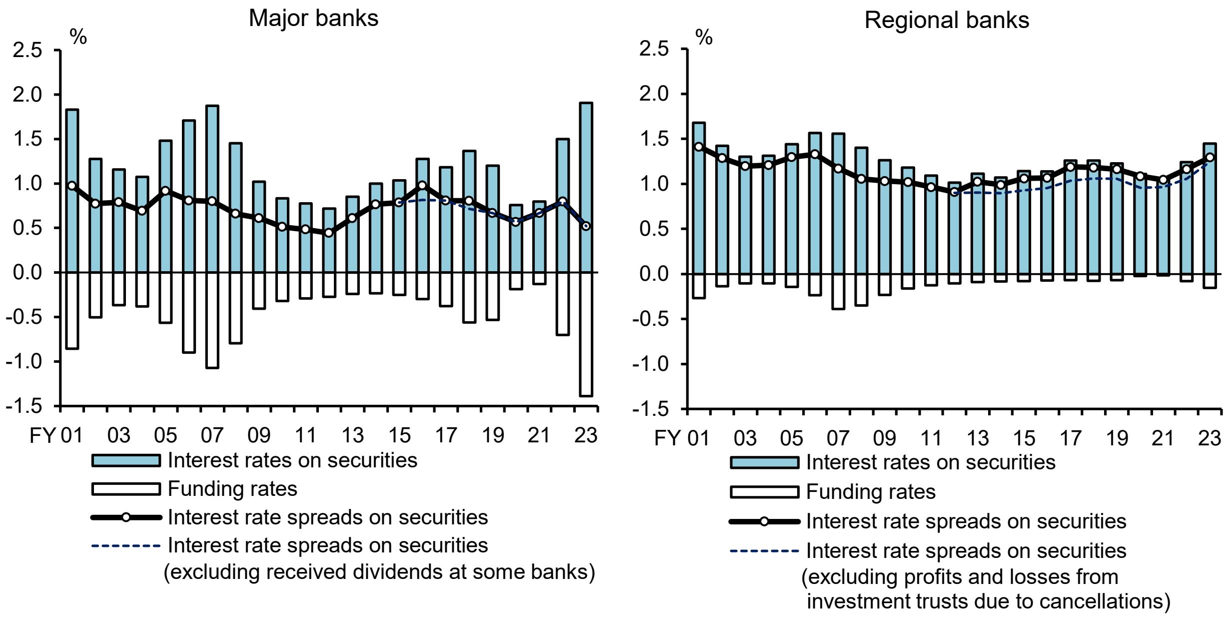


Notes: 1. In calculating the interest rate spreads, interest expenses on interest rate swaps are deducted from funding costs.
2. Loan-related net interest income = (average amount of loans outstanding) * (interest rate spreads on loans).
Source: BOJ.

3. Interest Rate Spreads on Securities

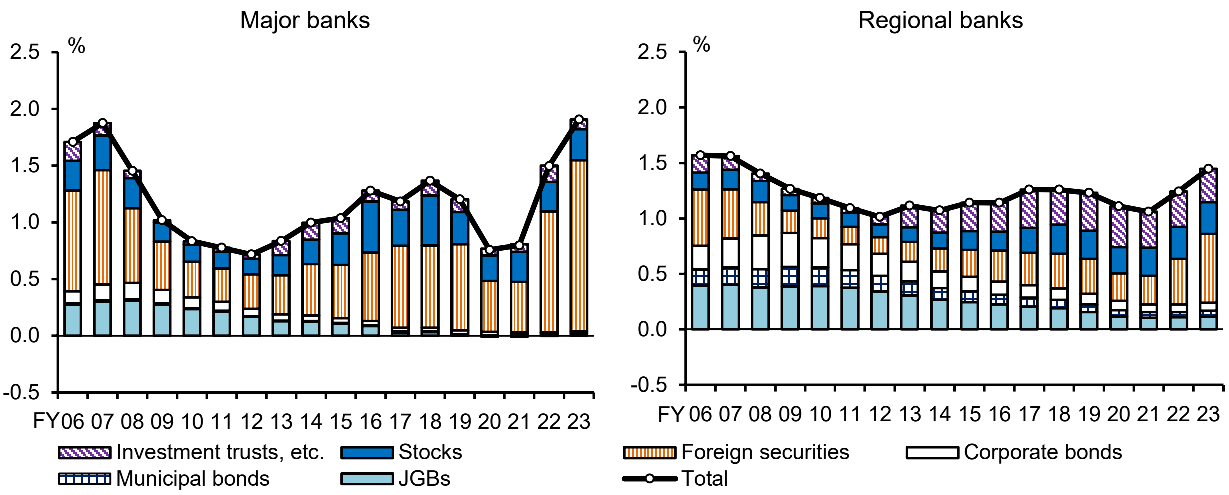
Interest rate spreads on securities narrowed at major banks. Although interest rates on securities rose, mainly reflecting sales of low-yielding foreign securities with valuation losses and reinvestment amid the rise in foreign interest rates, this was more than offset by a rise in foreign currency funding rates. At regional banks, such spreads on securities widened. This was because the downward pressure from a rise in foreign currency funding rates was outweighed by a rise in interest rates on securities due to reinvestment in foreign securities.

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.

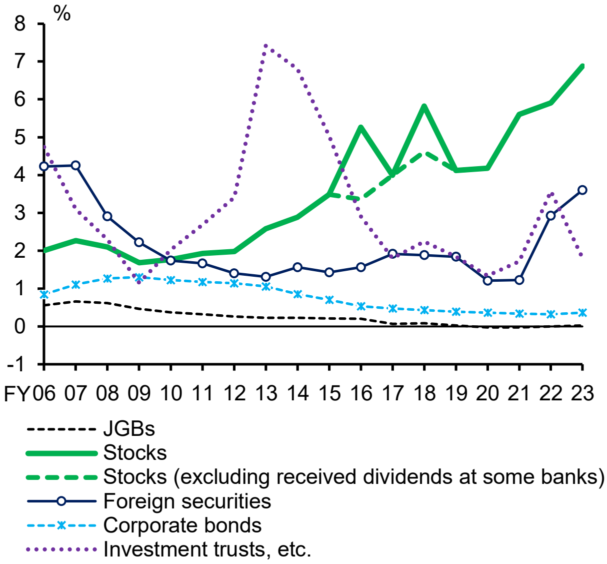
II-A-7: Decomposition of interest rate spreads on securities by product type

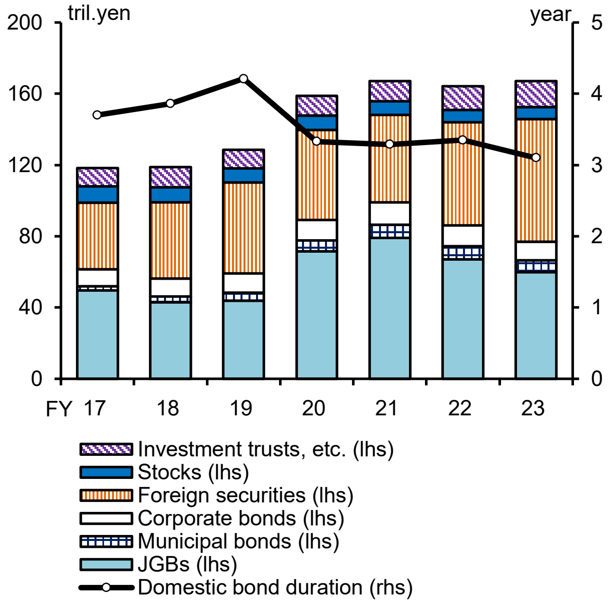


Note: For major banks, the rises in interest rate spreads on stocks in fiscal 2016 and 2018 reflect dividends received from subsidiaries at some banks.
Source: BOJ.

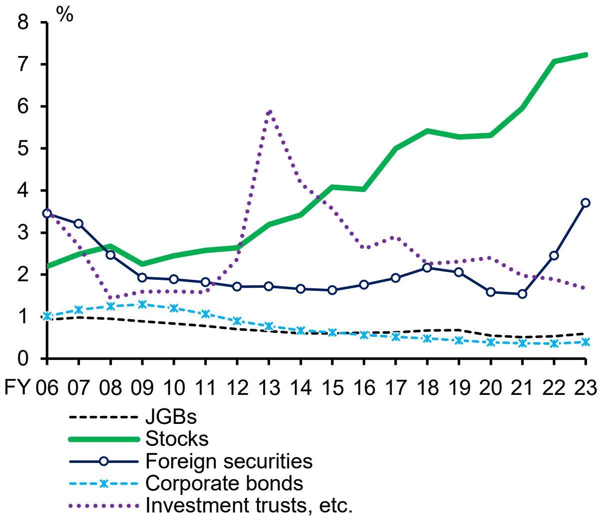
II-A-8: Interest rates on securities holdings and amounts outstanding by product type (at fiscal year-end)

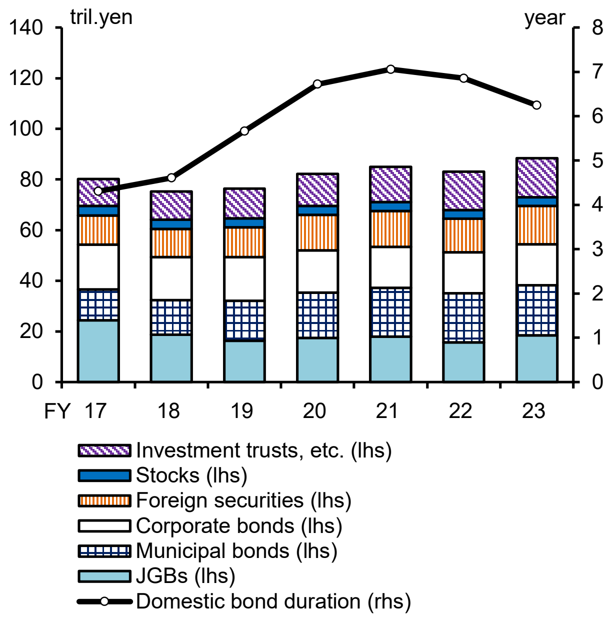
Major banks





Regional banks



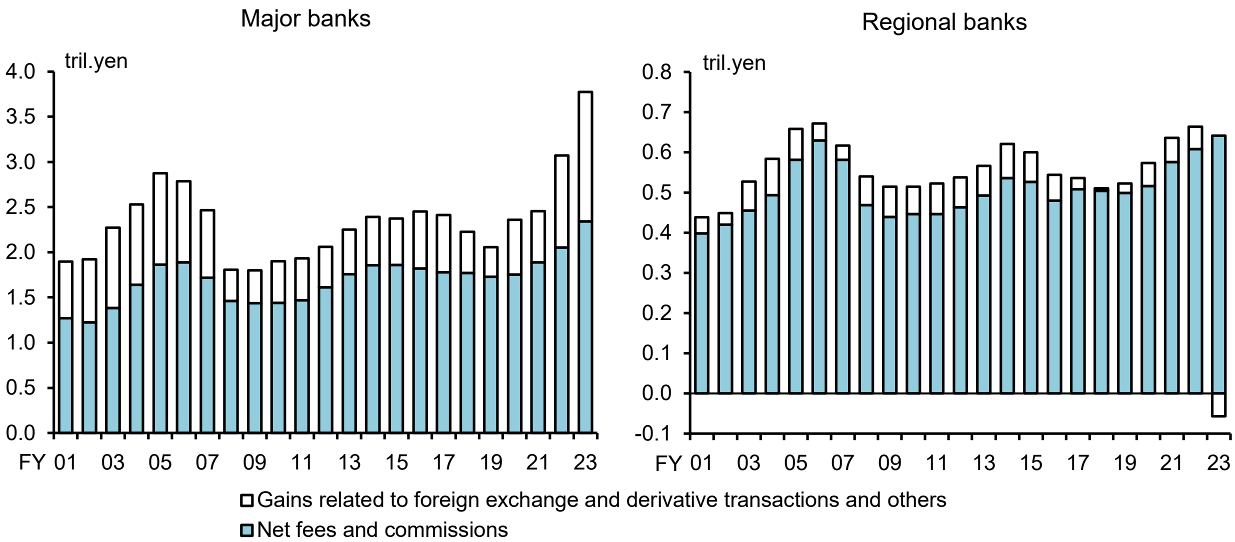


Source: BOJ.

