BOJ Reports & Research Papers

Financial System Report Annex Series

Financial System Report – Annex

Financial Results of Japan's Banks for Fiscal 2020

FINANCIAL SYSTEM AND BANK EXAMINATION DEPARTMENT
BANK OF JAPAN
SEPTEMBER 2021

The total of major banks, regional banks, and *shinkin* banks covered in this *Report* is as follows (as at March 31, 2021).

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 38 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 2020 to provide an annual analysis.

Abstract

The three main features of the financial results of Japan's banks for fiscal 2020 are as follows:

First, net income increased for all types of banks: major banks, regional banks, and *shinkin* banks. For all types of banks, the increase in pre-provision net revenue (PPNR) (excluding trading income), which indicates core profitability, exceeded the increase in credit costs. At regional banks and *shinkin* banks, profits were also pushed up by an increase in realized gains on stockholdings.

Second, PPNR (excluding trading income) increased at major banks, regional banks, and *shinkin* banks. For all types of banks, PPNR (excluding trading income) continued to be pushed down by shrinking domestic lending margins, while it was pushed up mainly by an increase in loans outstanding due to heightened funding demand associated with COVID-19. At regional banks and *shinkin* banks, a decrease in general and administrative expenses also contributed to raising profits.

Third, the capital adequacy ratios of financial institutions increased for all types of banks, and remain sufficiently above the regulatory requirements.

Contents

I. Outline of Financial Results of Japan's Banks for Fiscal 2020[1]

A. Profits and Losses

At major financial groups, net income for fiscal 2020 was about 2.1 trillion yen, increasing by 1.5 percent from the previous year. An increase in credit costs, due in part to precautionary loan-loss provisions in response to the spread of COVID-19, exerted downward pressure. However, an increase in loans outstanding due to heightened funding demand associated with COVID-19 boosted net interest income. Further, dissipation of the effects of impairment losses on "goodwill" incurred by a group company of a financial group for the previous year pushed up overall net income. Meanwhile, although realized gains on bondholdings decreased due to losses on sales of bonds when U.S. interest rates rose at the end of fiscal 2020, net non-interest income increased due to an increase in gains related to hedging positions.

At major banks (on a non-consolidated basis), net income for fiscal 2020 was about 1.2 trillion yen, an increase of 162.0 percent from the previous year, due in part to dissipation of the impact of impairment losses on stocks of group companies of a financial group.

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

100 mil.yen,%

	Major Financial Groups			Major Banks (non-consolidated)		
	FY2020	y/y chg.	y/y % chg.	FY2020	y/y chg.	y/y % chg.
Net interest income	49,618	+2,875	+6.2	33,981	+3,525	+11.6
Net non-interest income	54,539	+3,786	+7.5	23,578	+3,028	+14.7
General and administrative expenses	-69,537	+196	-0.3	-37,204	-43	+0.1
PPNR (excluding trading income)	38,487	+6,943	+22.0	20,354	+6,509	+47.0
(excluding profits and losses from investment trusts due to cancellations)	(38,232)	(+ 6,992)	(+22.4)	(20,099)	(+ 6,559)	(+48.4)
Realized gains/losses on bondholdings	2,189	-5,267	——	1,870	-5,622	——
Realized gains/losses on stockholdings	2,406	-639	——	2,186	+13	——
Credit costs	-11,790	-4,960	——	-7,136	-4,353	——
(Credit cost ratio)	——	——	——	(21bps)	(+12bps)	——
Other profit and loss items	-2,841	+3,551	——	-1,696	+9,062	——
Net income before income taxes	28,451	-372	-1.3	15,578	+5,608	+56.2
Tax-related expenses	-6,502	+541	-7.7	-4,016	+1,541	-27.7
Net income	21,016	+318	+1.5	11,562	+7,149	+162.0

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's 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.

As for regional financial institutions, at regional banks, net income for fiscal 2020 was about 0.7 trillion yen, a 2.1 percent increase from the previous year. At *shinkin* banks, net income for fiscal 2020 was about 0.2 trillion yen, an increase of 14.0 percent from the previous year. An increase in realized losses on bondholdings and an increase in credit costs exerted downward pressure; however, an increase in net interest income due to an increase in loans outstanding mainly related to COVID-19, a decrease in general and administrative expenses, and an increase in realized gains on stockholdings outweighed the downward pressure.

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

100 mil.yen,%

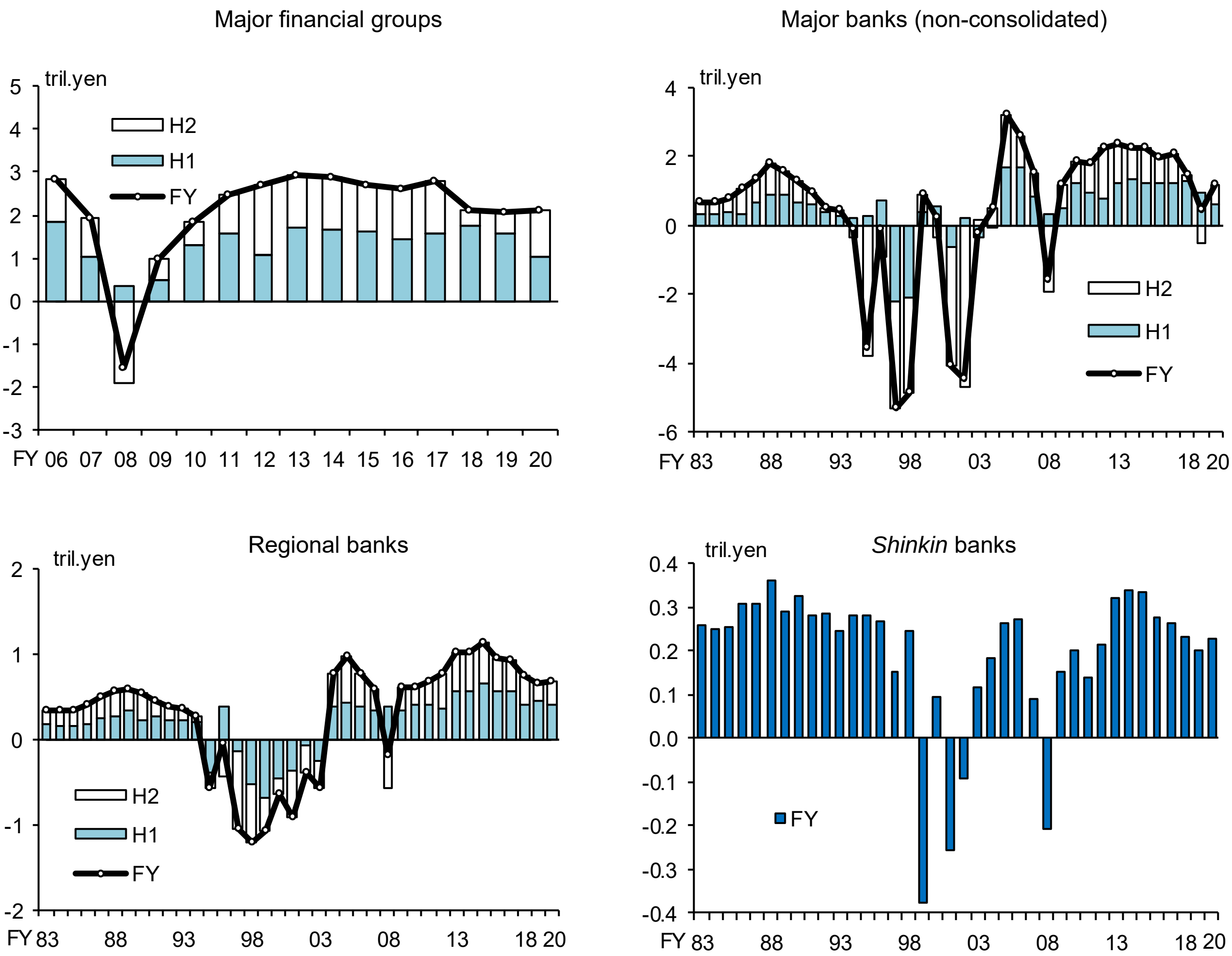
	Regional banks (non-consolidated)			*Shinkin* banks		
	FY2020	y/y chg.	y/y % chg.	FY2020	y/y chg.	y/y % chg.
Net interest income	35,353	+33	+0.1	15,928	+338	+2.2
Net non-interest income	5,738	+512	+9.8	750	+101	+15.6
General and administrative expenses	-28,339	+651	-2.2	-12,595	+220	-1.7
PPNR (excluding trading income)	12,751	+1,195	+10.3	4,083	+659	+19.3
(excluding profits and losses from investment trusts due to cancellations)	(11,733)	(+ 984)	(+9.2)	(3,591)	(+ 606)	(+20.3)
Realized gains/losses on bondholdings	-841	-1,628	——	-74	-620	——
Realized gains/losses on stockholdings	2,187	+1,464	——	278	+315	——
Credit costs	-4,165	-892	——	-1,162	-181	——
(Credit cost ratio)	(15bps)	(+3bps)	——	(15bps)	(+2bps)	——
Other profit and loss items	-541	-4	——	-101	+111	——
Net income before income taxes	9,391	+135	+1.5	3,024	+285	+10.4
Tax-related expenses	-2,615	+2	-0.1	-741	-4	+0.6
Net income	6,775	+137	+2.1	2,283	+281	+14.0

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 2020 for major banks (both on a consolidated and non-consolidated basis), regional banks, and *shinkin* banks increased for the first time in three, five, and six years, respectively.

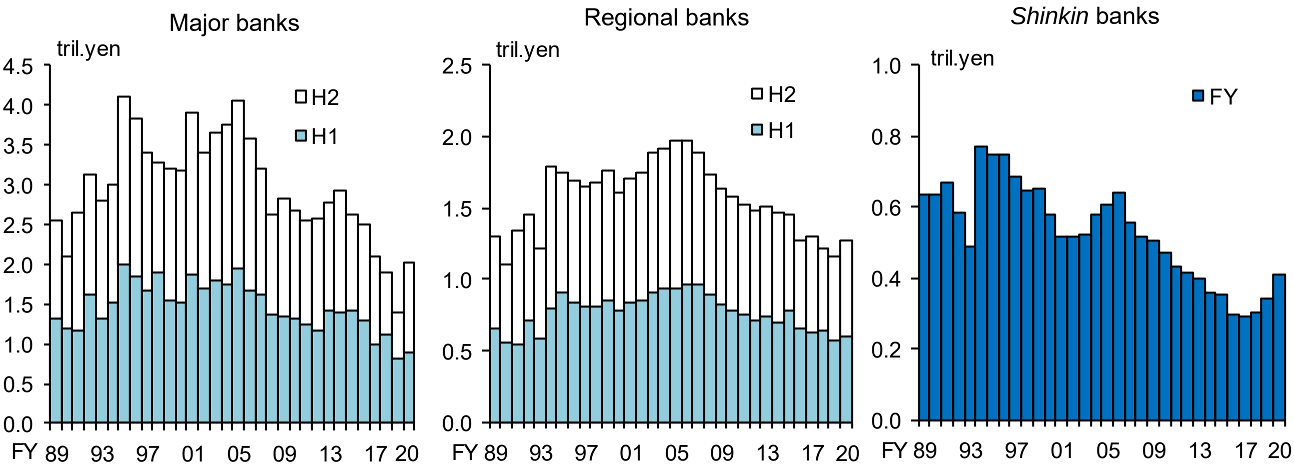
I-B-1: Net income



Source: BOJ.

With regard to core profitability, at major banks, PPNR (excluding trading income) for fiscal 2020 rose by 47.0 percent from the previous year, increasing for the first time in six years. At regional banks, PPNR (excluding trading income) increased by 10.3 percent from the previous year, rising for the first time in three years. At *shinkin* banks, such profits increased by 19.3 percent from the previous year, increasing for the third consecutive year.

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



Source: BOJ.

C. Balance Sheets

Looking at developments in balance sheets for fiscal 2020 at major banks, total assets rose by 70.6 trillion yen due to 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 domestic 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. 2021	y/y chg.	Change from end-Sep. 2020		End-Mar. 2021	y/y chg.	Change from end-Sep. 2020
Loans and bills discounted	327.2	+4.9	-0.6	Deposits and NCD	596.6	+56.1	+21.3
Domestic business sector	231.4	+12.8	-0.2	Domestic business sector	480.8	+46.3	+21.1
International business sector	95.8	-7.9	-0.3	International business sector	115.7	+9.8	+0.2
Securities	171.2	+31.9	+11.1	Loans from BOJ	59.8	+17.4	+5.4
JGBs	72.8	+27.6	+6.7	Due to trust accounts	17.3	+1.7	+2.3
Stocks	16.4	+3.3	+1.6	Other liabilities	140.1	-6.1	+6.0
Foreign securities	57.9	-1.5	+1.4	Total liabilities	813.8	+69.1	+35.0
Cash and due from banks	255.5	+54.9	+22.1	Total net assets	33.6	+1.5	+0.3
Other assets	93.5	-21.1	+2.7	Retained earnings	12.1	+0.2	+0.1
Total assets	847.3	+70.6	+35.4	Net unrealized gains/losses on securities	6.0	+1.6	+0.6

Source: BOJ.

At regional banks, total assets increased by 61.5 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, deposits and NCD and other liabilities (such as loans from the Bank) increased.

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

tril.yen

	End-Mar. 2021	y/y chg.	Change from end-Sep. 2020		End-Mar. 2021	y/y chg.	Change from end-Sep. 2020
Loans and bills discounted	283.7	+13.6	+3.8	Deposits and NCD	382.6	+31.6	+11.0
Securities	87.6	+8.5	+5.2	Current deposits	228.5	+31.1	+12.7
JGBs	17.5	+1.1	+1.3	Other liabilities	68.2	+27.7	+14.5
Cash and due from banks	90.7	+40.4	+17.4	Total liabilities	450.7	+59.3	+25.5
Other assets	12.4	-1.0	+0.0	Total net assets	23.8	+2.2	+0.9
Total assets	474.5	+61.5	+26.4	Net unrealized gains/losses on securities	3.9	+1.6	+0.6

Source: BOJ.