4. Net Non-Interest Income

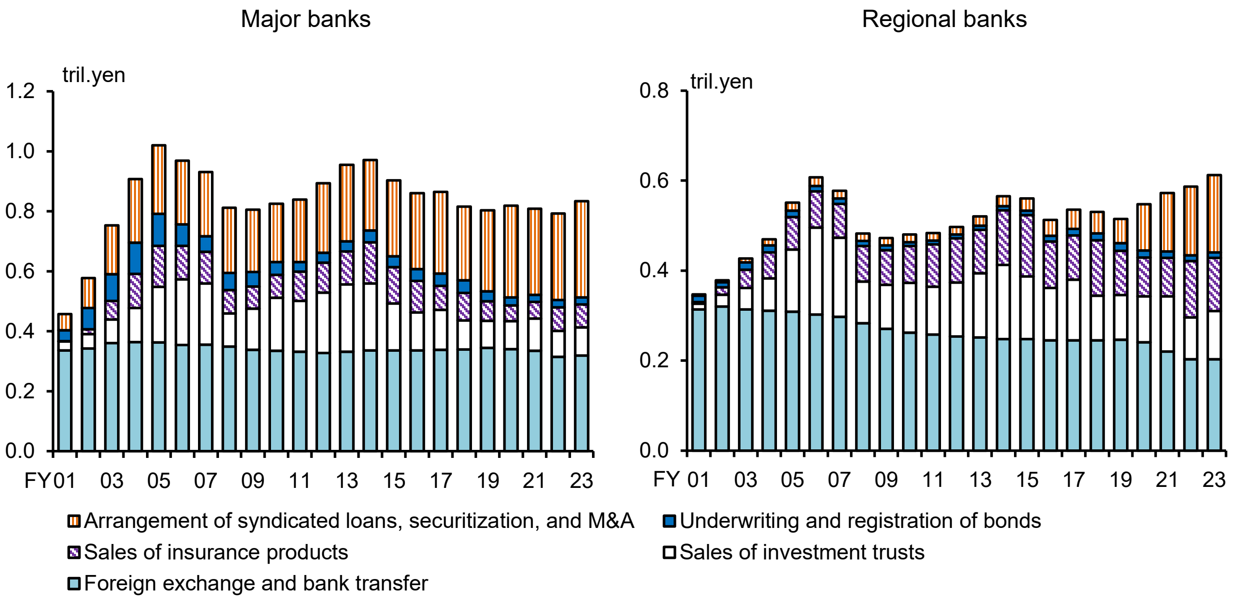
At major banks, net non-interest income increased by 22.9 percent from the previous year. Specifically, customer transactions such as foreign exchange and derivative transactions increased amid a rise in market volatility, and income from fees and commissions increased as domestic and foreign loan handling fees accumulated. At regional banks, net non-interest income decreased by 11.9 percent from the previous year. This was because gains related to foreign exchange and derivative transactions and others decreased against a background of a rise in funding costs associated with FX and currency swaps, although income from fees and commissions increased, led by services to corporate clients such as loans with covenants and business matching.

II-A-9: Net non-interest income



Source: BOJ.

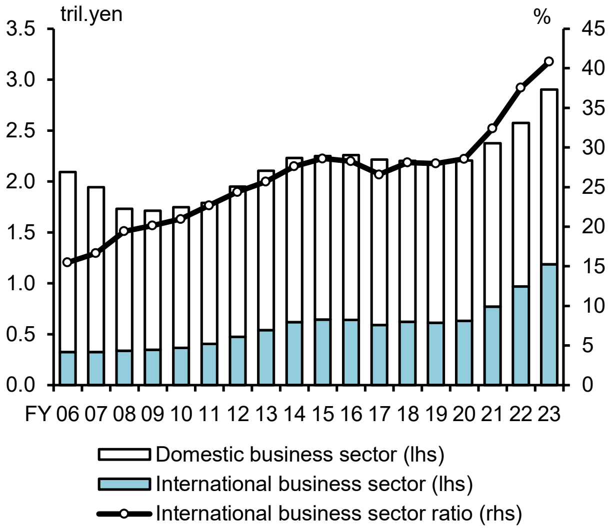
II-A-10: Income from fees and commissions (domestic business sector)



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.

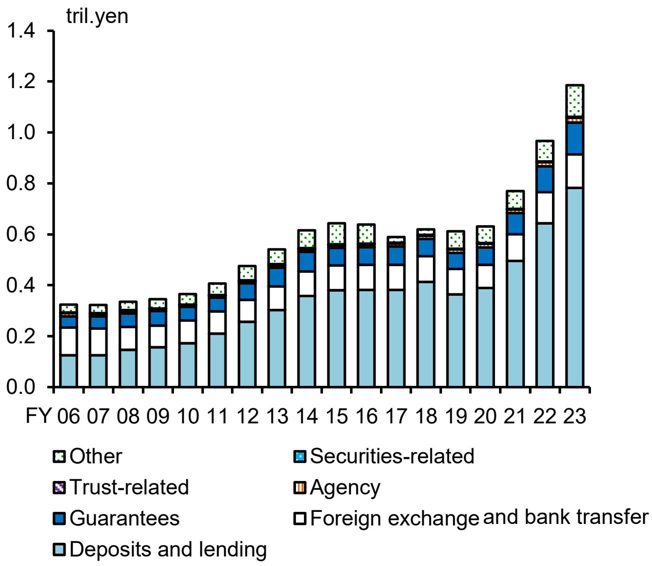
Source: BOJ.

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



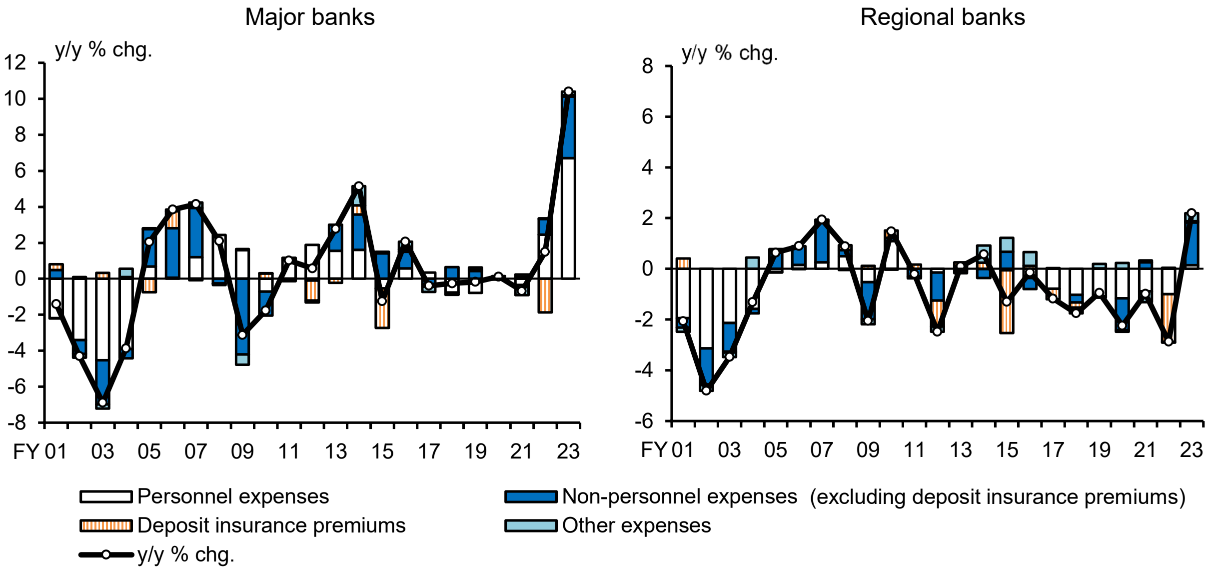
Note: The figures are categorized based on each bank's internal definition. Thus, there are variations on such categorization. "Deposits and lending" includes income from fees and commissions related to the arrangement of syndicated loans, commitment lines, securitization, and M&A transactions.

Source: BOJ.

5. General and Administrative Expenses

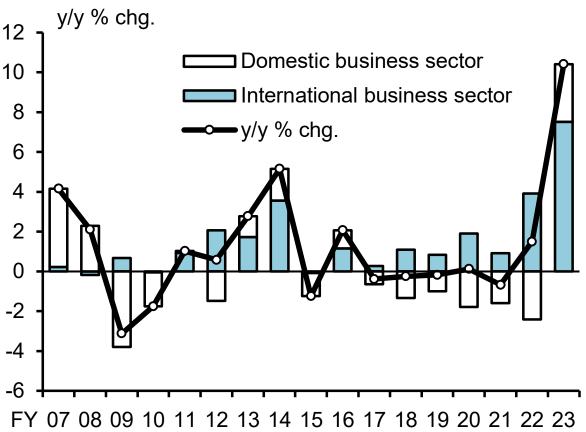
At major banks, general and administrative expenses increased by 10.4 percent from the previous year due to the increase in both personnel and non-personnel expenses. At regional banks, general and administrative expenses increased by 2.2 percent from the previous year due to a rise in non-personnel expenses. 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) were more or less unchanged both at major banks and regional banks.

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



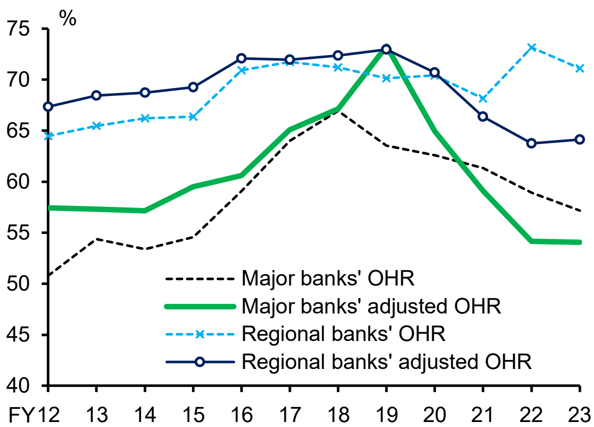
Source: BOJ.

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.