With regard to *shinkin* banks, total assets increased by 16.8 trillion yen as cash and due from banks (such as current deposits held at the Bank, deposits at the Shinkin Central Bank), loans and bills discounted, and securities 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. 2021	y/y chg.		End-Mar. 2021	y/y chg.
Loans and bills discounted	78.1	+5.7	Deposits and NCD	155.2	+10.4
Securities	46.4	+3.5	Current deposits	68.7	+11.0
JGBs	7.7	+1.3	Other liabilities	9.9	+5.7
Cash and due from banks	46.6	+7.4	Total liabilities	165.1	+16.2
Other assets	3.4	+0.1	Total net assets	9.5	+0.6
Total assets	174.6	+16.8	Net unrealized gains/losses on securities	0.6	+0.4

Source: BOJ.

II. Financial Results of Japan's Major Banks and Regional Banks for Fiscal 2020

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.

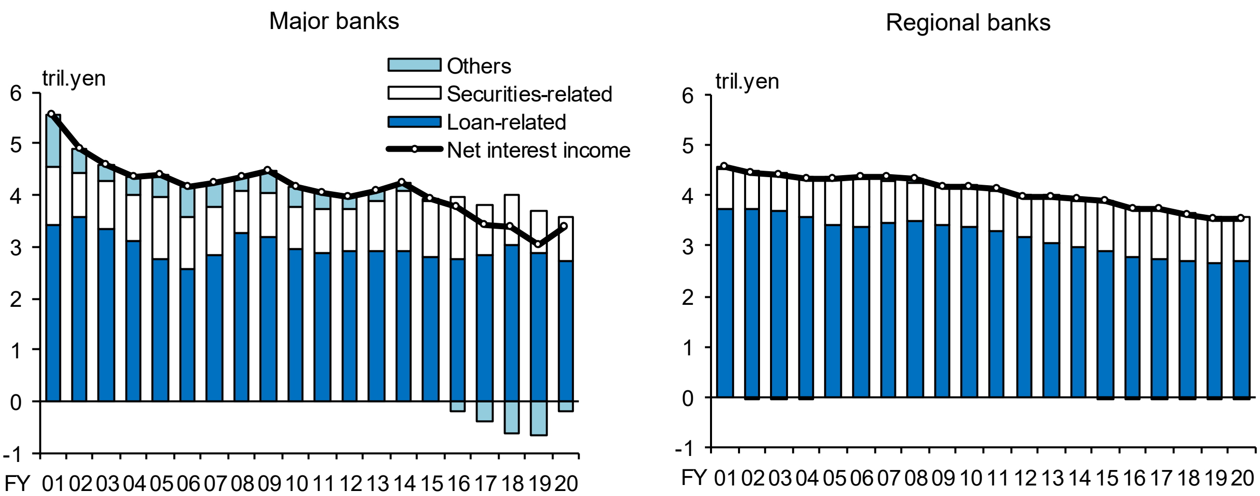
A. Core Profitability

1. Net Interest Income

At major banks, net interest income for fiscal 2020 increased by 11.6 percent from the previous year. Loan-related income decreased while securities-related income increased. Looking at loan-related income in more detail, a decrease in profits in the international business sector, due to the narrowing of interest rate spreads on loans, outweighed the rise in profits in the domestic business sector, which mainly resulted from an increase in loans outstanding due to heightened funding demand associated with COVID-19.

At regional banks, net interest income for fiscal 2020 was more or less unchanged from the previous year, increasing by 0.1 percent. A decline in securities-related income, reflecting the redemption of JGBs and other securities with relatively high yields, was offset by an increase in loan-related income resulting from an increase in the outstanding amount of loans related to COVID-19.

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.

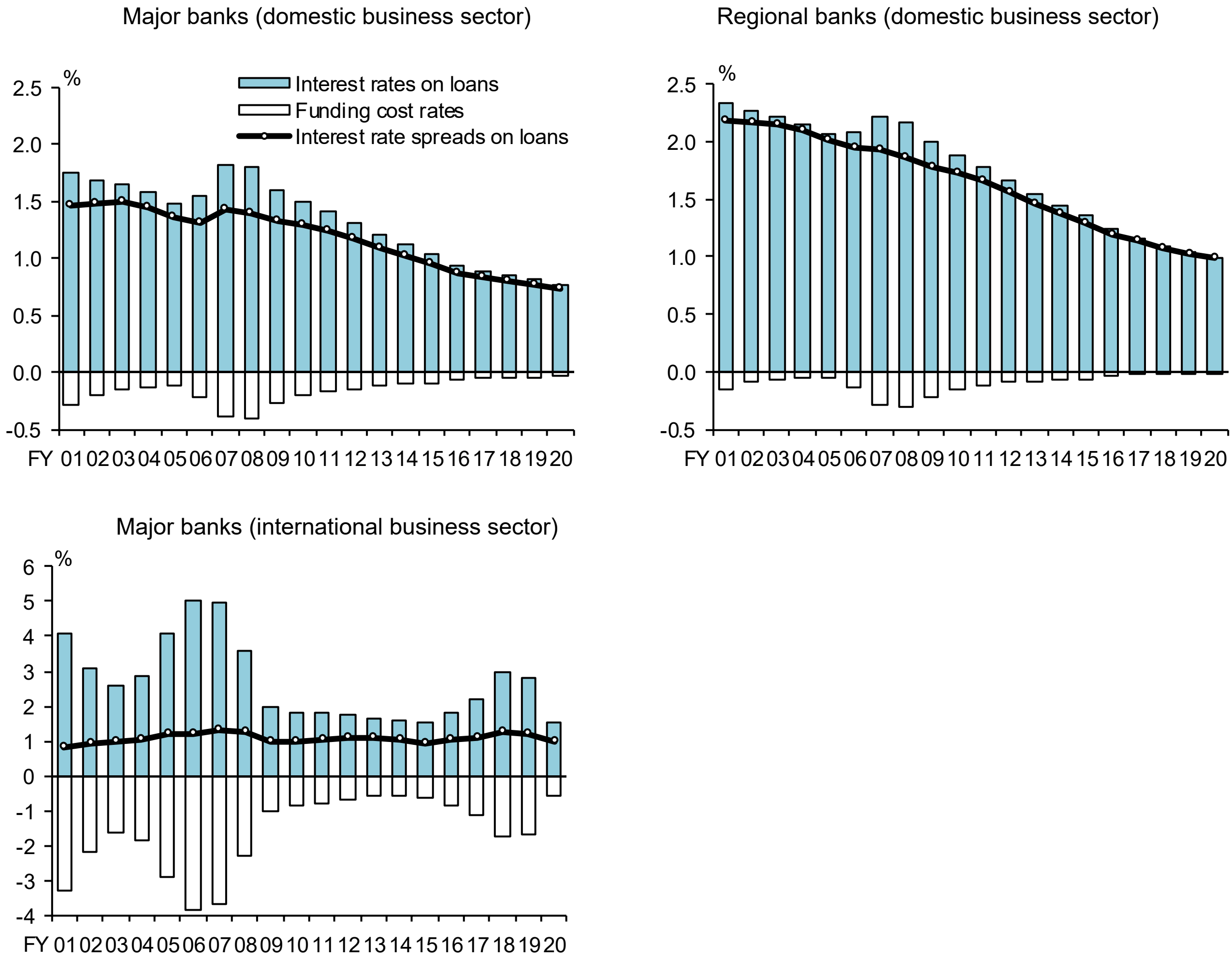
2. Interest Rate Spreads on Loans and Loans Outstanding

(1) Interest Rate Spreads on Loans

Interest rate spreads on loans in the domestic business sector continued to narrow at both major banks and regional banks as the decline in interest rates on loans exceeded the decline in funding cost rates under the prolonged low interest rate environment. At major banks, an increase in loans outstanding for large firms also contributed to the narrowing of the spreads.

At major banks, interest rate spreads on loans in the international business sector continued to narrow. This was because the decline in interest rates on loans exceeded the decline in funding cost rates, reflecting U.S. policy rate cuts.

II-A-2: Interest rate spreads on loans

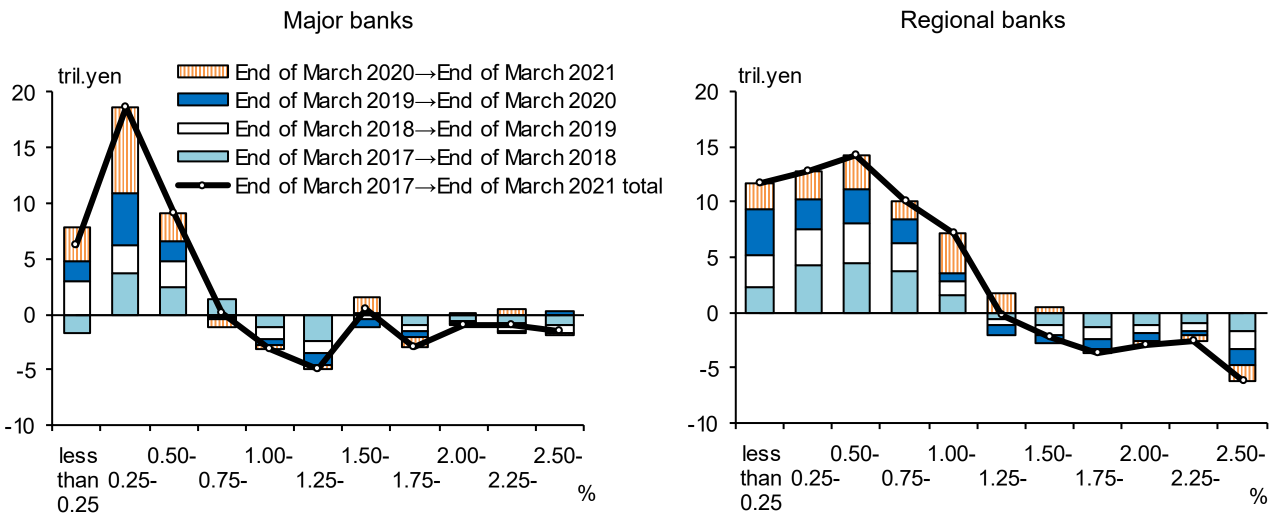


Note: In calculating the interest rate spreads, interest expenses on interest rate swaps are deducted from funding costs.
Source: BOJ.

(2) Loans Outstanding by Lending Rate

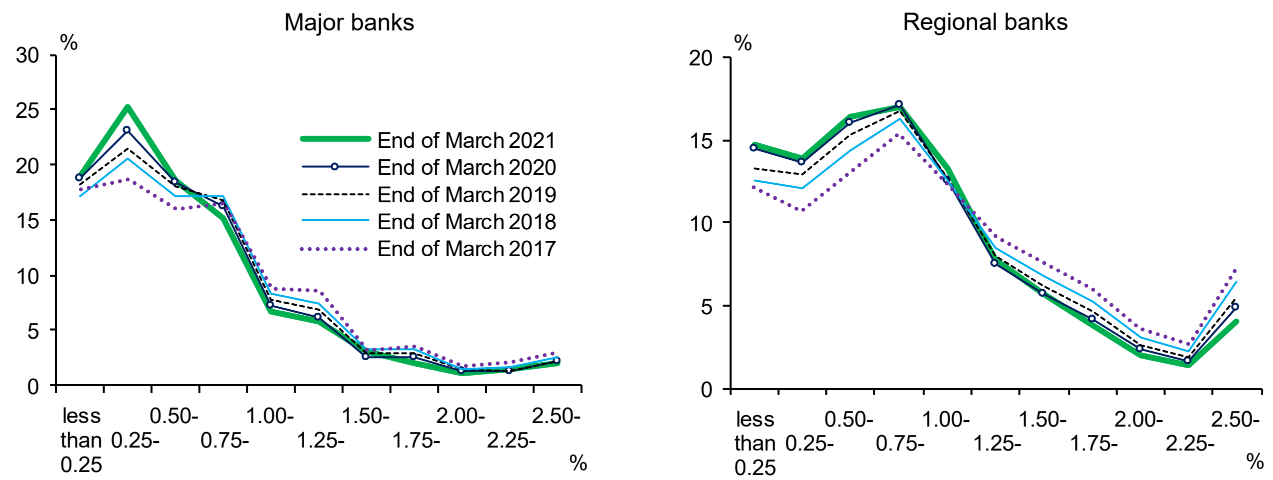
Looking at developments in loans outstanding by lending rate (yen loans at domestic branches) at both major banks and regional banks, those with low lending rates continued to increase.

II-A-3: Changes in loans outstanding by lending rate (from the end of March 2017 to the end of March 2021)



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 2017 to the end of March 2021)

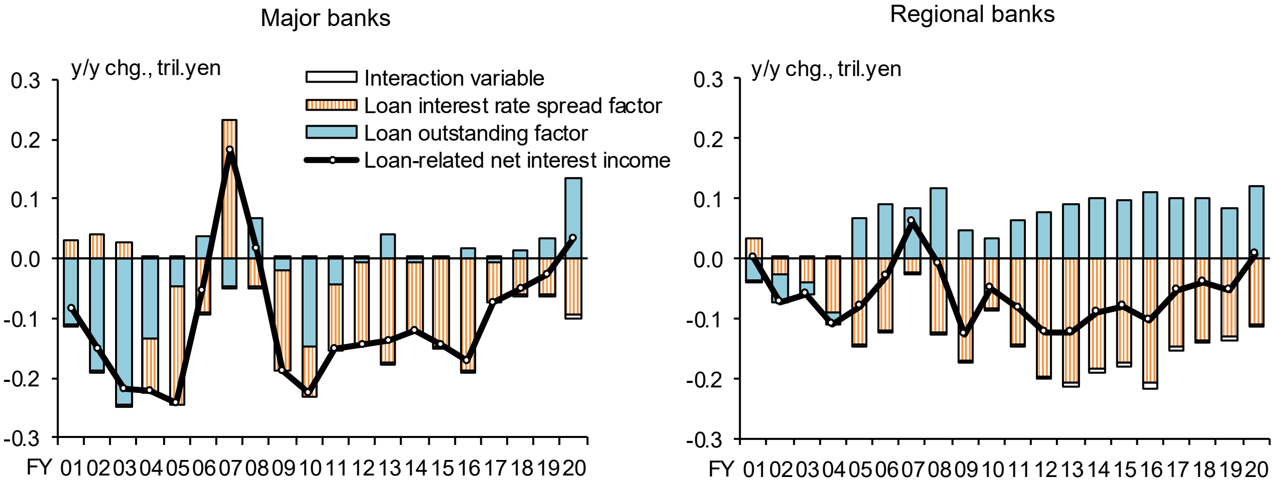


Note: The data are for yen loans outstanding in the domestic business sector (excluding loans to the financial sector) based on the amount outstanding at month-end.
Source: BOJ.

(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 increased at both major banks and regional banks, 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.

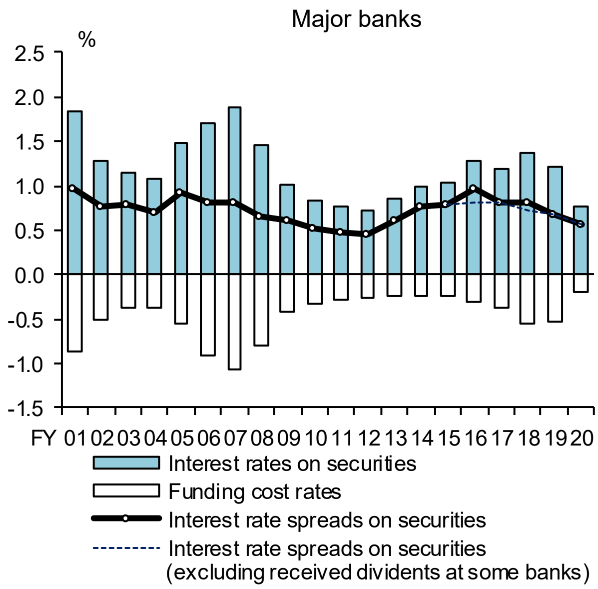
2. Loan-related net interest income = (average amount of loans outstanding) * (interest rate spreads on loans).

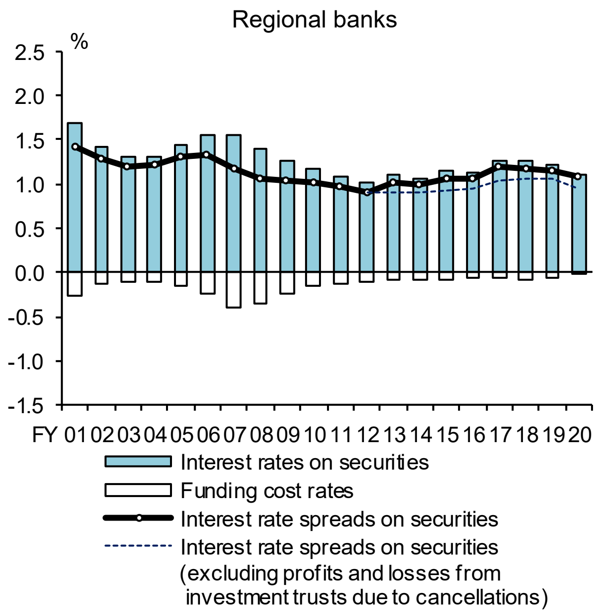
Source: BOJ.

3. Interest Rate Spreads on Securities

Interest rate spreads on securities narrowed at major banks because the decline in interest rates on securities was larger than the decline in funding cost rates, with both of such declines reflecting U.S. policy rate cuts. Such spreads on securities at regional banks also narrowed, reflecting the redemption of JGBs and other securities with relatively high yields. At major banks, while the profitability of domestic securities (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 role of investment trusts continued to increase.

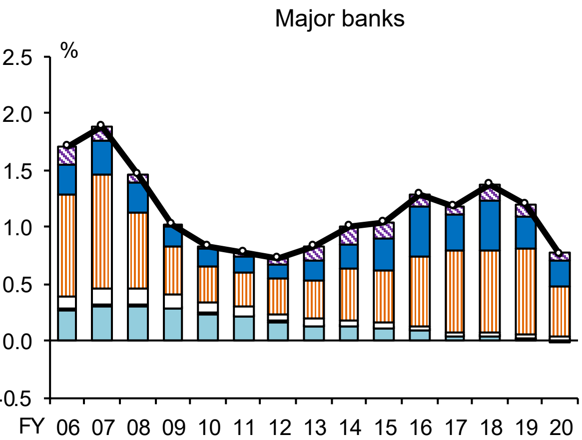
II-A-6: Interest rate spreads on securities

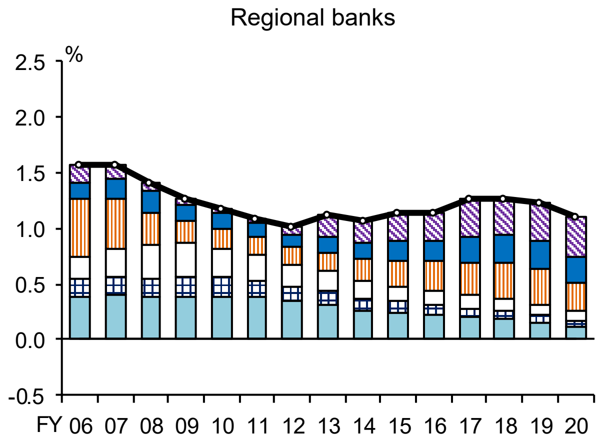




Note: In calculating the interest rate spreads, interest expenses on interest rate swaps are deducted from funding costs.
Source: BOJ.

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



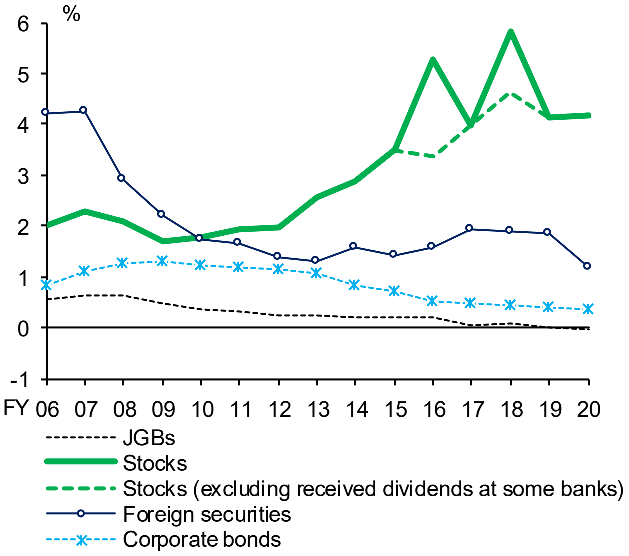


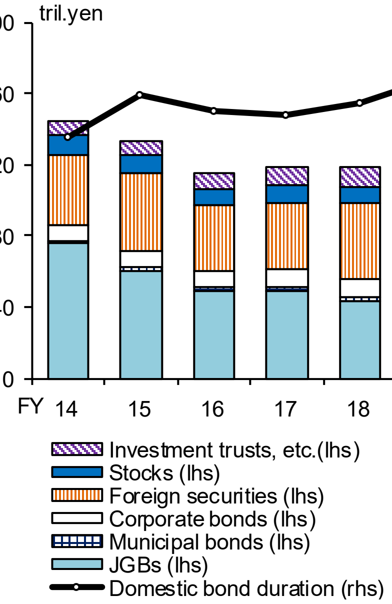
Investment trusts, etc. Stocks Foreign securities Corporate bonds
Municipal bonds JGBs Total

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.

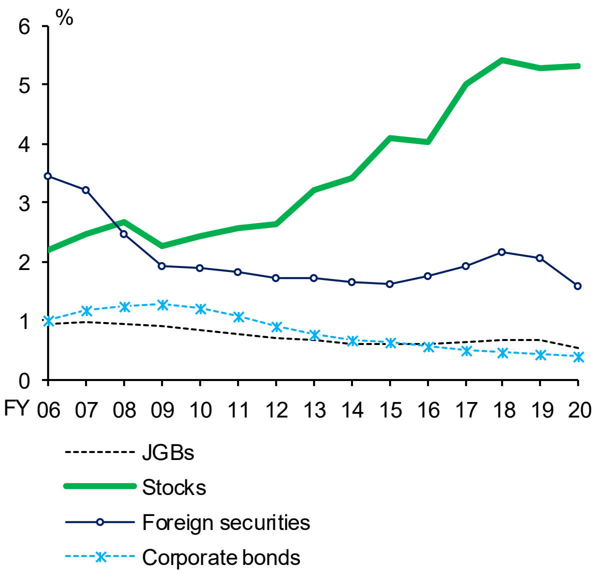
II-A-8: Interest rates on securities holdings and amounts outstanding by product type (at month-end)

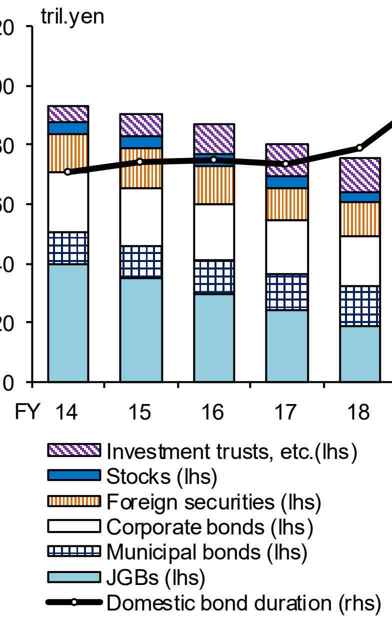
Major banks





Regional banks



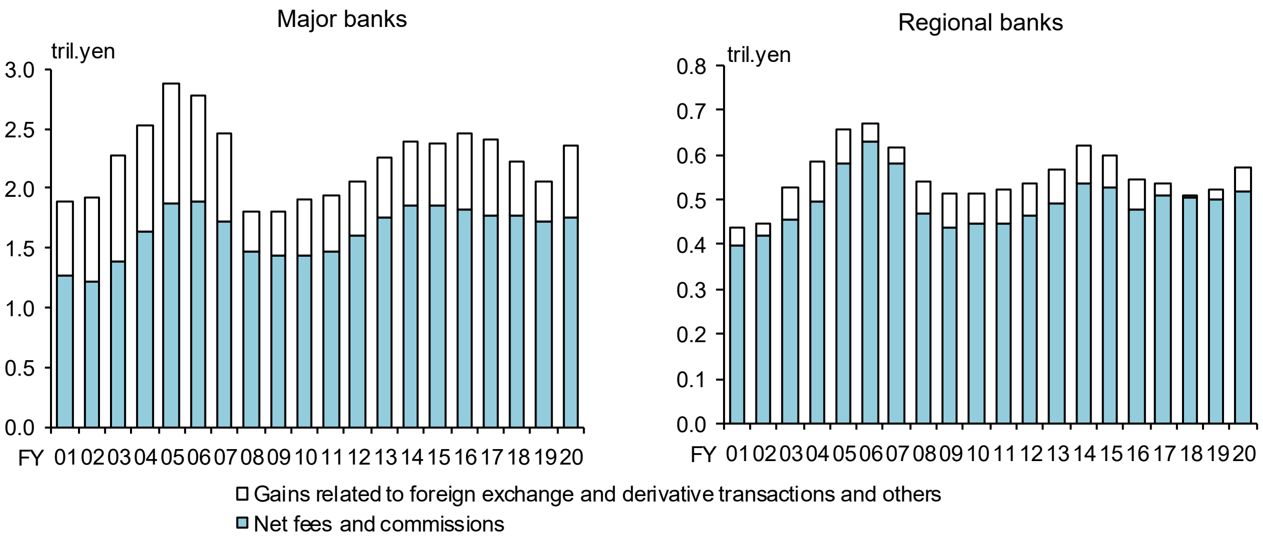


Source: BOJ.

4. Net Non-Interest Income

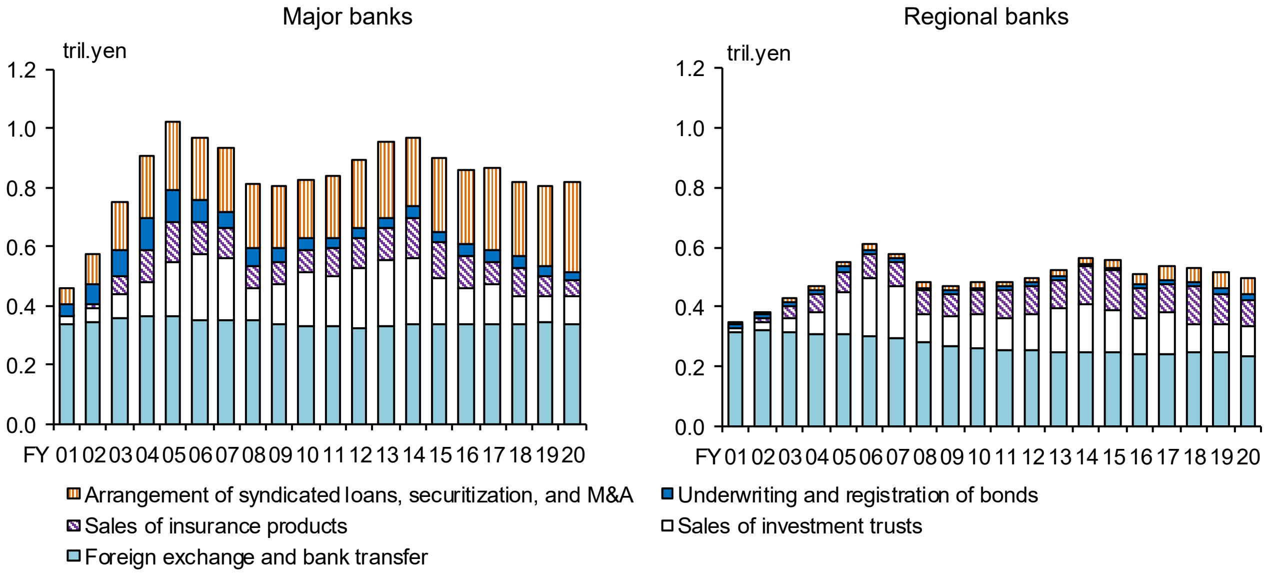
At major banks, net non-interest income increased by 14.7 percent from the previous year. Specifically, income from fees and commissions increased as syndicated loans increased in the domestic business sector and as income from fees and commissions associated with deposits and lending accumulated in the international business sector. Moreover, gains related to foreign exchange and derivative transactions increased, reflecting an improvement in gains/losses related to hedging positions due to a rise in U.S. interest rates. At regional banks, net non-interest income increased by 9.8 percent from the previous year due to the rise in income from fees and commissions as well as in gains related to foreign exchange and derivative transactions.