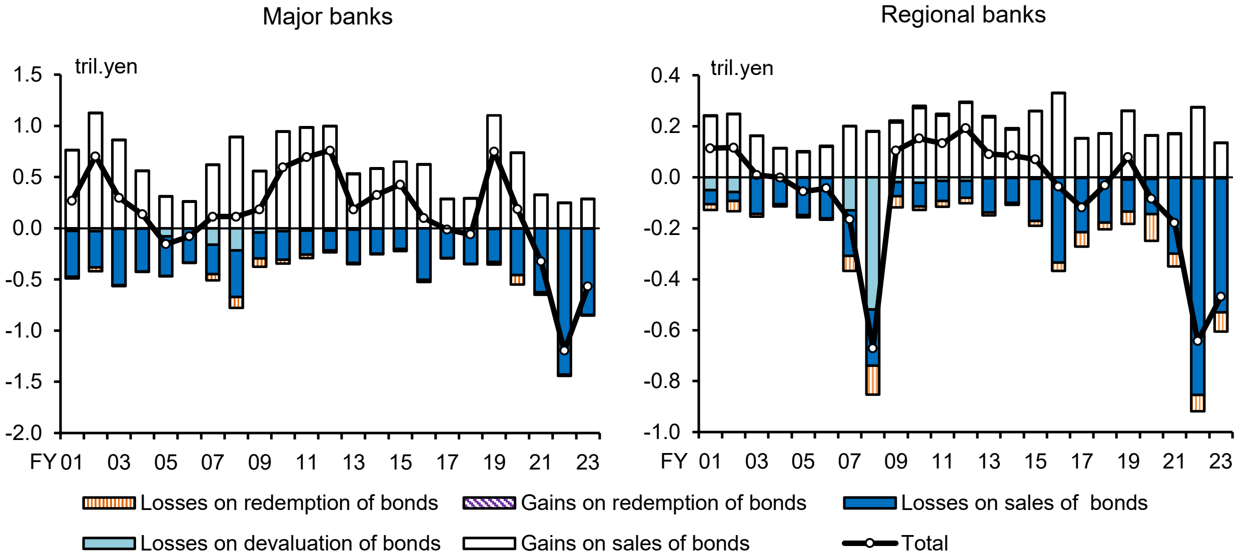
B. Realized and Valuation Gains/Losses on Securities Holdings

1. Realized Gains/Losses on Securities Holdings

With regard to realized gains/losses on bondholdings, realized losses decreased at both major banks and regional banks. Although losses on sales of foreign bonds in particular were recorded due to the rise in foreign interest rates, such losses were smaller than in the previous year.

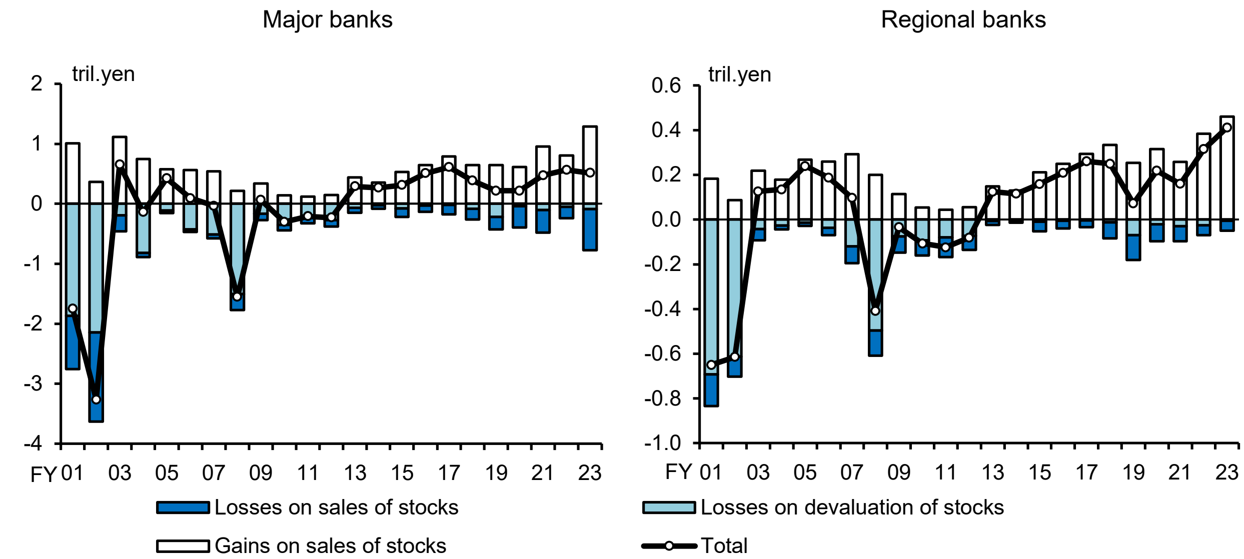
As for realized gains/losses on stockholdings, realized gains were more or less unchanged at major banks, while such gains expanded at regional banks due to an increase in gains on sales.

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



Source: BOJ.

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

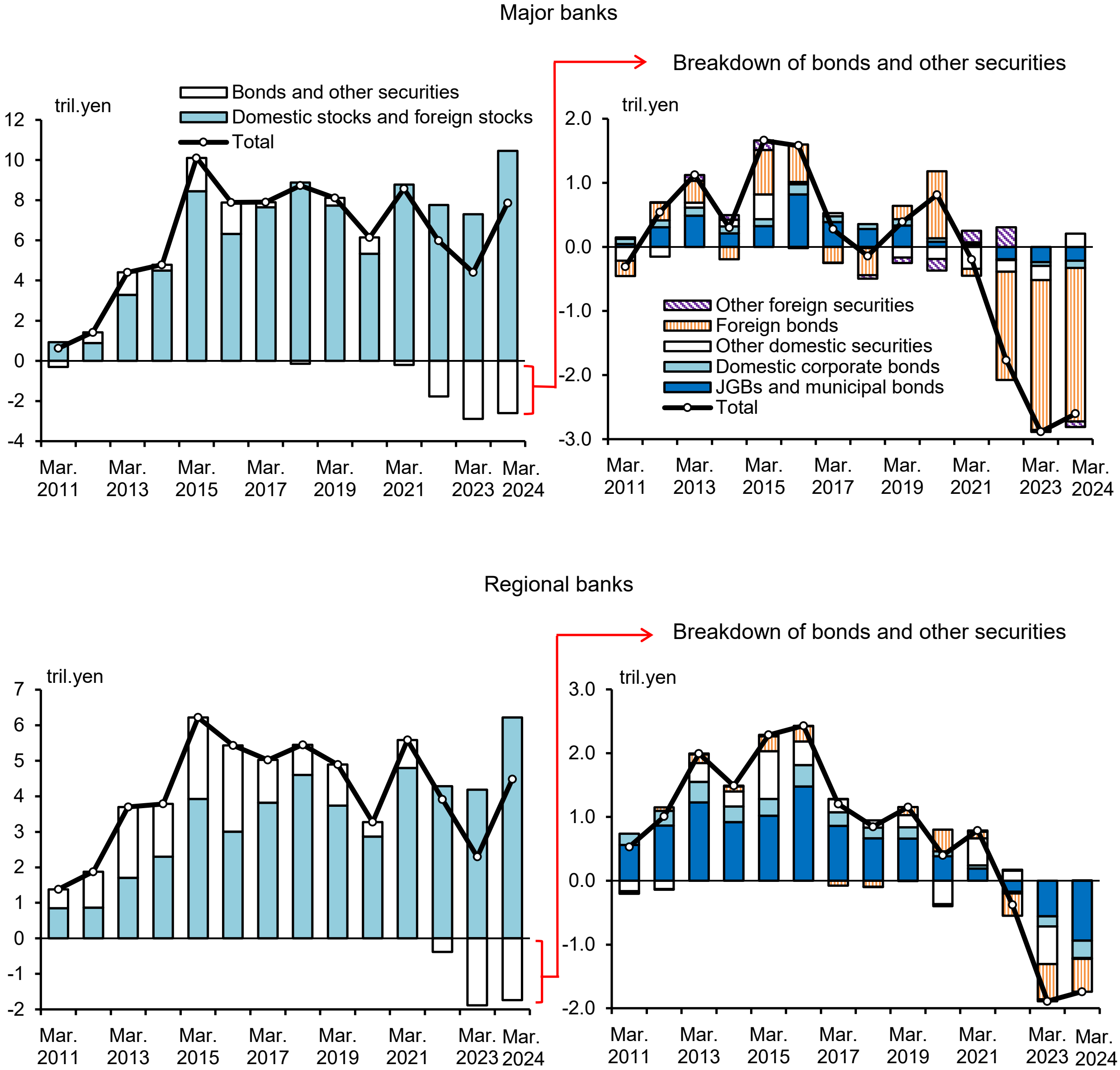


Source: BOJ.

2. Valuation Gains/Losses on Securities Holdings

Valuation gains/losses on available-for-sale securities holdings as of the end of March 2024 at major banks and regional banks stood at gains of about 8 trillion yen and about 4 trillion yen, respectively, maintaining a high level. Looking at the breakdown, valuation gains on stockholdings, accounting for a large share of the total gains on securities holdings, increased at both major banks and regional banks, reflecting the rise in stock prices. Meanwhile, valuation losses on holdings of bonds and other securities decreased slightly at major banks and regional banks.

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.

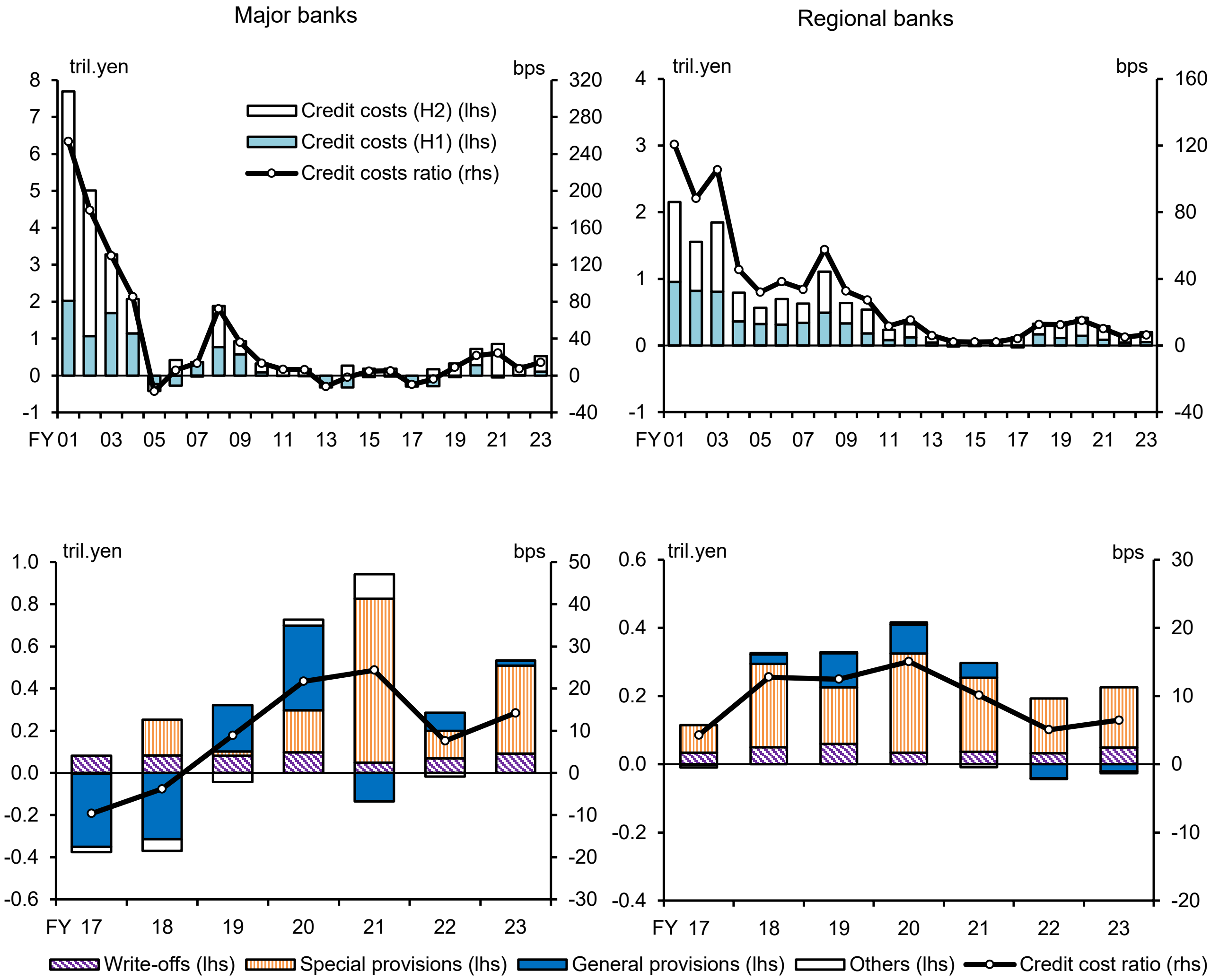
C. Credit Costs and Non-Performing Loans

1. Credit Costs

Credit costs increased at both major banks and regional banks, partly because of a rise in such costs associated with some large borrowers.