II-A-9: Net non-interest income



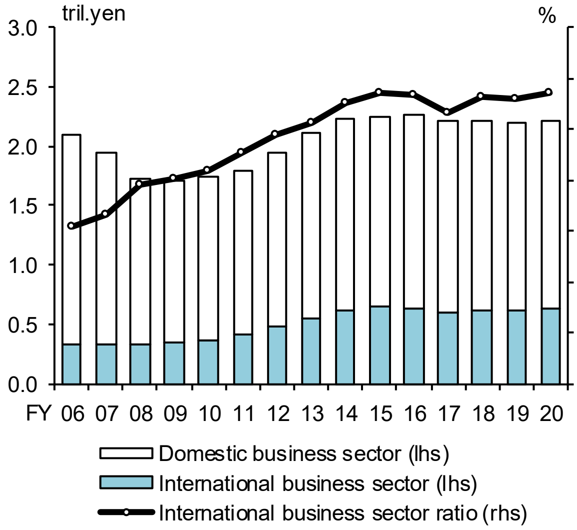
Source: BOJ.

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



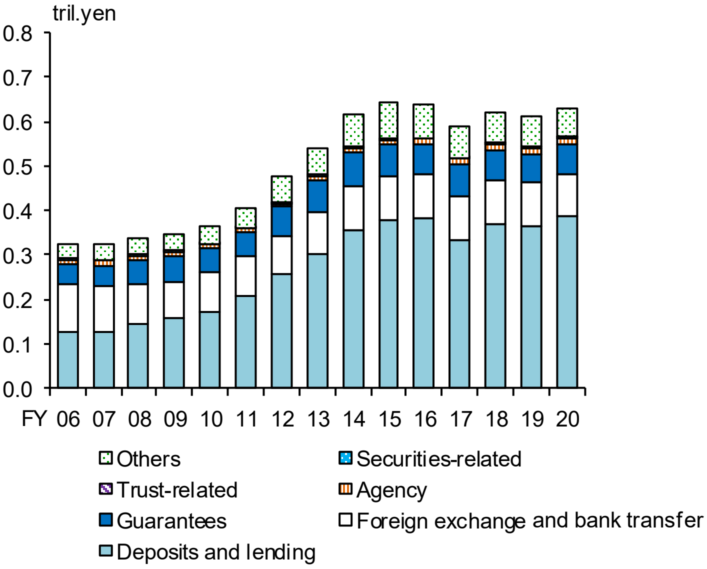
Note: Among items of income from fees and commissions, the 5 items listed above are counted.
Source: BOJ.

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



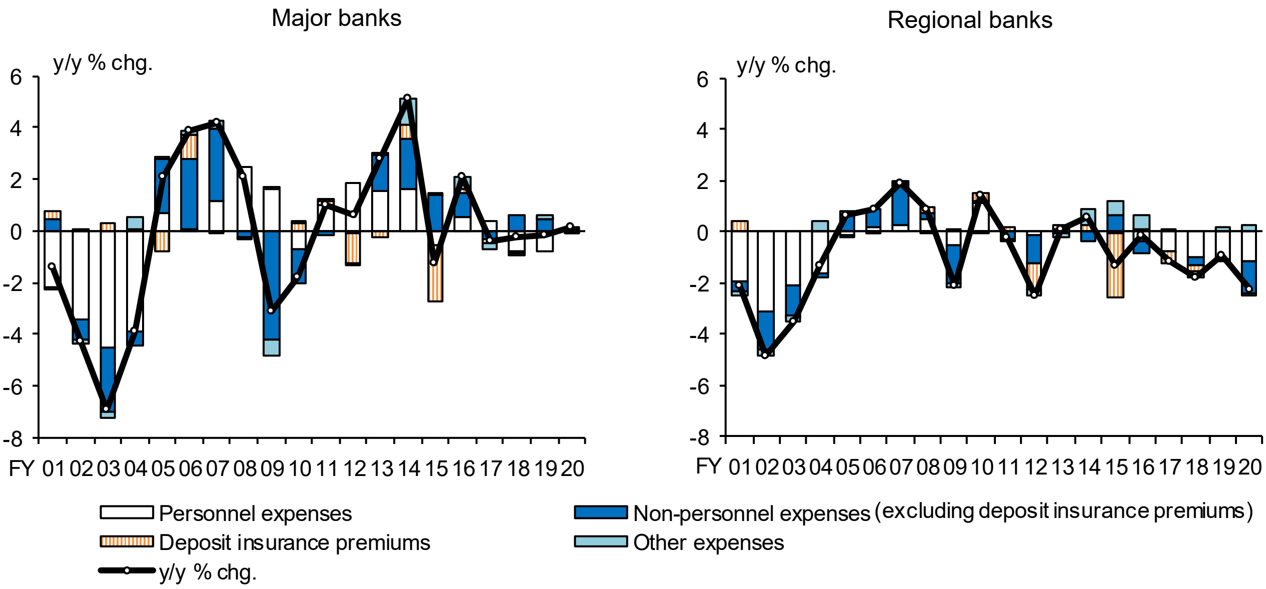
Note: The figures are categorized based on each bank's internal definition. Thus, there are variations on such categorization. "Deposits and lending" includes income from fees and commissions related to the arrangement of syndicated loans, commitment lines, securitization, and M&A transactions.

Source: BOJ.

5. General and Administrative Expenses

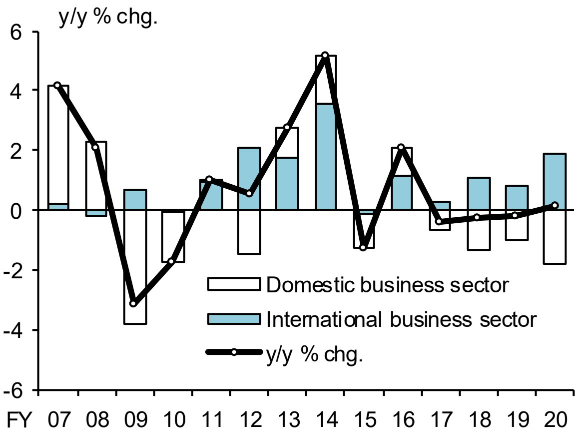
At major banks, general and administrative expenses increased by 0.1 percent from the previous year, continuing to decrease in the domestic business sector while increasing in the international business sector. At regional banks, general and administrative expenses decreased by 2.2 percent from the previous year. Sales activities have taken a downturn as COVID-19 has caused a relatively large decline 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) decreased, mainly because of an increase in core gross operating profits at major banks and because of an increase in core gross operating profits as well as a decline in general and administrative expenses at regional banks.

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



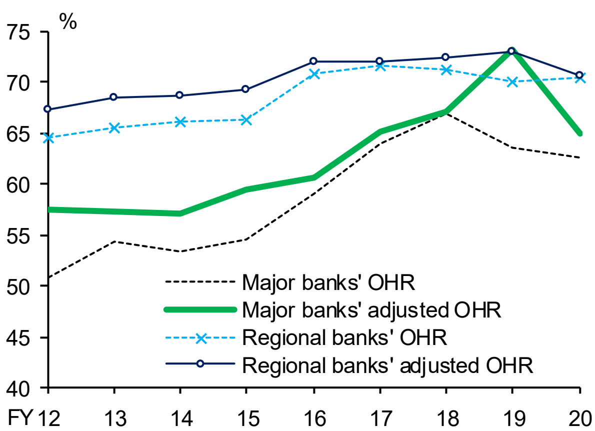
Source: BOJ.

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.

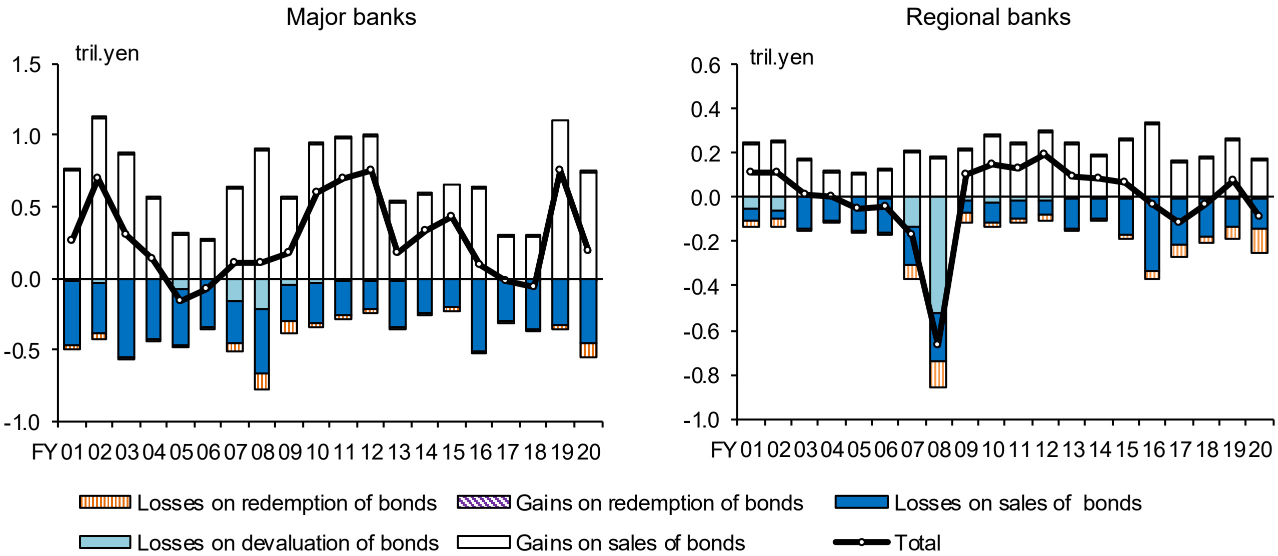
B. Realized and Unrealized Gains/Losses on Securities Holdings

1. Realized Gains/Losses on Securities Holdings

Realized gains/losses on bondholdings deteriorated at major banks. Profits from sales of foreign and domestic securities decreased and losses on sales of securities accumulated toward the end of the fiscal year. At regional banks, realized gains/losses deteriorated due to a decline in gains on sales as the realization of gains was restrained compared to the previous year.

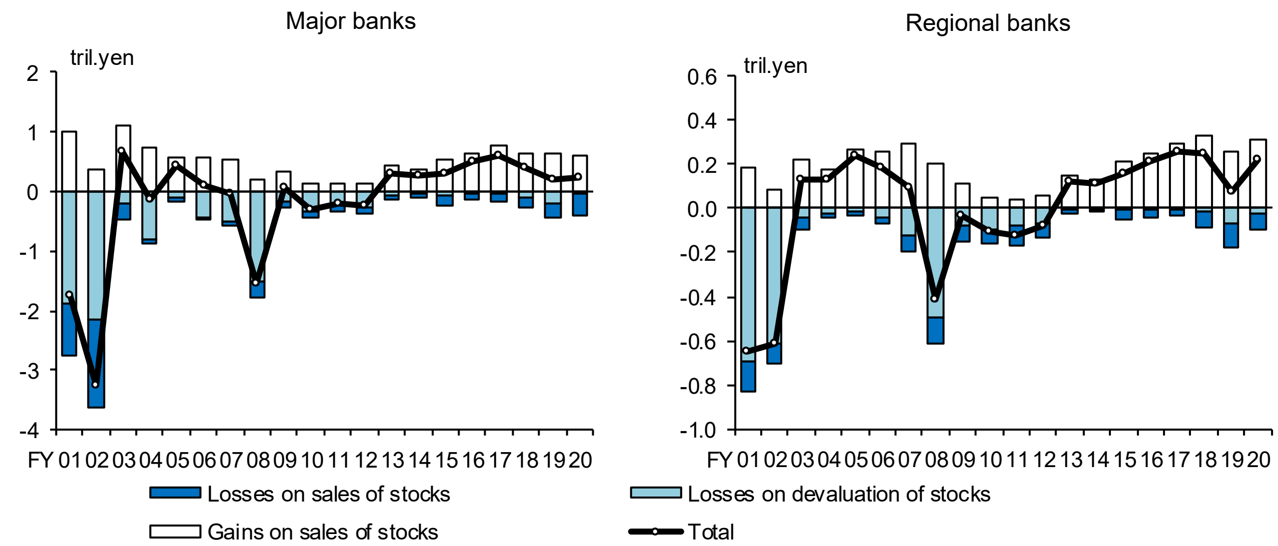
Realized gains/losses on stockholdings were more or less unchanged at major banks, while realized gains increased at regional banks because of an increase in gains on sales.

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



Source: BOJ.

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



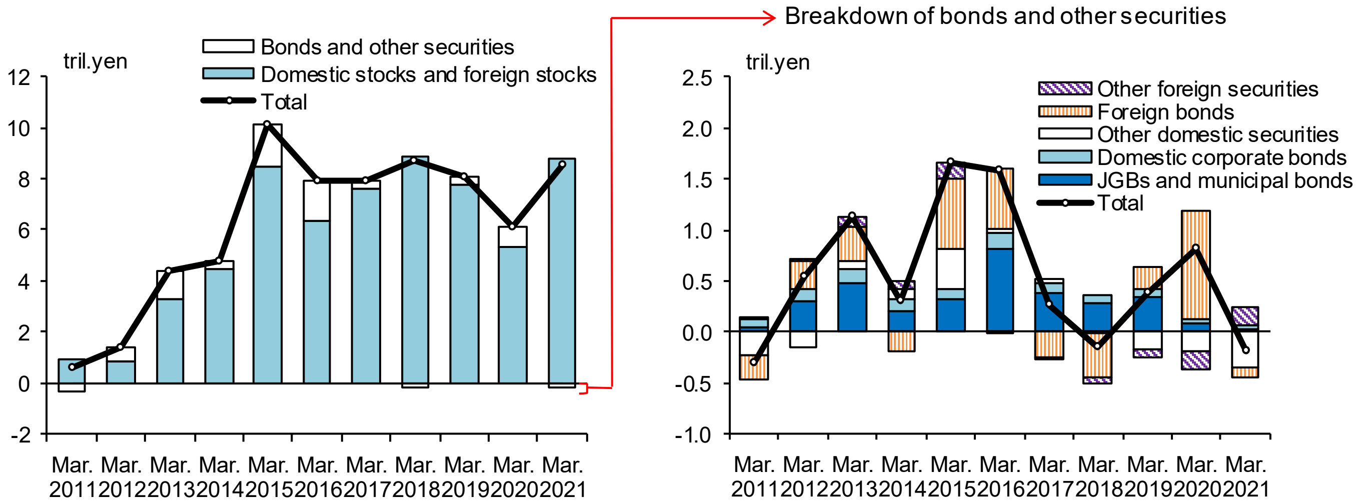
Source: BOJ.

2. Unrealized Gains/Losses on Securities Holdings

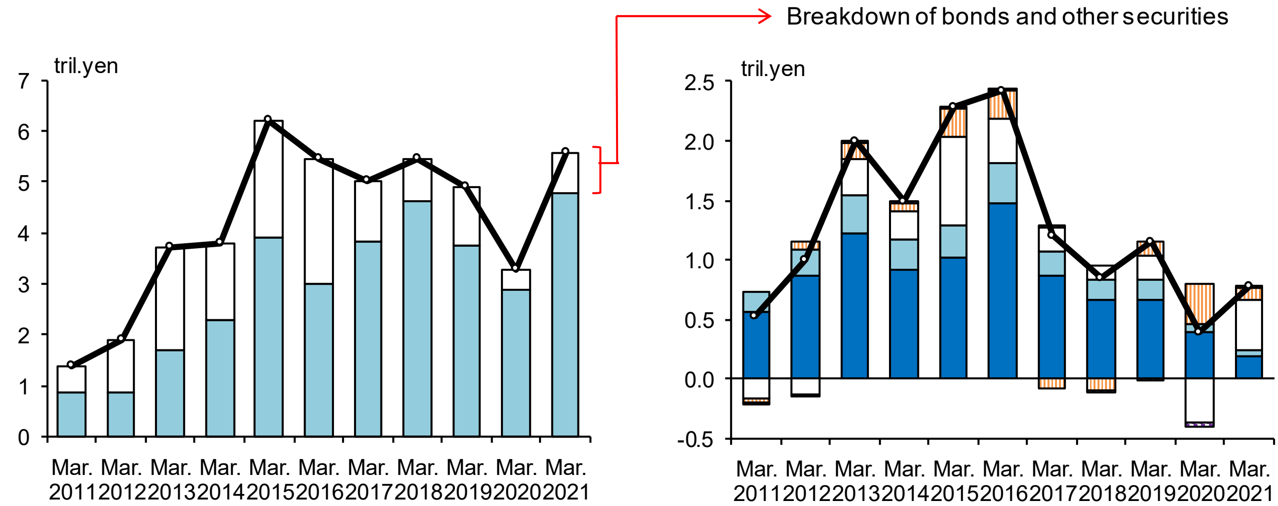
Unrealized gains/losses on available-for-sale securities holdings as of the end of March 2021 at both major banks and regional banks achieved high gains, at about 8.5 trillion yen and about 5.5 trillion yen, respectively. Looking at the breakdown, unrealized gains of stockholdings, accounting for a large share of the total gains on securities holdings, increased at both major banks and regional banks, reflecting rise in stock prices. Holdings of bonds and other securities turned to unrealized losses at major banks as unrealized losses on foreign bondholdings increased due to the rise in U.S. interest rates. On the other hand, at regional banks, holdings of other domestic securities -- which include investment trusts -- turned positive mainly due to the rise in stock prices and thereby pushed up the overall unrealized gains.

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

Major banks



Regional banks



Note: 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.
Source: BOJ.

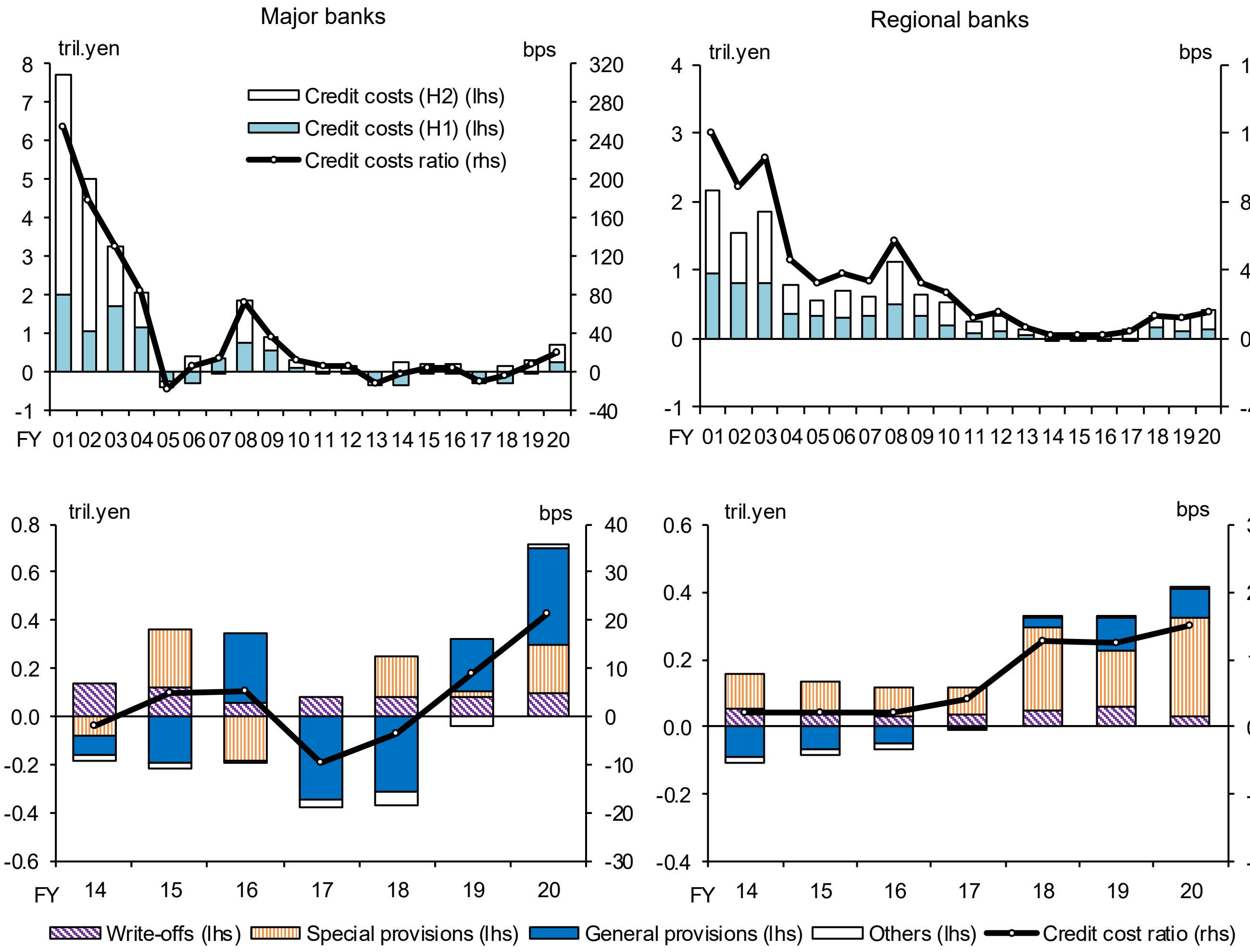
C. Credit Costs and Non-Performing Loans

1. Credit Costs

At major banks, credit costs increased not only due to a rise in loan-loss provisions to some industries that were significantly affected by COVID-19 (such as in-person services), but also due to the expansion of the target firms of precautionary loan-loss provisions (see Box 2). At regional banks, credit costs increased with a rise in general provisions resulting from an increase in the amount of loans outstanding and precautionary loan-loss provisions.

The credit cost ratio (= credit costs / total loans outstanding) was 21 basis points (an increase of 12 basis points from the previous year) at major banks and 15 basis points (an increase of 3 basis points from the previous year) at regional banks.

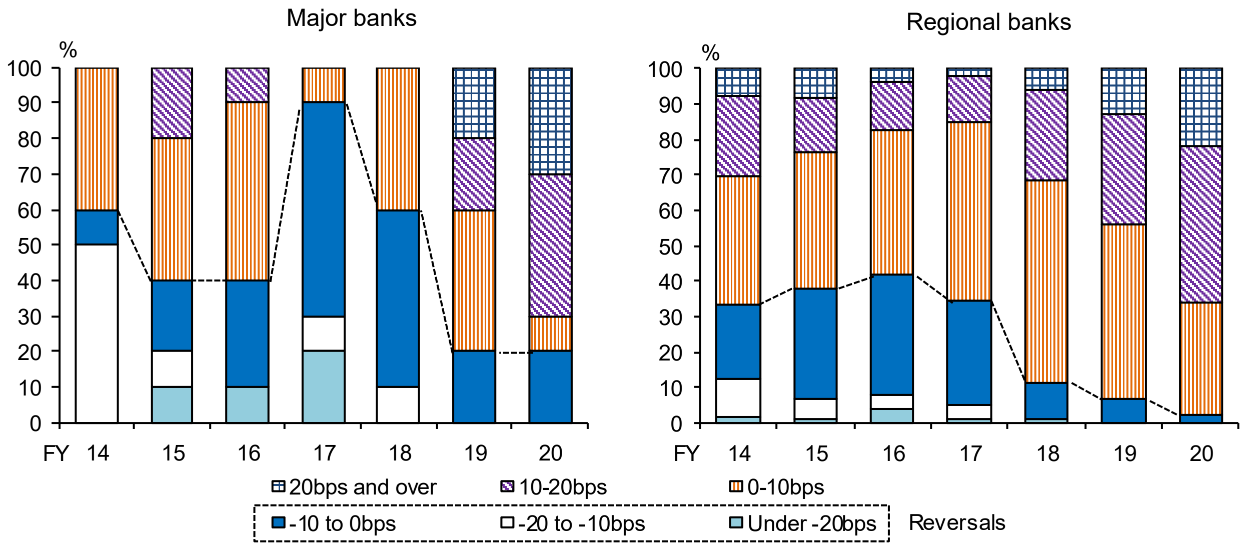
II-C-1: Credit costs and credit cost ratios



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 rose. For regional banks, the share of banks with credit costs of 10 basis points or greater also rose, and almost all regional banks incurred credit costs.

II-C-2: Credit cost ratio distribution



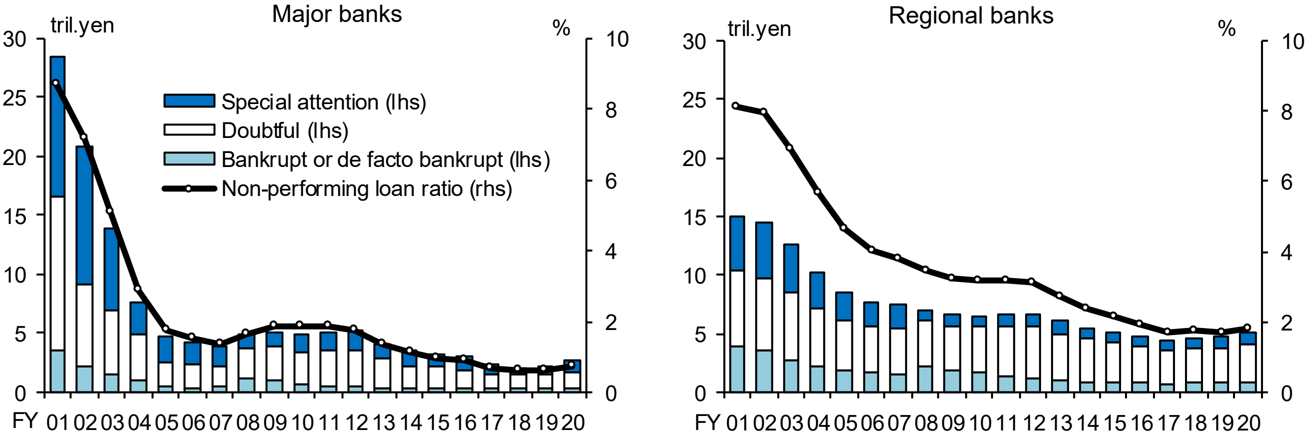
Note: Proportion of the number of banks by credit cost ratio.
Source: BOJ.

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 NPL ratios for overseas loans at the three megabanks rose to the highest level since fiscal 2012.

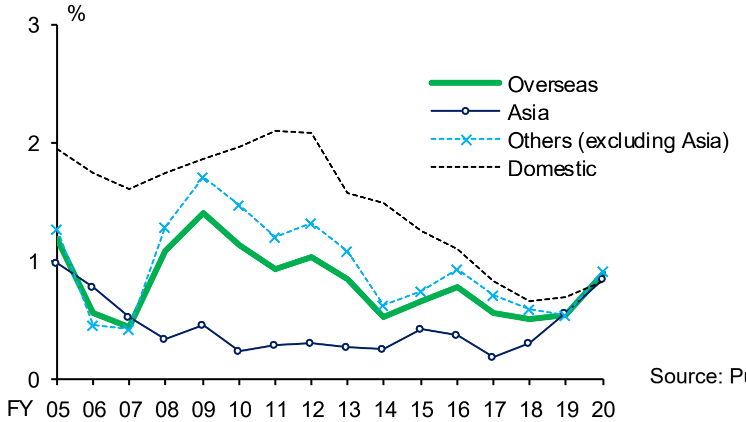
Looking at the proportion of loans outstanding by borrower classification, the ratio of "need attention" loans rose slightly. Meanwhile, the ratio of "normal" loans declined slightly, but remained high, exceeding 95 percent at major banks and reaching almost 90 percent at regional banks.

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



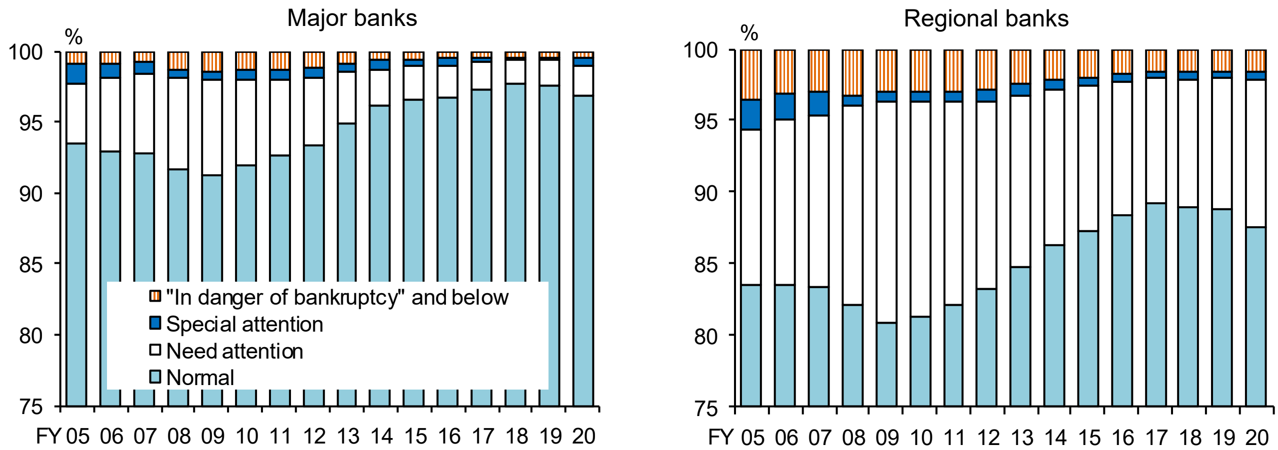
Source: BOJ.