The credit cost ratio (= credit costs / total loans outstanding) was 14 basis points (an increase of 7 basis points from the previous year) at major banks and 6 basis points (an increase of 1 basis point from the previous year) at regional banks.

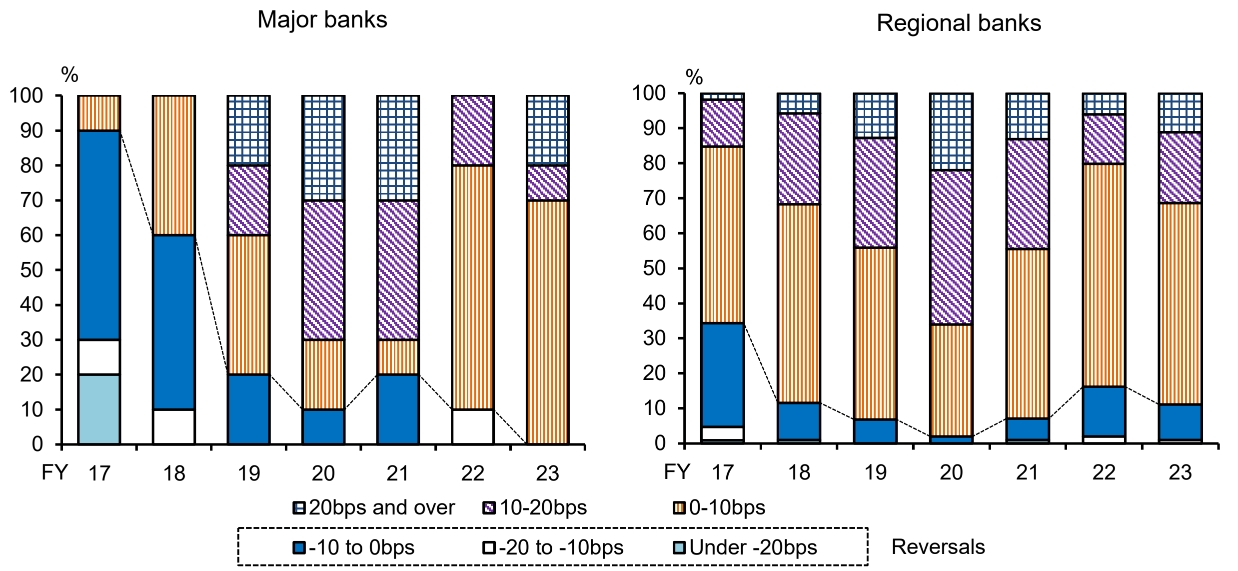
II-C-1: Credit costs and credit cost ratios



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 both major banks and regional banks, the share of those with credit costs of 20 basis points or greater increased, and the share of banks incurring credit costs as a whole also increased.

II-C-2: Credit cost ratio distribution



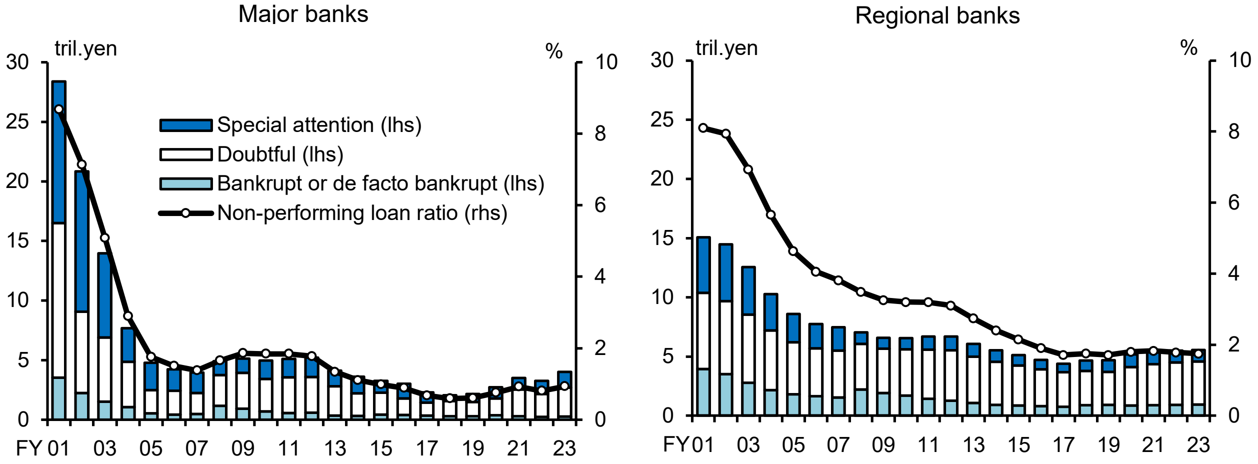
Note: Proportion of the number of banks by credit cost ratio.
Source: BOJ.

2. Non-Performing Loans

Non-performing loan (NPL) ratios at both major banks and regional banks were more or less unchanged, remaining at low levels. The NPL ratios for foreign loans at the three major banks rose, mainly due to the downgrading of some large borrowers in the United States.

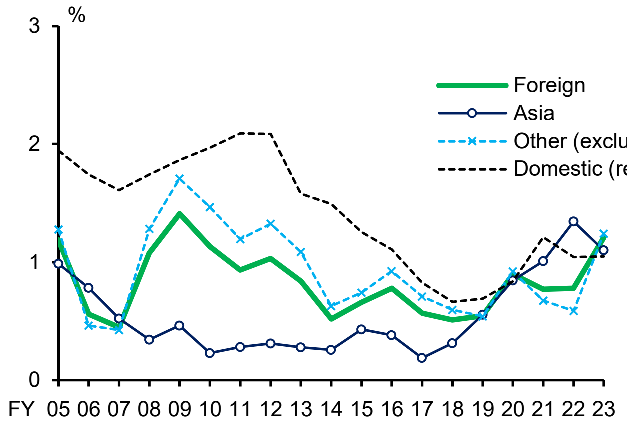
Looking at the proportion of loans outstanding by borrower classification, the ratio of "normal" loans remained high, exceeding 95 percent at major banks and reaching almost 90 percent at regional banks.

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



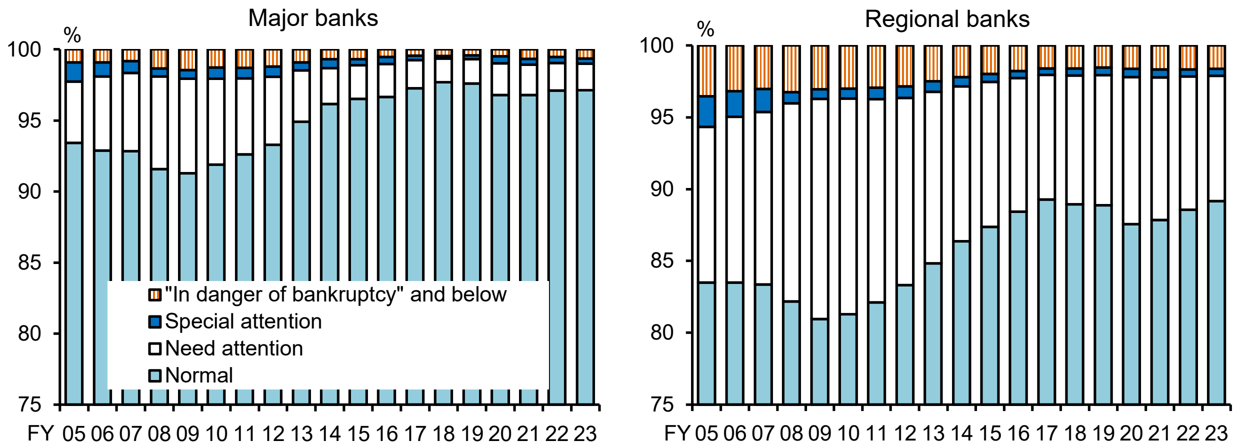
Source: BOJ.

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."

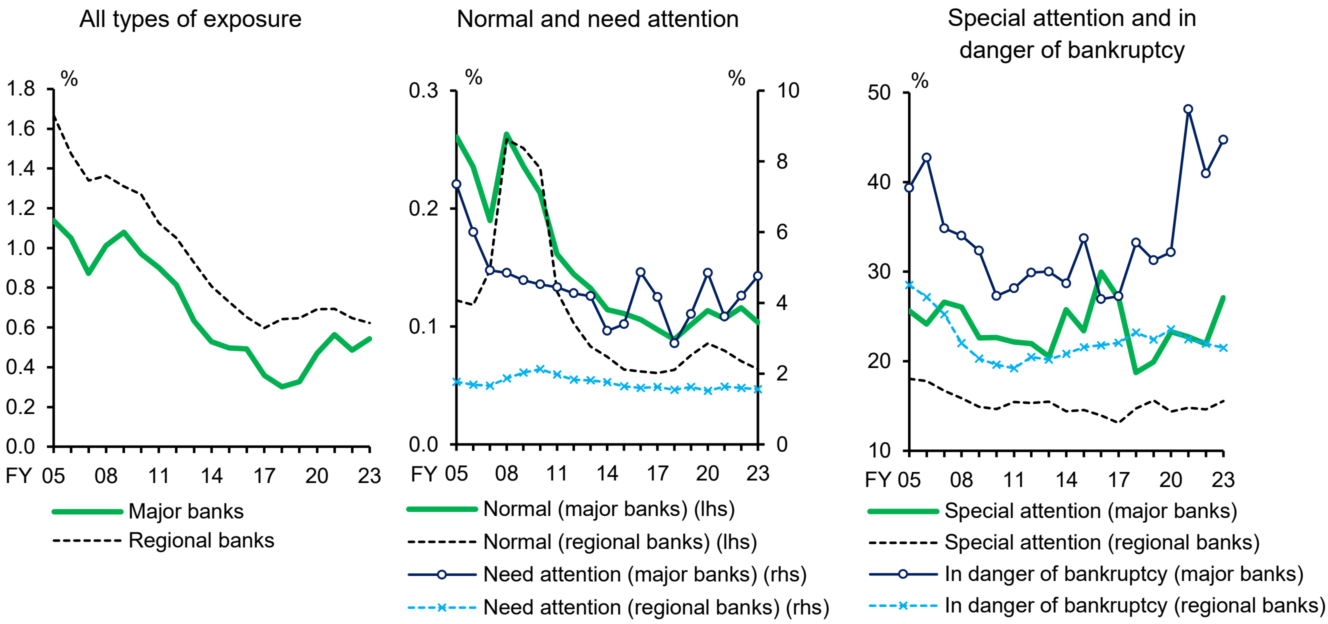
Source: BOJ.