II-C-4: Non-performing overseas loan ratios (three megabanks)



Source: Published accounts of each bank.

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



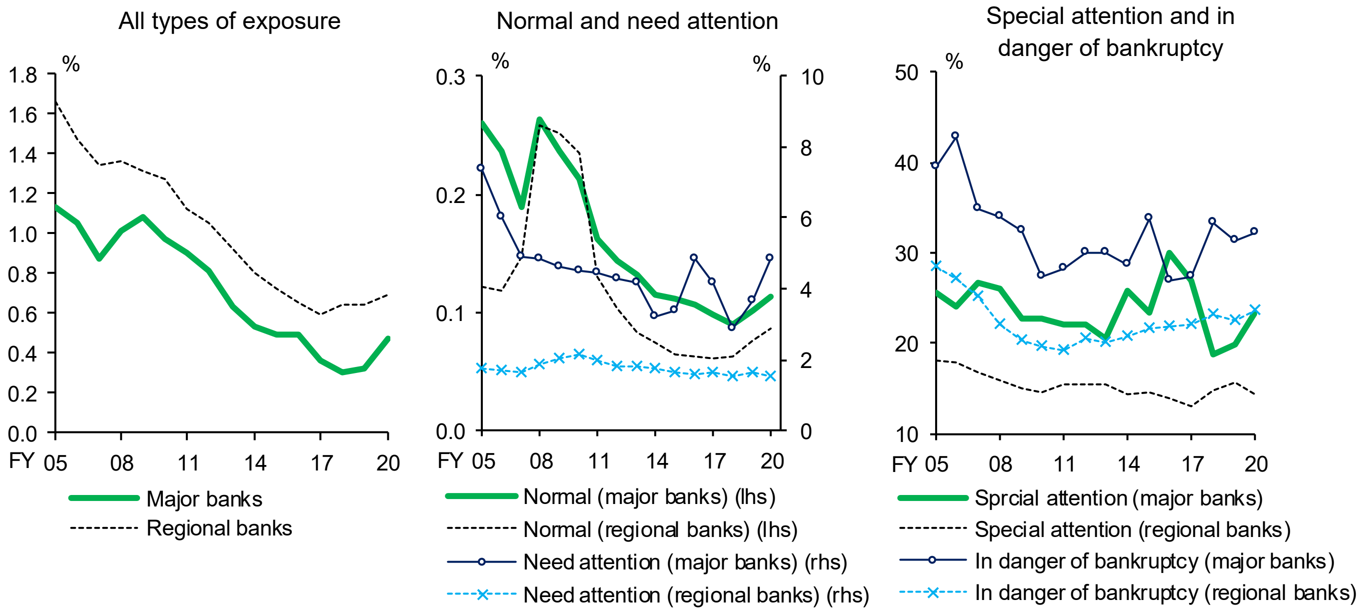
Note: The data are calculated on a write-off basis.
Source: BOJ.

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 "need attention" loans and "special attention" loans increased, although remaining at low levels. At regional banks, such ratios increased slightly.

II-C-6: Loan-loss provision ratios



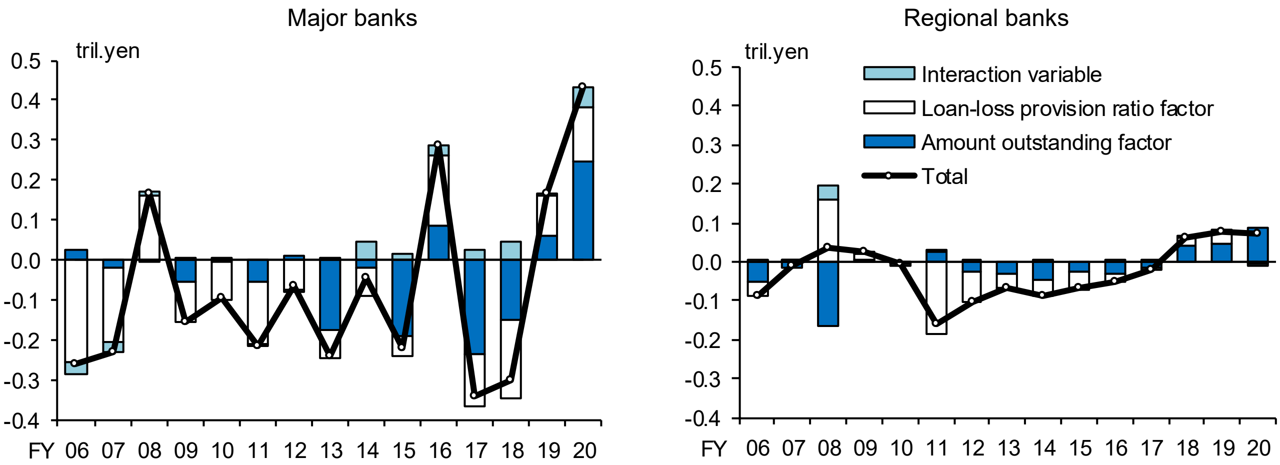
Notes: 1. The data include loans to which the discounted cash flow method is applied.
2. The loan-loss provision ratio is calculated as loan-loss provisions divided by the total amount of claims (not the uncovered amount of claims).

Source: BOJ.

(2) Outstanding Amount of Loan-Loss Provisions

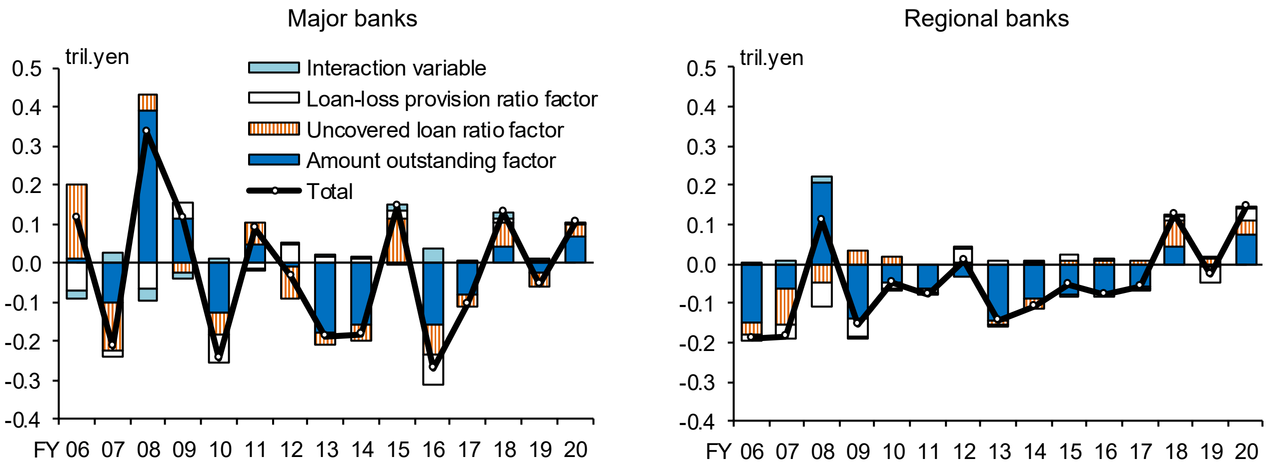
Looking at the outstanding amount of loan-loss provisions, general provisions continued to increase at both major banks and regional banks, mainly due to a rise in the outstanding loan amounts. Meanwhile, special provisions rose at major banks, mainly due to an increase in the outstanding loan amounts, and also at regional banks, partly due to an increase in precautionary loan-loss provisions.

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



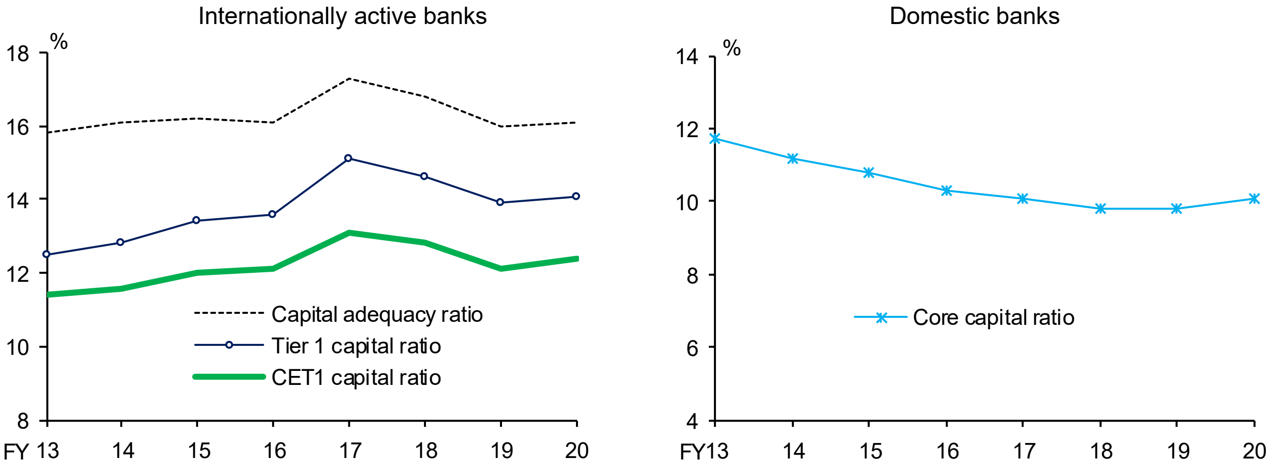
Note: Each factor represents the sum of the amount calculated by borrower classification.
Source: BOJ.

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 rose. Risk-weighted assets increased mainly due to an increase in lending, reflecting heightened demand for funding, but CET1 capital also increased as a result of an accumulation of retained earnings and an increase in stock prices, pushing up the ratios.

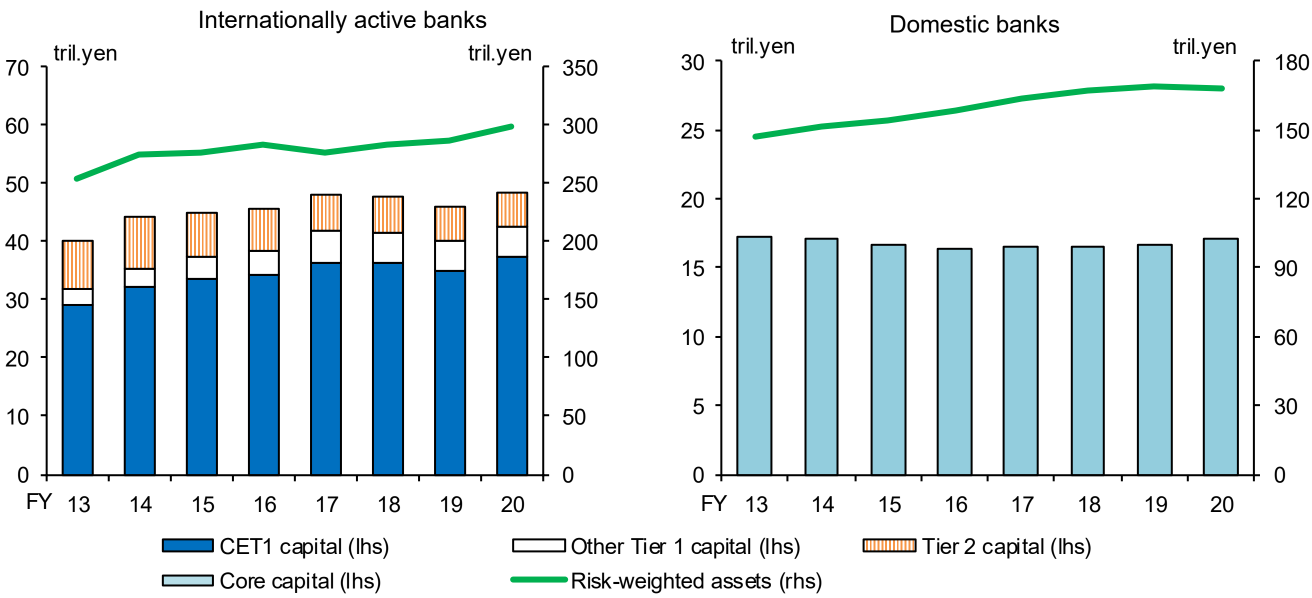
The capital adequacy ratio of domestic banks rose, reflecting an accumulation of retained earnings in a situation where an increase in risk-weighted assets was contained.

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 Chart III-D-1).

Source: BOJ.

Box 1: Banks' profit projections for fiscal 2021

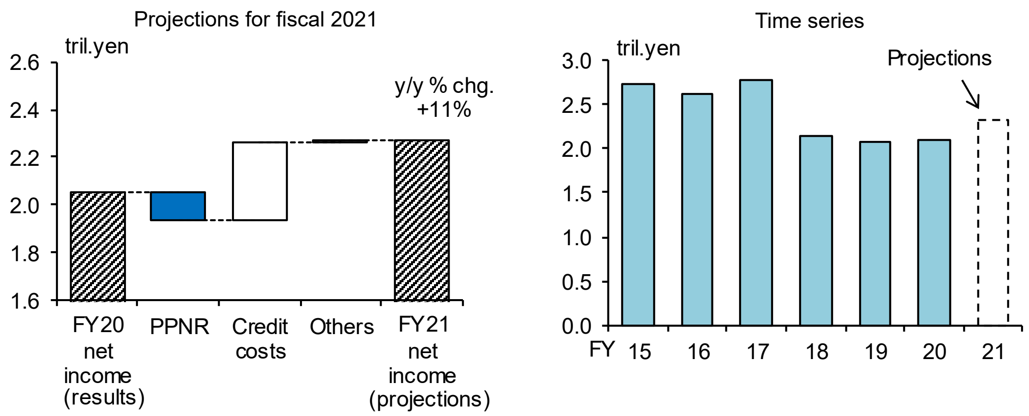
Based on data available as of July 2021, net income for fiscal 2021 is projected to increase both at major financial groups and at regional banks (on a non-consolidated basis).