3. Loan-Loss Provisions

(1) Loan-Loss Provision Ratios

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

II-C-6: Loan-loss provision ratios



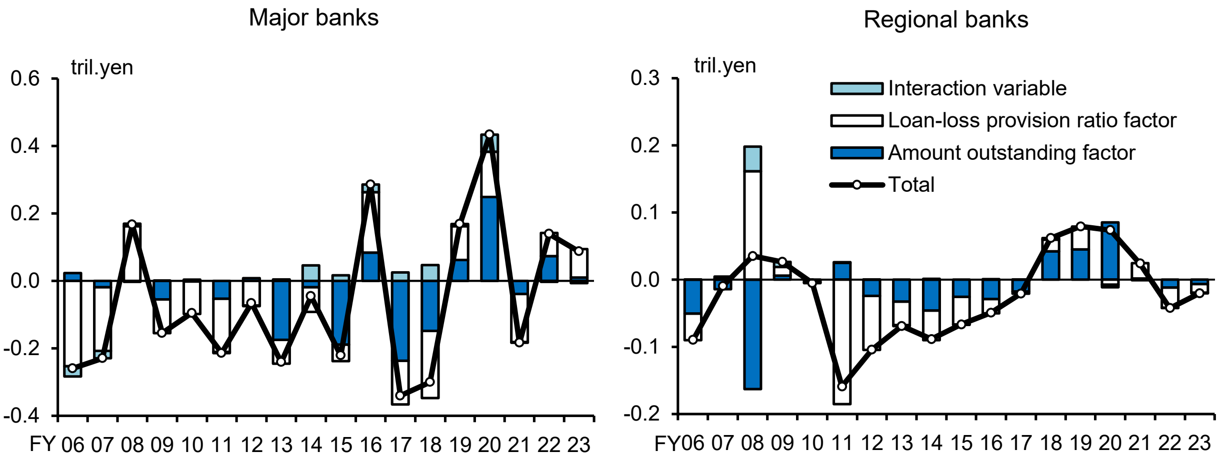
Notes: 1. The data include loans to which the discounted cash flow method is applied.
2. The loan-loss provision ratio is calculated as loan-loss provisions divided by the total amount of claims (not the uncovered amount of claims).
3. "Need attention" indicates "Need attention excluding special attention."

Source: BOJ.

(2) Outstanding Amount of Loan-Loss Provisions

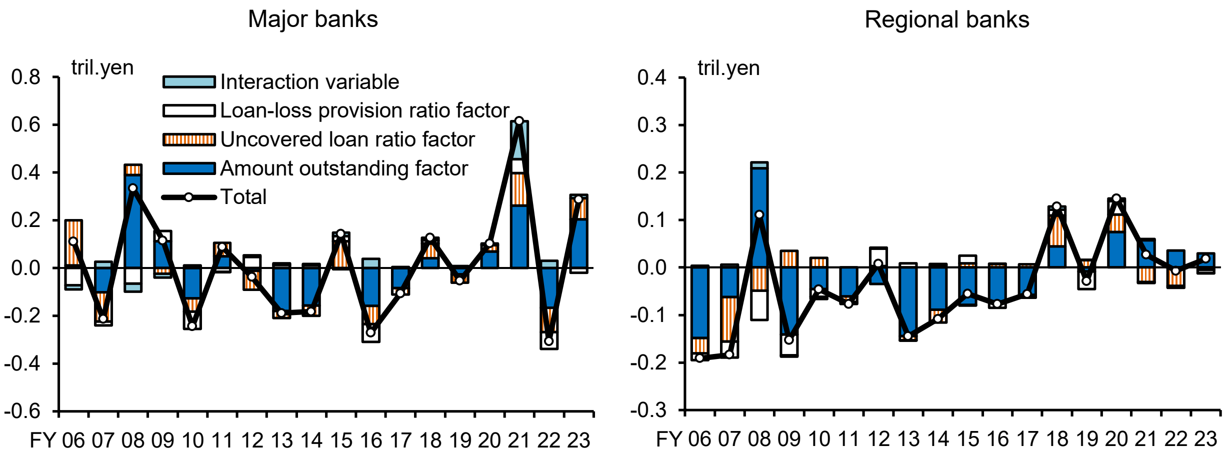
Looking at the outstanding amount of loan-loss provisions at major banks, general provisions increased due mainly to a rise in loan-loss provision ratios, and special provisions also increased, reflecting loan-loss provisions for some large borrowers. At regional banks, while general provisions declined somewhat, mainly reflecting a decrease in loan-loss provision ratios, special provisions increased slightly.

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.

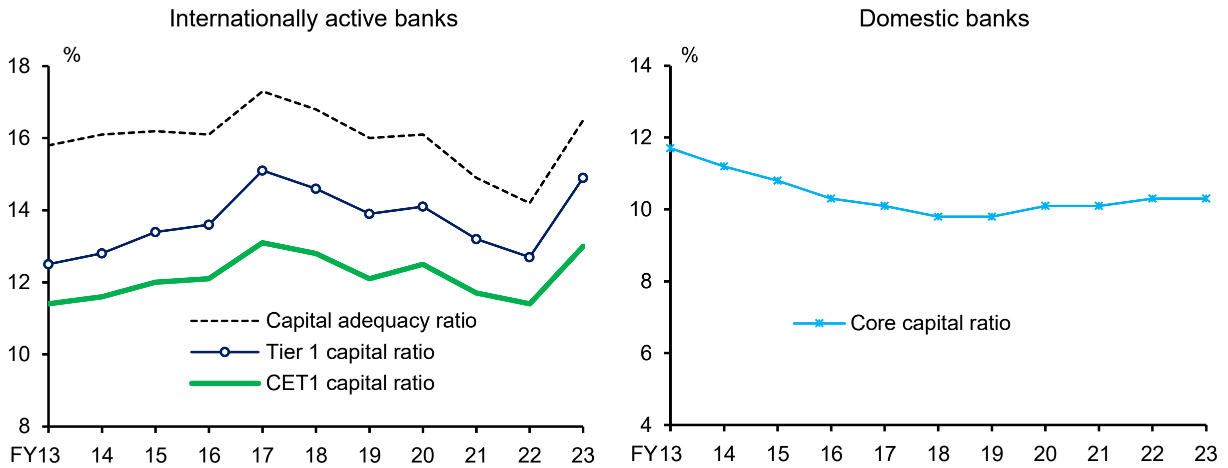
D. Capital Adequacy Ratios, Dividends, and Share Repurchases

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 rose. This was because valuation gains on available-for-sale securities holdings, which are included in CET1 capital, increased, reflecting the rise in stock prices, and because risk-weighted assets at some banks decreased, affected in part by the Basel III finalization.

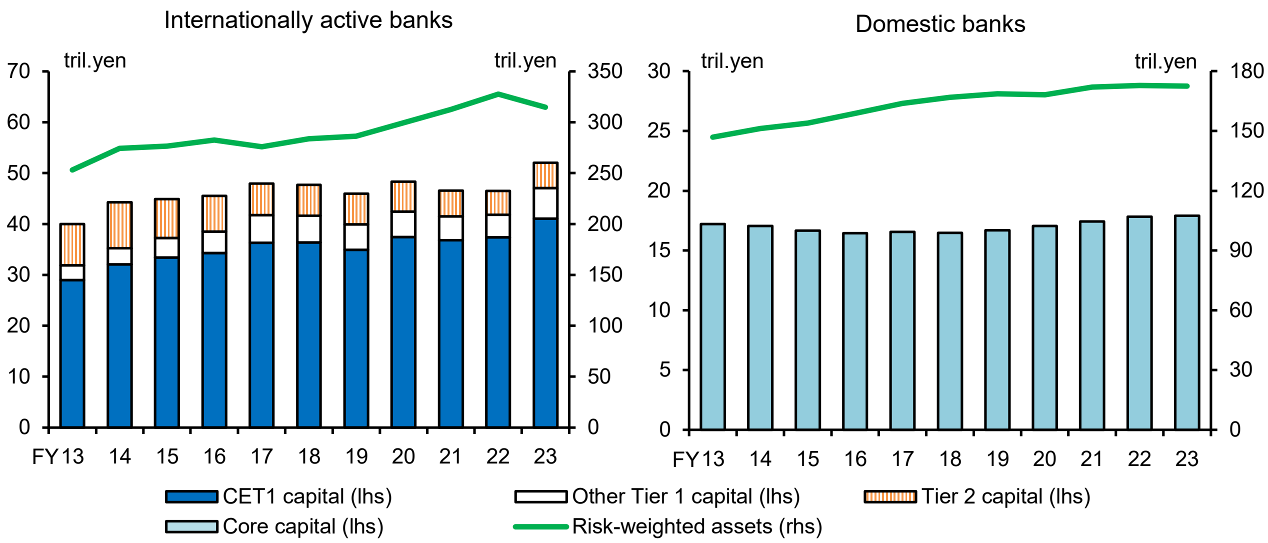
The capital adequacy ratio of domestic banks was unchanged, remaining sufficiently above the regulatory requirements.

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

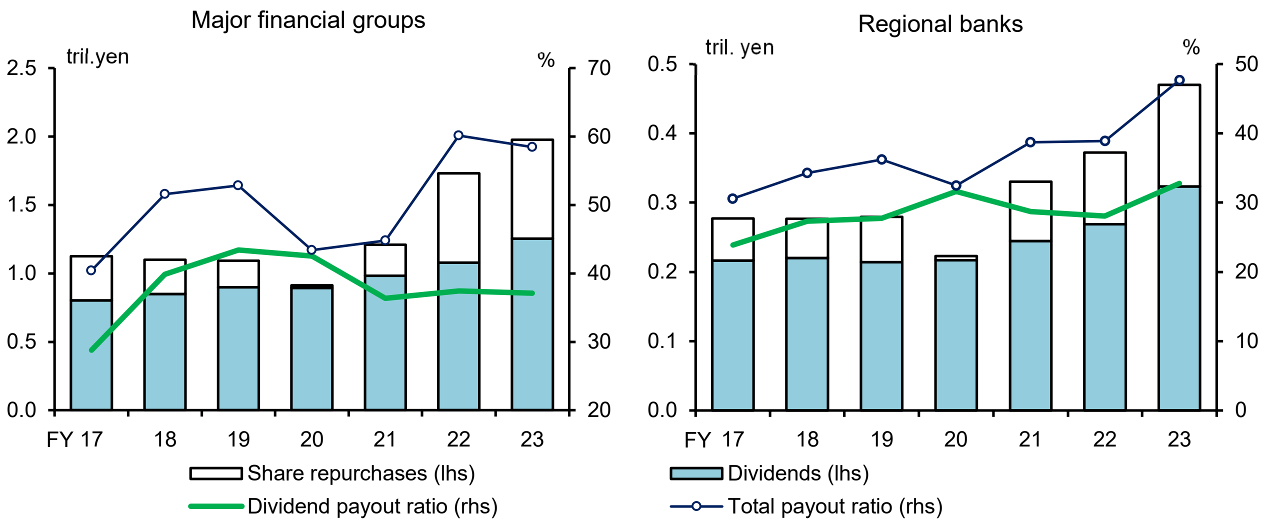


Notes: 1. The numerator of the capital adequacy ratio at domestic banks has been referred to as "Core capital" in order to distinguish the definition of "capital" in the current Financial Services Agency public notice from that in the former public notice (the same applies to Charts III-D-1 and III-D-2).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

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.
Source: Published accounts of each financial group and bank.

Box: Banks' profit projections for fiscal 2024

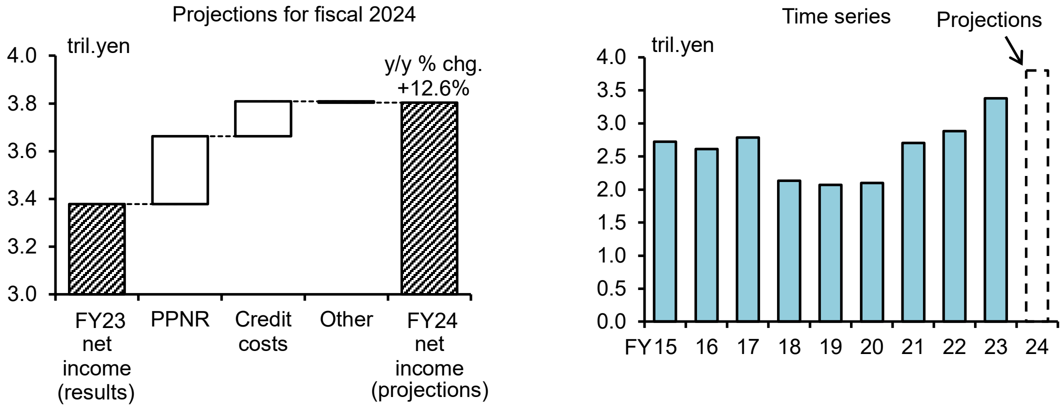
Net income for fiscal 2024 is projected to increase at both major financial groups and regional banks (on a non-consolidated basis).

Looking at factors behind changes in the net income of major financial groups from the previous year, PPNR is projected to increase, driven mainly by customer divisions, especially those offering services to corporate clients. Credit costs are expected to decline as the effects of loan-loss provisions for some large borrowers recorded in fiscal 2023 dissipate. As a result, the net income of major financial groups as a whole is projected to increase by about 12.6 percent from fiscal 2023. For major financial groups, the effects of rising yen interest rates are also expected to contribute to the increase in PPNR through improvements in interest rates on loans and securities.

At regional banks as a whole, net income is projected to increase by about 13 percent from fiscal 2023 as net interest income is expected to increase, reflecting an uptrend in loans outstanding.

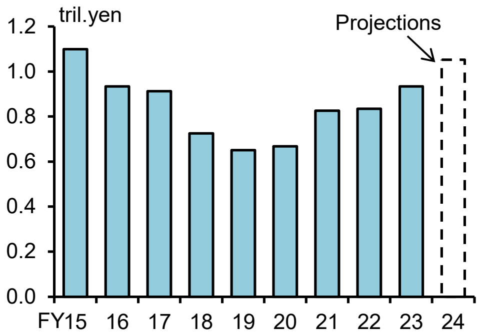
It should be noted that there is uncertainty, including over developments in economic activity and prices at home and abroad on which the above profit projections are based and developments in financial and foreign exchange markets.

B-1: Net income of major financial groups



Note: For financial groups that have not published their projections for fiscal 2024, the missing figures are complemented by using available figures such as actual figures for the most recent fiscal year.
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 2024.
Sources: Published accounts of each bank; BOJ.

III. Financial Results of Japan's *Shinkin* Banks for Fiscal 2023

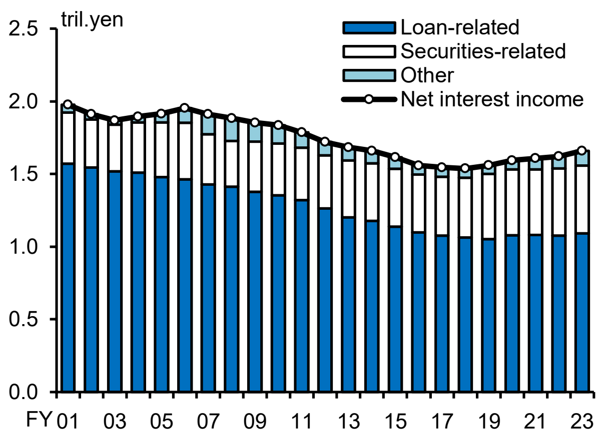
This chapter outlines *shinkin* banks' core profitability (net interest income, net non-interest income, and general and administrative expenses), realized and valuation gains/losses on securities holdings, credit costs and non-performing loans, as well as capital adequacy ratios.

A. Core Profitability

1. Net Interest Income

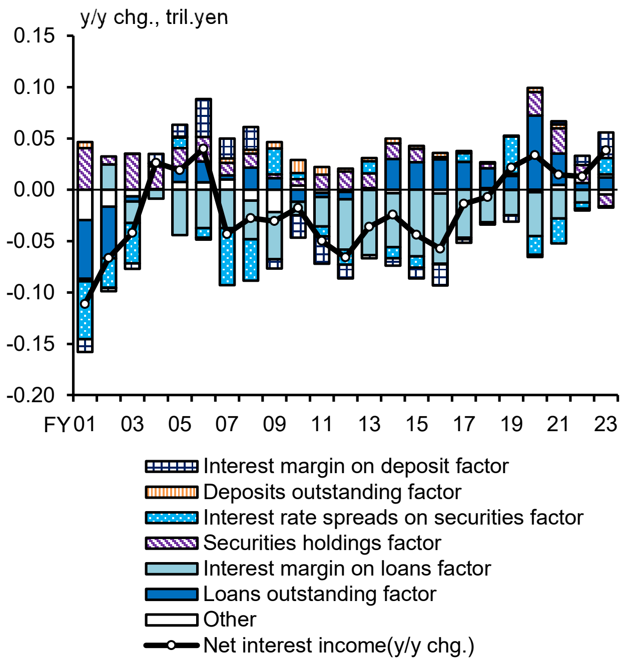
Net interest income increased by 2.4 percent from the previous year. While interest rate spreads on loans were more or less unchanged, loans outstanding increased, reflecting increased demand driven by higher raw material input costs and the pick-up in economic activity. Meanwhile, interest rates on deposits rose.

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)



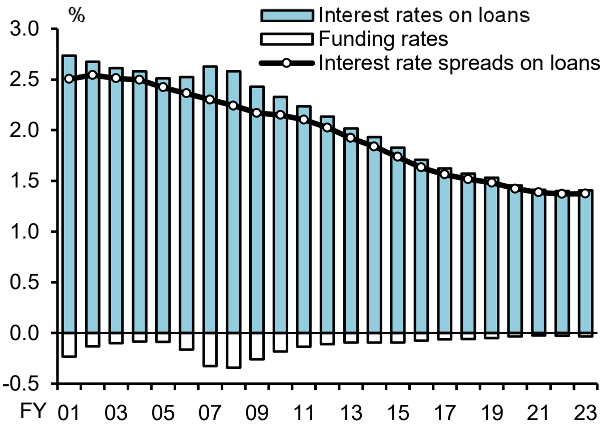
Source: BOJ.

2. Interest Rate Spreads on Loans and Loans Outstanding

(1) Interest Rate Spreads on Loans

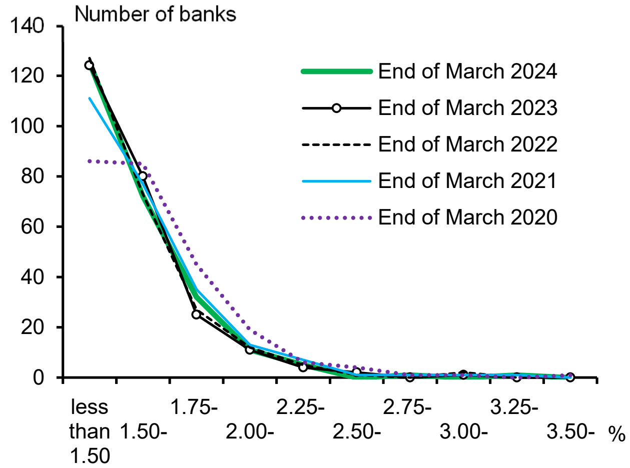
Interest rate spreads on loans were more or less flat. The distribution of interest rate spreads for *shinkin* banks was almost unchanged from the previous year.

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

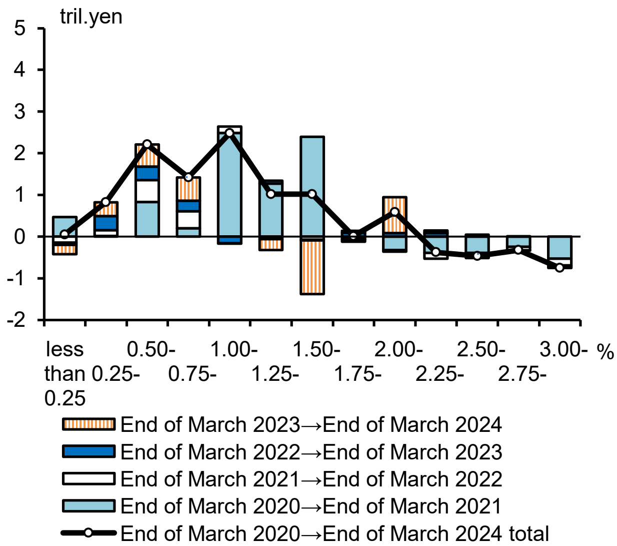


Source: BOJ.

(2) Loans Outstanding by Lending Rate

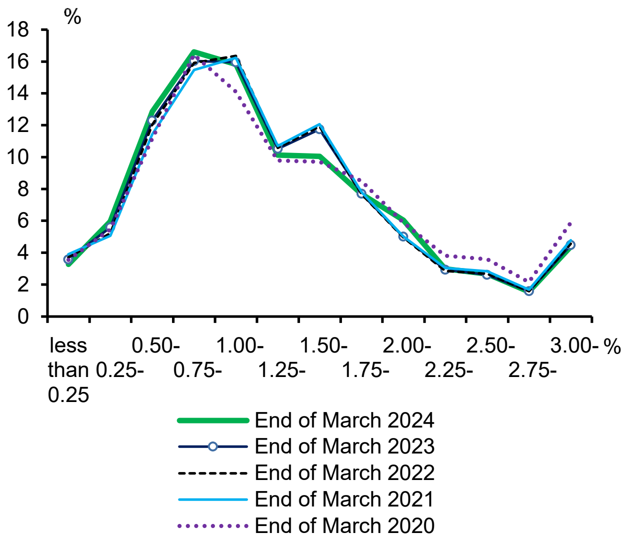
Looking at the proportion of loans outstanding by lending rate, the outstanding amount of effectively interest-free and unsecured loans (reflecting interest subsidies from local governments) -- primarily in the range of 1.00-1.75 percent -- declined.

III-A-5: Changes in loans outstanding by lending rate (from the end of March 2020 to the end of March 2024)



Source: BOJ.