At major financial groups, net income is projected to increase by slightly over 10 percent from fiscal 2020. Operating profits are projected to decline slightly, but a decrease in credit costs will outweigh the decline in operating profits (for details regarding credit costs, see Box 2). Net income at major financial groups was on a downtrend due to a decrease in net interest income, reflecting a contraction in domestic lending margins, and to an increase in credit costs; however, for fiscal 2021, it is projected to rise markedly from the previous fiscal year.

At regional banks as a whole, net income is projected to increase by about 5 percent from fiscal 2020 due to an increase in income from fees and commissions and a decline in credit costs. However, it is expected to remain at a relatively low level, as in past years.

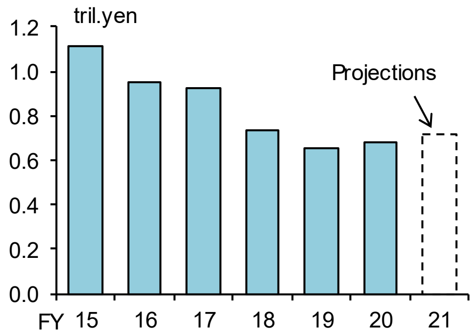
It should be noted that the outlook is subject to considerable uncertainty, including the impact of COVID-19 on the economy.

B1-1: Net Income of major financial groups



Note: Covers only groups that have announced their PPNR, credit cost, and net income projections for fiscal 2021. For those that do not announce figures on a consolidated basis, figures on a non-consolidated basis are used.
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 2021.
Sources: Published accounts of each bank; BOJ.

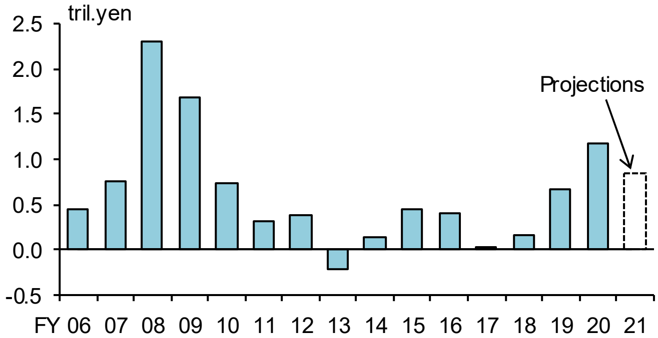
Box 2: Credit costs of major financial groups

Credit costs of major financial groups increased relatively largely for fiscal 2019 and 2020, but are projected to decrease by about 30 percent for fiscal 2021 compared to the previous fiscal year. The following two points could be raised as the main reasons for this decrease.

Major financial groups started to record precautionary loan-loss provisions from fiscal 2019, and increased loan-loss provisions in fiscal 2020, due to the expansion of target firms. In the case where the target borrower firms of the loan-loss provisions are downgraded, such loan-loss provisions can be used and would function as a constraint on the credit cost increase of major financial groups for fiscal 2021.

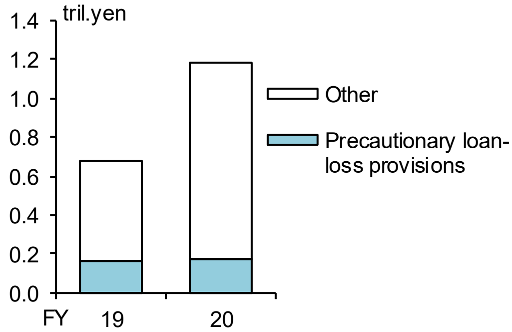
Looking at the breakdown of the credit costs of major financial groups for fiscal 2020, a certain amount of credit costs is seen for both the domestic and international business sectors of major banks on a non-consolidated basis, as well as at overseas commercial banks. In fiscal 2021, the credit costs of the international business sector and overseas commercial banks are likely to decrease as overseas economies recover.

B2-1: Credit costs of major financial groups



Note: Covers only groups that have announced their credit cost projections for fiscal 2021.
Sources: Published accounts of each financial group; BOJ.

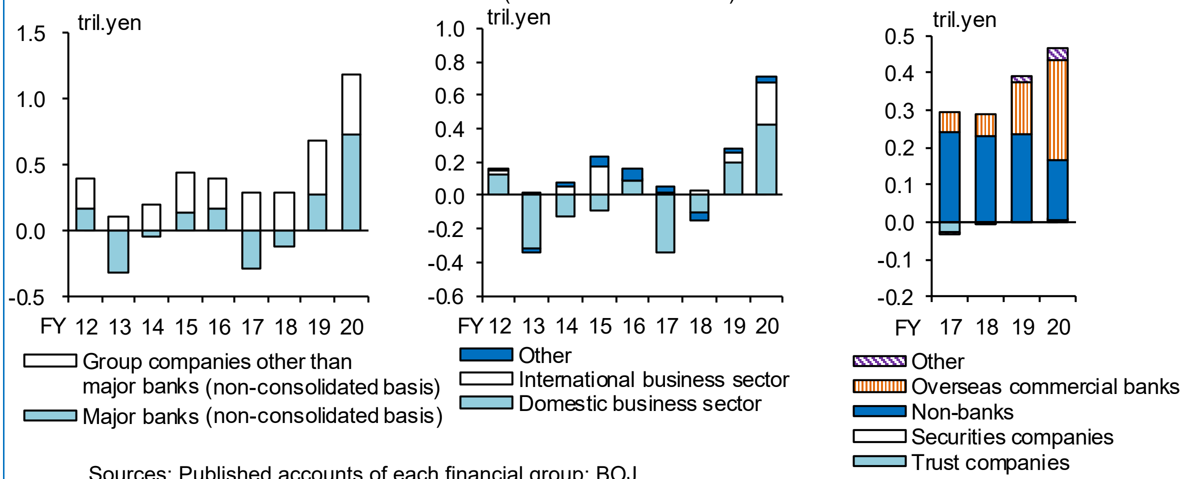
B2-2: Proportion of precautionary loan-loss provisions to credit costs at major financial groups



Note: Covers precautionary loan-loss provisions released in published accounts of each financial group.
Sources: Published accounts of each financial group; BOJ.

B2-3: Breakdown of credit costs of major financial groups

Breakdown of major financial groups | Breakdown of major banks (non-consolidated basis) | Breakdown of group companies



Sources: Published accounts of each financial group; BOJ.

III. Financial Results of Japan's *Shinkin* Banks for Fiscal 2020

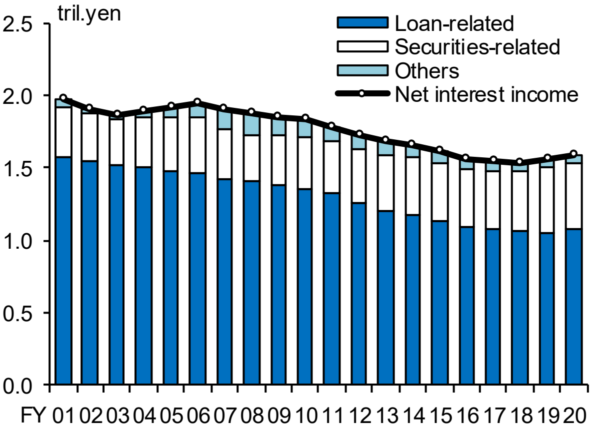
This chapter outlines *shinkin* banks' core profitability (net interest income, net non-interest income, and general and administrative expenses), realized and unrealized gains/losses on securities holdings, credit costs and non-performing loans, as well as capital adequacy ratios.

A. Core Profitability

1. Net Interest Income

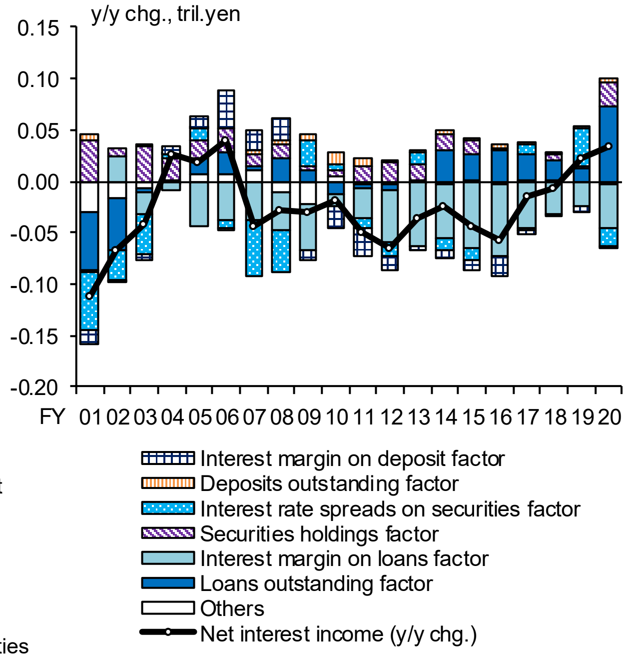
Net interest income increased by 2.2 percent from the previous year, mainly due to an increase in the outstanding amount of loans related to COVID-19, although interest rate spreads on loans continued to narrow.

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)



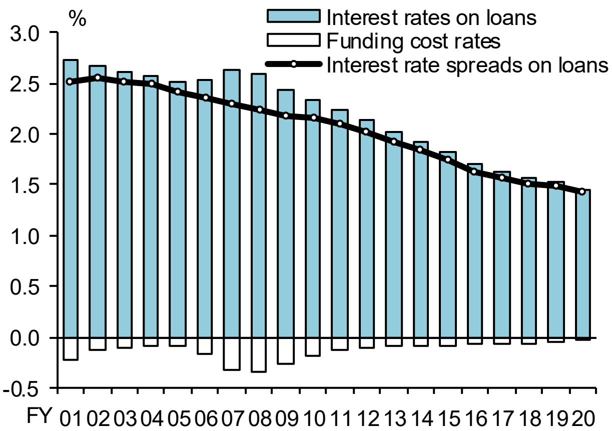
Source: BOJ.

2. Interest Rate Spreads on Loans and Loans Outstanding

(1) Interest Rate Spreads on Loans

Interest rate spreads on loans continued to narrow as a result of proactive efforts to increase effectively interest-free loans -- part of the government's measures to support corporate financing which offers relatively narrow interest margins. The distribution of interest rate spreads for individual *shinkin* banks also continued to shrink.

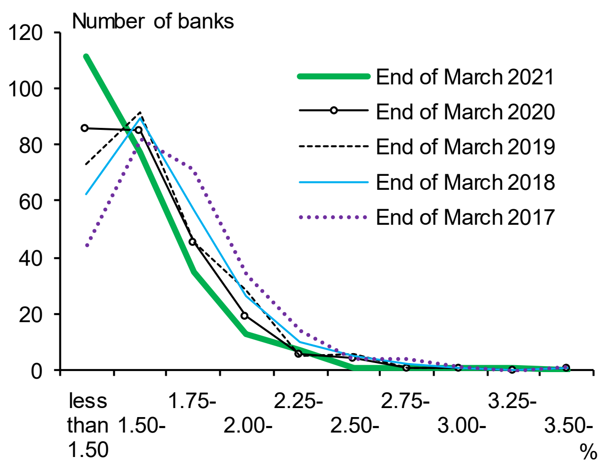
III-A-3: Interest rate spreads on loans



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

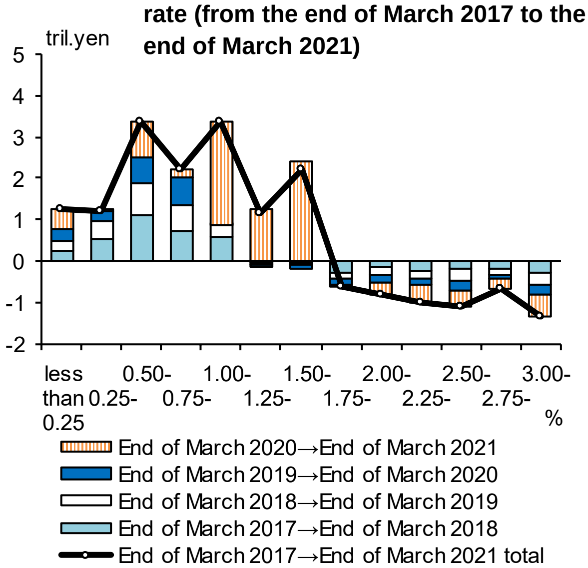


Source: BOJ.

(2) Loans Outstanding by Lending Rate

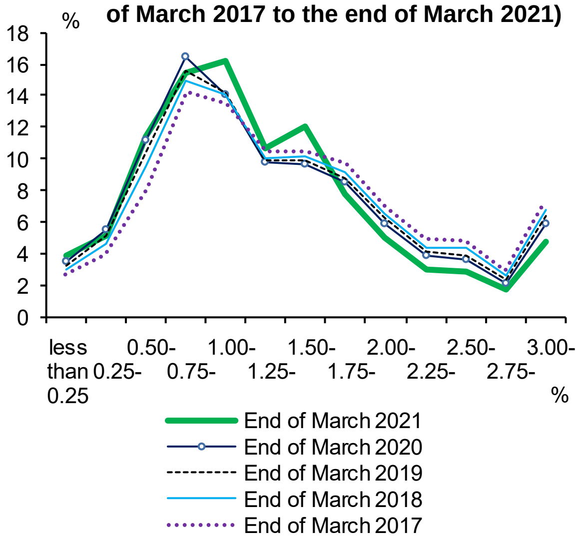
Looking at developments in loans outstanding by lending rate, at *shinkin* banks that have a relatively large share of the effectively interest-free loans, the amount outstanding of the effectively interest-free loans with low lending rates (reflecting interest subsidies from local governments) mainly increased.

III-A-5: Changes in loans outstanding by lending rate (from the end of March 2017 to the end of March 2021)



Source: BOJ.

III-A-6: Changes in proportion of loans outstanding by lending rate (from the end of March 2017 to the end of March 2021)

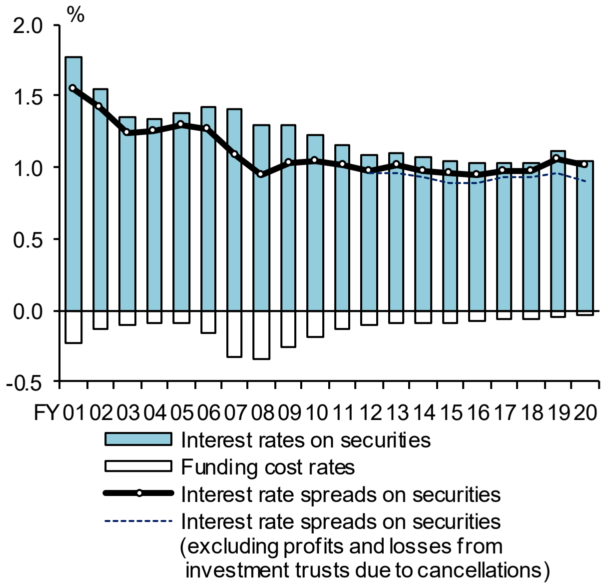


Source: BOJ.