III-A-6: Changes in proportion of loans outstanding by lending rate (from the end of March 2020 to the end of March 2024)

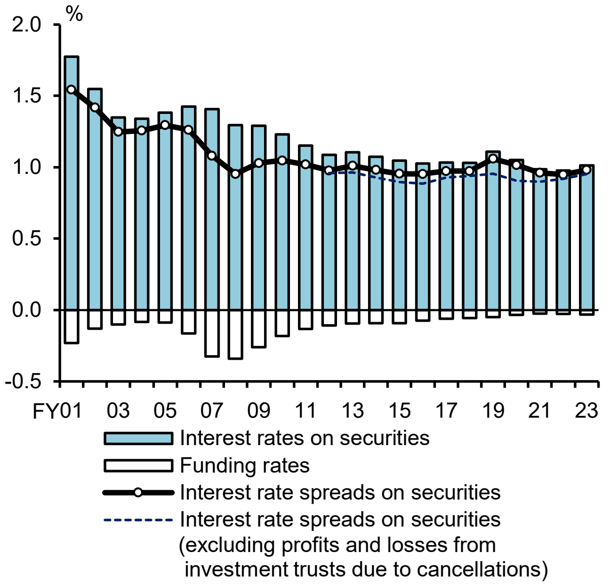


Source: BOJ.

3. Interest Rate Spreads on Securities

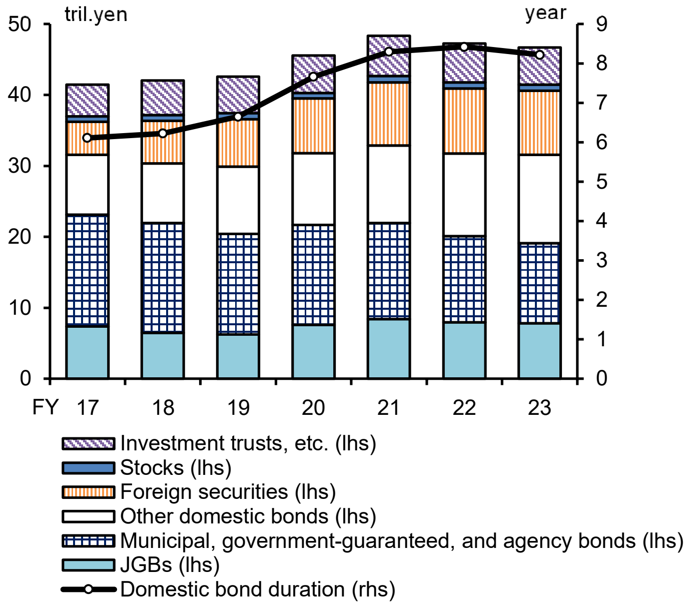
Interest rate spreads on securities expanded somewhat, reflecting a rise in interest rates on foreign securities and others. The outstanding amount of securities, particularly domestic bonds, declined somewhat.

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)

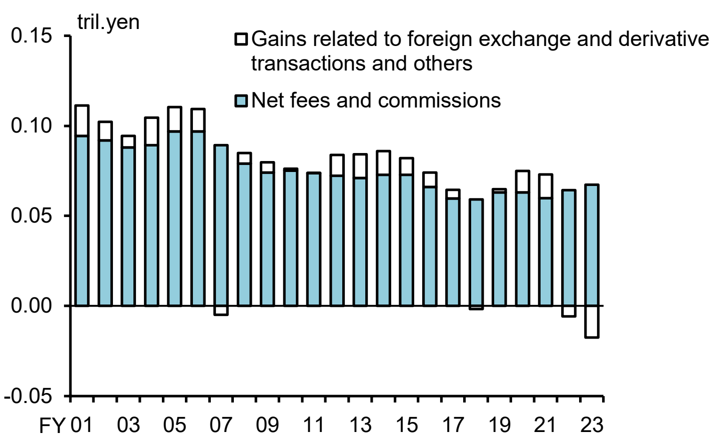


Source: BOJ.

4. Net Non-Interest Income

Net non-interest income decreased by 14.8 percent from the previous year as gains related to foreign exchange and derivative transactions and others decreased against a background of a rise in funding costs associated with FX and currency swaps.

III-A-9: Net non-interest income

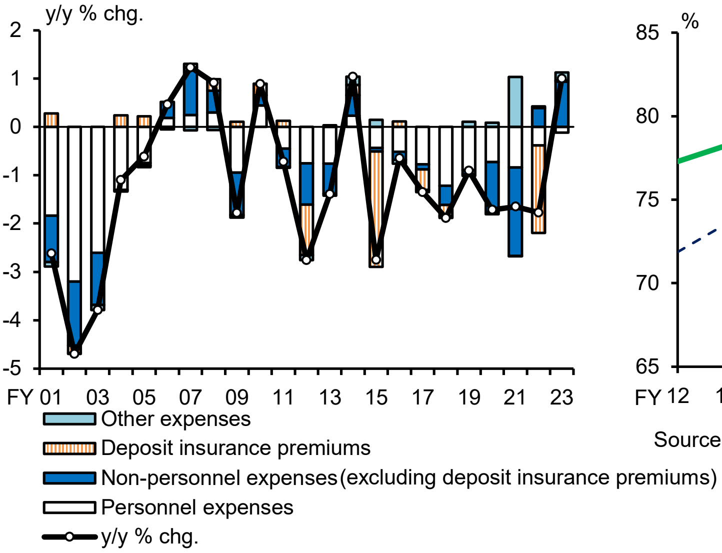


Source: BOJ.

5. General and Administrative Expenses

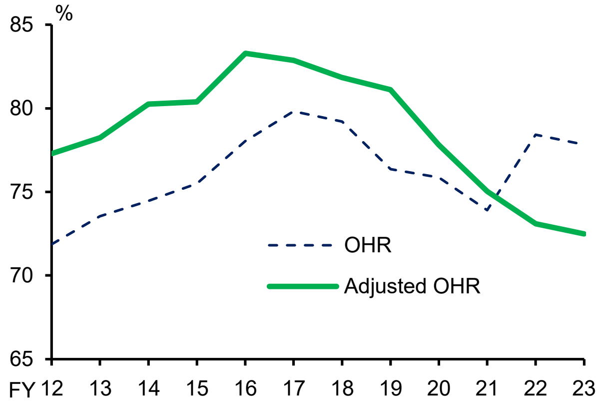
General and administrative expenses increased by 1.0 percent from the previous year due to a rise in non-personnel expenses, such as branch-related expenses. The adjusted OHR (= overhead costs / core gross operating profits, excluding profits and losses from investment trusts due to cancellations) decreased as core gross operating profits increased.

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



Source: BOJ.

III-A-11: OHRs



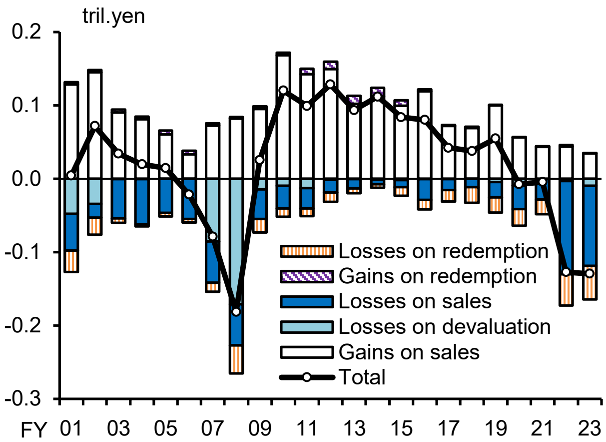
Source: BOJ.

B. Realized and Valuation Gains/Losses on Securities Holdings

1. Realized Gains/Losses on Securities Holdings

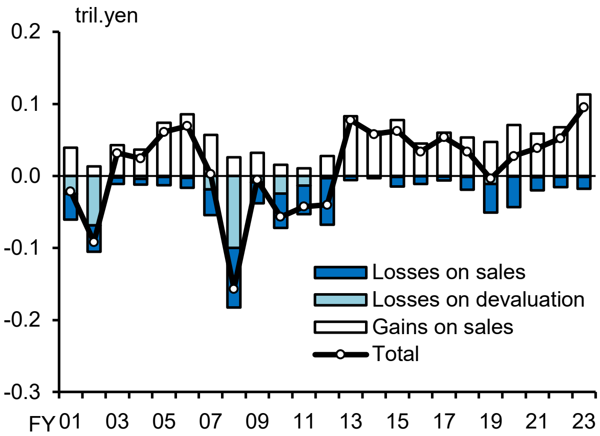
Realized losses on bondholdings were relatively large due to losses on sales of domestic and foreign bonds. Realized gains on stockholdings expanded.

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



Source: BOJ.

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

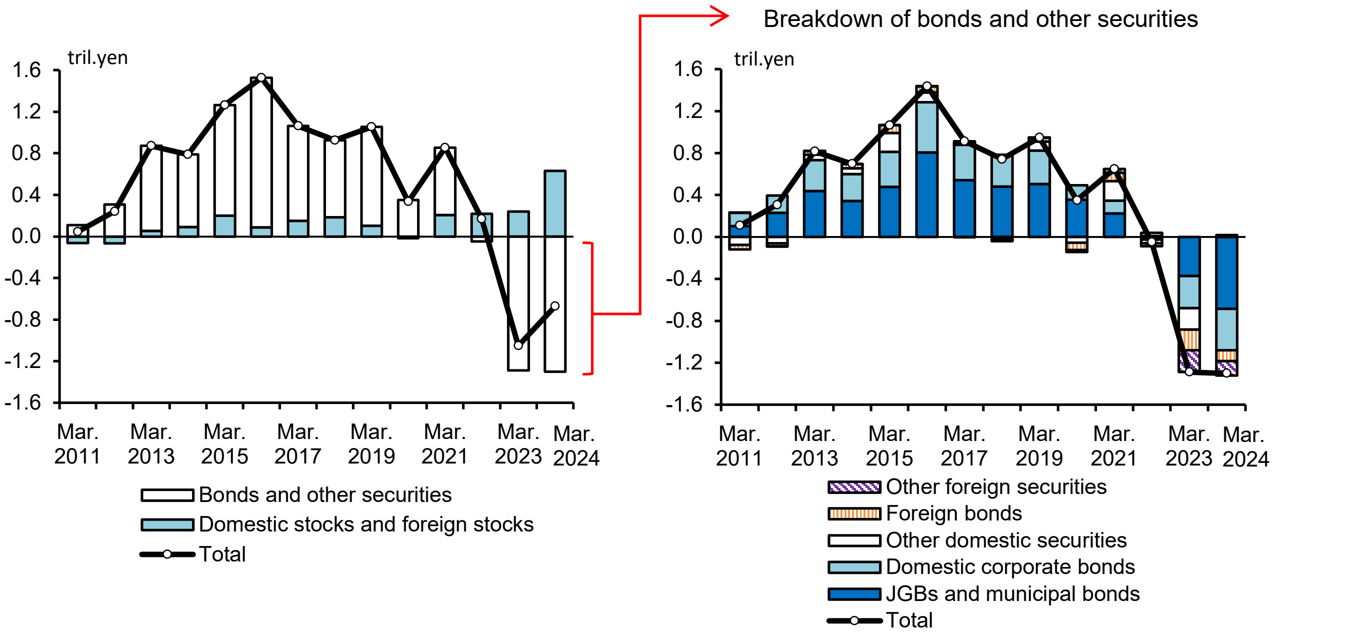


Source: BOJ.

2. Valuation Gains/Losses on Securities Holdings

Valuation losses on available-for-sale securities holdings as of the end of March 2024 declined compared to a year earlier due to a rise in valuation gains on stockholdings. Meanwhile, valuation losses on bonds and other securities as a whole were at about the same level as the end of March 2023. Although valuation losses on securities such as foreign bonds decreased, those on domestic bonds increased due to the rise in domestic interest rates.

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.

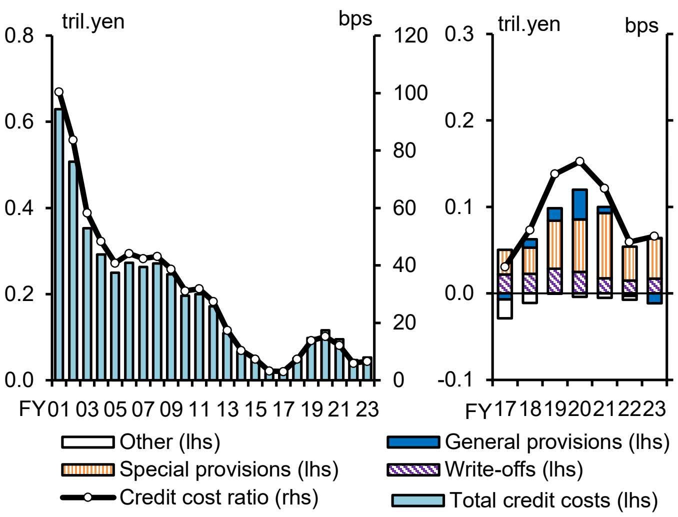
Source: BOJ.

C. Credit Costs and Non-Performing Loans

1. Credit Costs

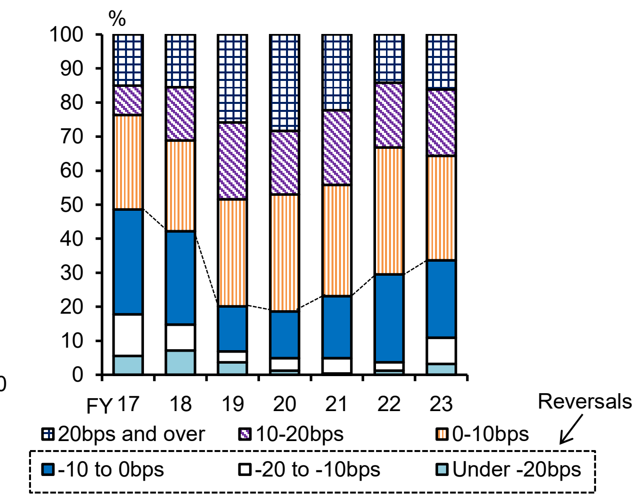
Credit costs were more or less unchanged from the previous year and remained at a low level, partly because precautionary loan-loss provisions had been recorded during the pandemic. As a result, the credit cost ratio was 7 basis points (an increase of 1 basis point from the previous year).

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



Source: BOJ.

III-C-2: Distribution of credit cost ratios



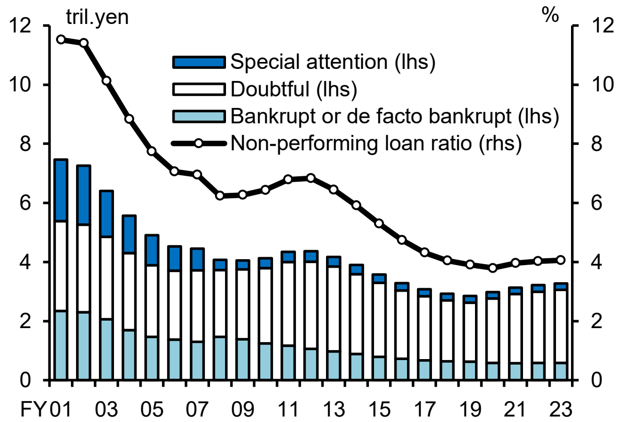
Note: Proportion of number of banks by credit cost ratio.

Source: BOJ.

2. Non-Performing Loans

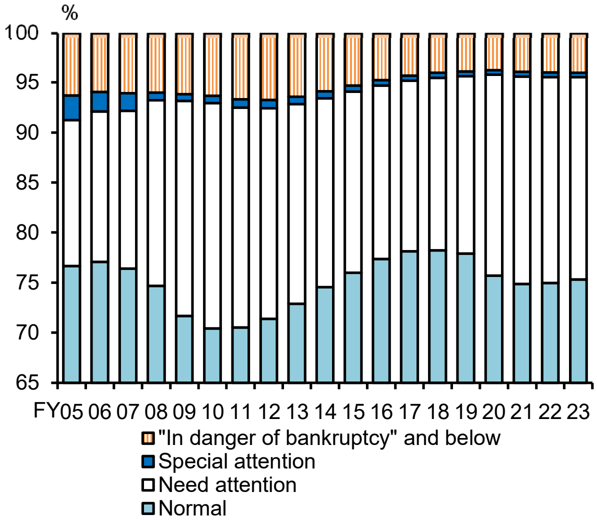
The NPL ratio remained at a low level. While the proportion of outstanding for "need attention excluding special attention" loans declined somewhat, the proportion of outstanding for "normal" loans increased slightly.

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



Source: BOJ.

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



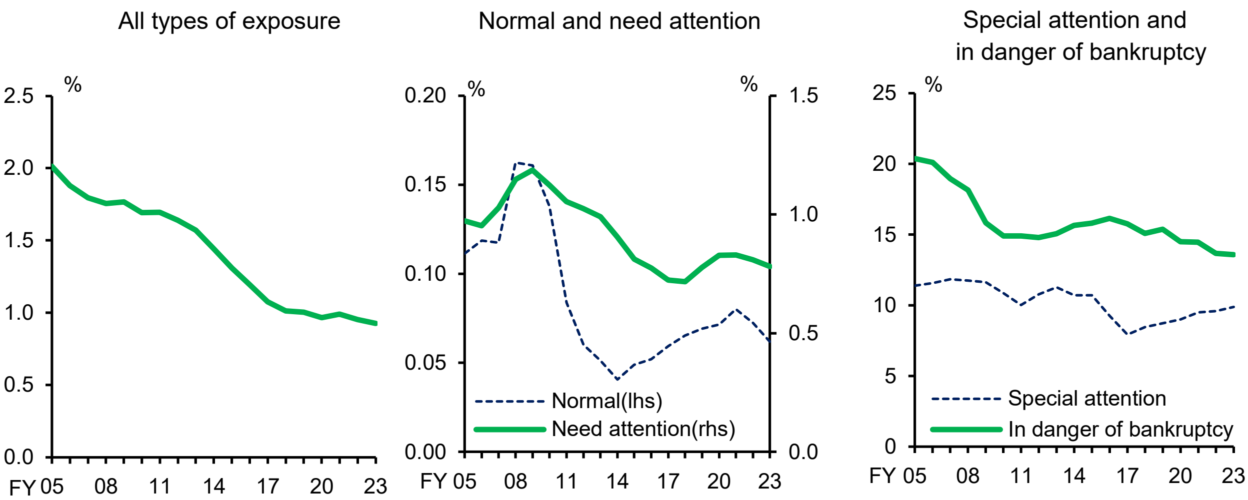
Notes: 1. The data are calculated on a write-off basis.
2. "Need attention" indicates "Need attention excluding special attention."
Source: BOJ.

3. Loan-Loss Provisions

(1) Loan-Loss Provision Ratios

The average loan-loss provision ratios for all types of exposure declined somewhat.

III-C-5: Loan-loss provision ratios

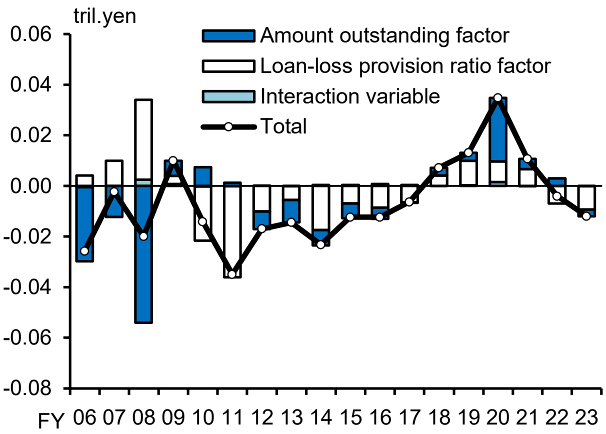


Notes: 1. The data include loans to which the discounted cash flow method is applied.
2. The loan-loss provision ratio is calculated by dividing loan-loss provisions by the total amount of claims (not the uncovered amount of claims).
3. "Need attention" indicates "Need attention excluding special attention."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

(2) Outstanding Amount of Loan-Loss Provisions

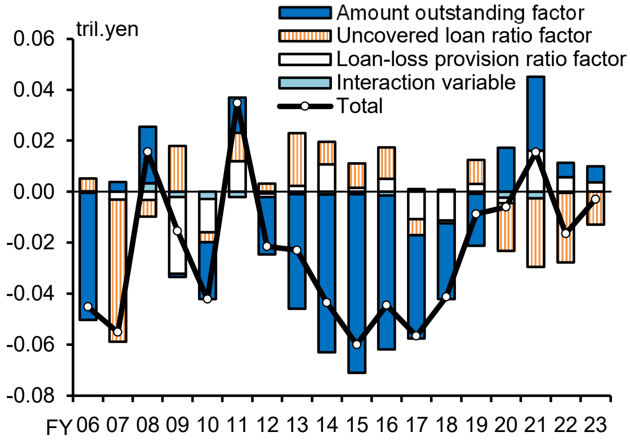
As for the outstanding amount of loan-loss provisions, general provisions decreased due to the decline in loan-loss provision ratios. Meanwhile, special provisions decreased slightly, reflecting the rise in the coverage ratio (i.e., negative contribution of "uncovered loan ratio factor").

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

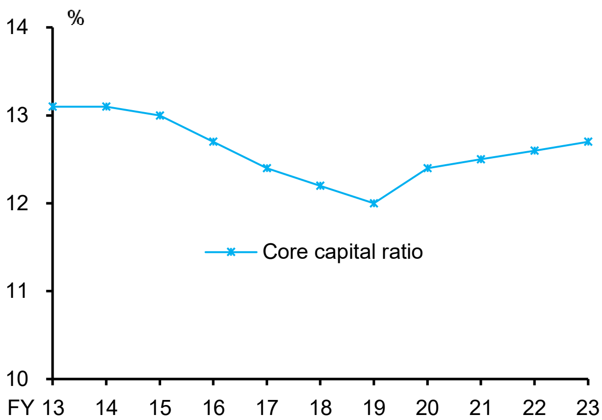


Note: Each factor represents the sum of the amount calculated by borrower classification.
Source: BOJ.

D. Capital Adequacy Ratios

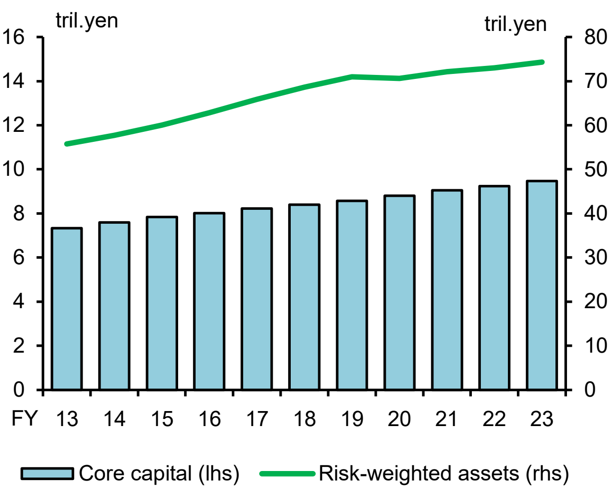
The capital adequacy ratio was more or less unchanged as risk-weighted assets increased while retained earnings were accumulated, remaining sufficiently above the regulatory requirements.

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 includes common equities and retained earnings.

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

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