3. Interest Rate Spreads on Securities

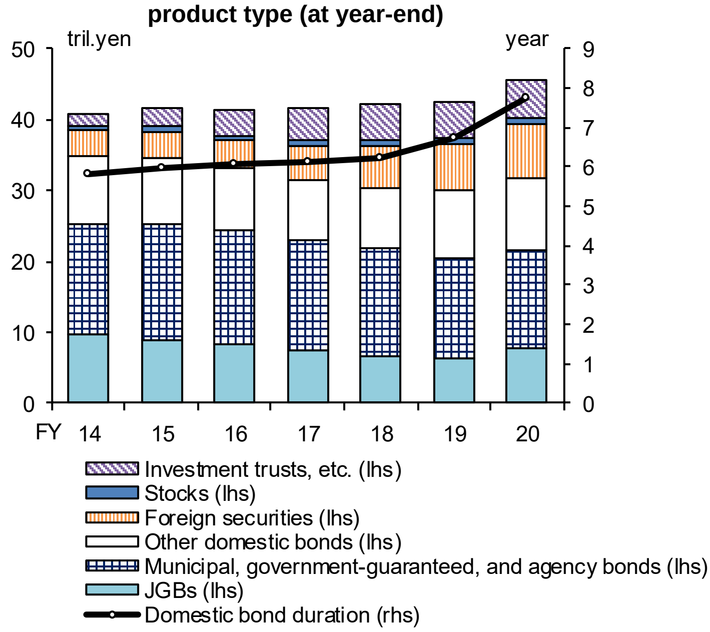
Interest rate spreads on securities narrowed, reflecting the redemption of JGBs and other securities with relatively high yields.

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 year-end)

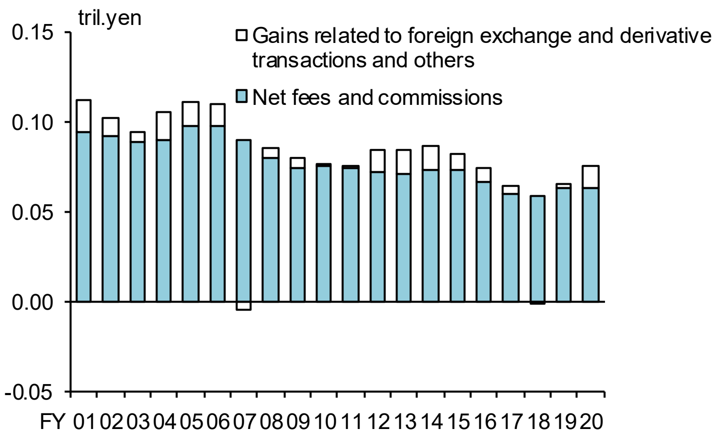


Source: BOJ.

4. Net Non-Interest Income

On the whole, net non-interest income increased by 15.6 percent from the previous year, due to an increase in gains related to foreign exchange and derivative transactions.

III-A-9: Net non-interest income

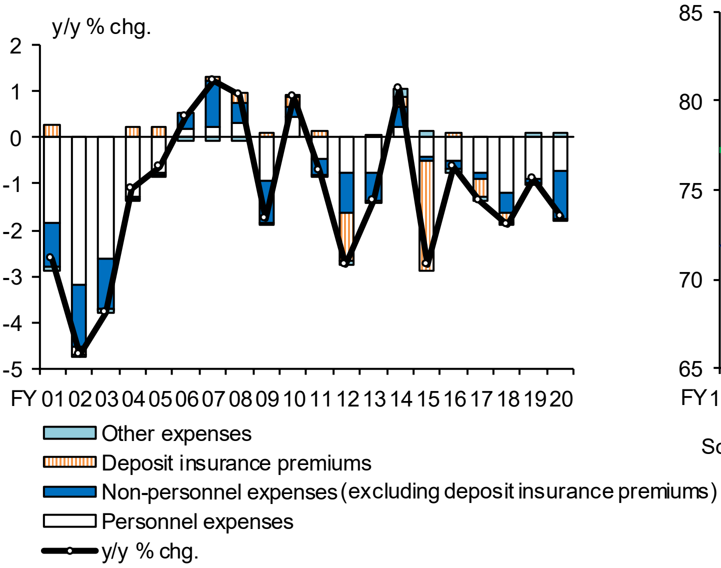


Source: BOJ.

5. General and Administrative Expenses

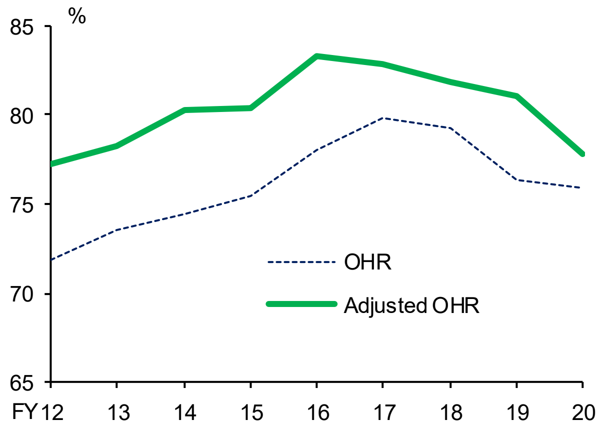
General and administrative expenses decreased by 1.7 percent from the previous year. Sales activities have taken a downturn due to COVID-19, resulting in a relatively large decline in non-personnel expenses. The adjusted OHR (= overhead costs / core gross operating profits, excluding profits and losses from investment trusts due to cancellations) decreased as core gross operating profits increased and administrative expenses declined.

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



Source: BOJ.

III-A-11: OHRs



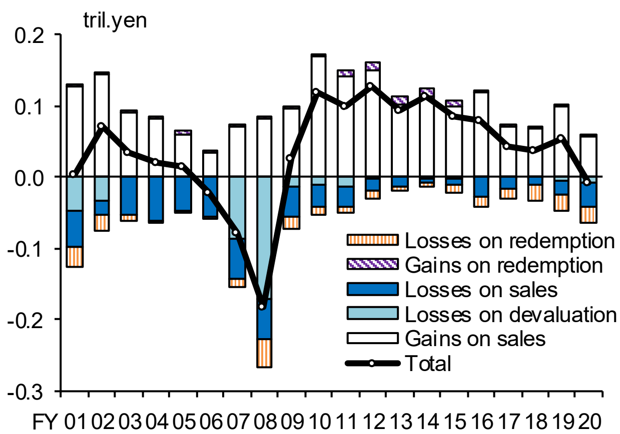
Source: BOJ.

B. Realized and Unrealized Gains/Losses on Securities Holdings

1. Realized Gains/Losses on Securities Holdings

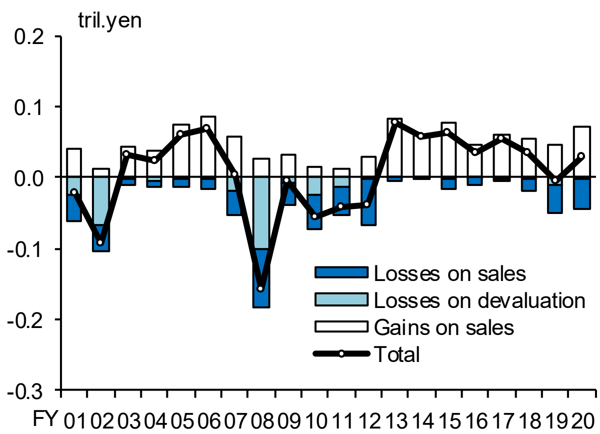
Realized gains/losses on bondholdings turned negative as profits from sales decreased and losses on sales increased. On the other hand, those on stockholdings turned positive as profits on sales increased.

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



Source: BOJ.

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

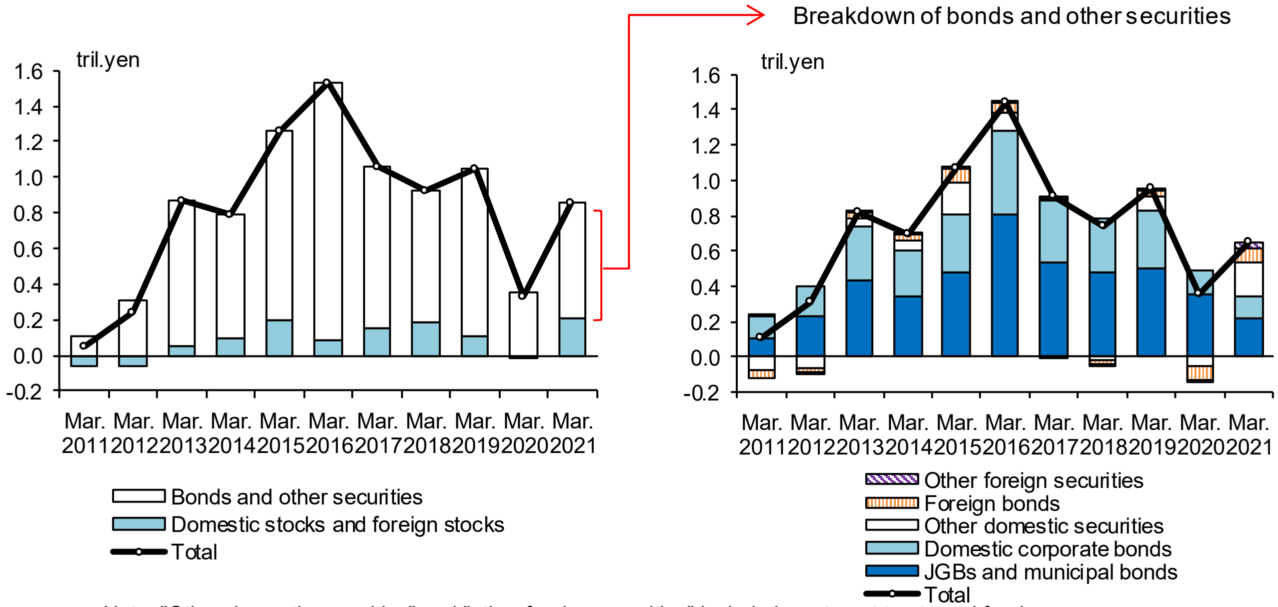


Source: BOJ.

2. Unrealized Gains/Losses on Securities Holdings

<u>Unrealized gains on available-for-sale securities holdings as of the end of March 2021</u> increased to a high level. Due to a rise in stock prices, unrealized gains/losses on "other domestic securities" (including investment trusts) as well as stocks improved.

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



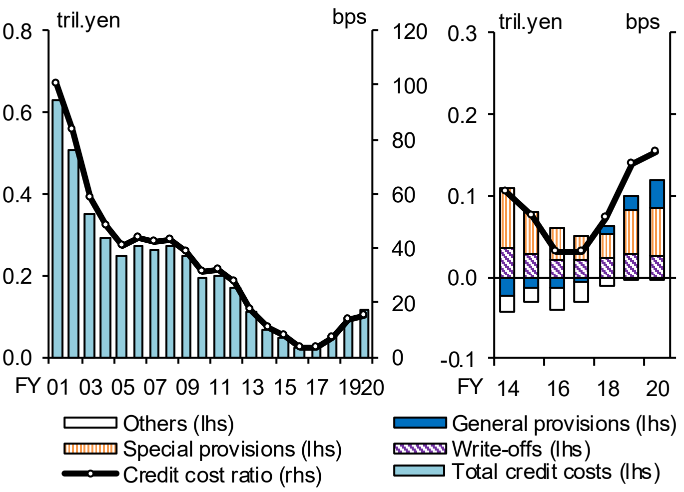
Note: "Other domestic securities" and "other foreign securities" include investment trusts and funds.
Source: BOJ.

C. Credit Costs and Non-Performing Loans

1. Credit Costs

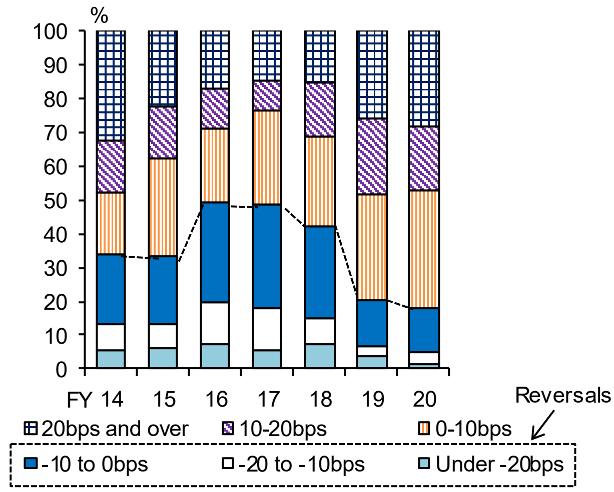
<u>Credit costs</u> increased further as general loan-loss provisions increased due to a rise in loans outstanding and precautionary loan-loss provisions. As a result, the credit cost ratio was 15 basis points (an increase of 2 basis points from the previous year).

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



Source: BOJ.

III-C-2: Distribution of credit cost ratios

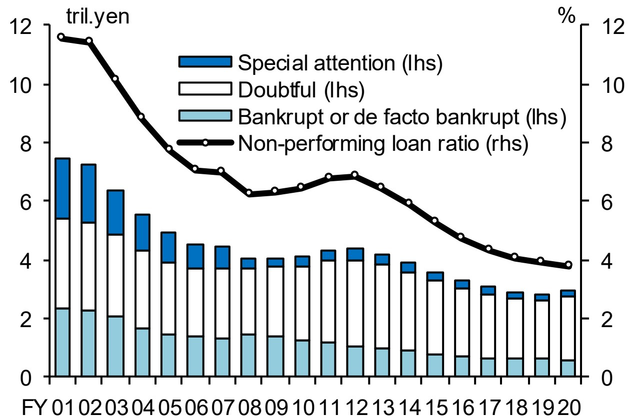


Note: Proportion of number of banks by credit cost ratio.
Source: BOJ.

2. Non-Performing Loans

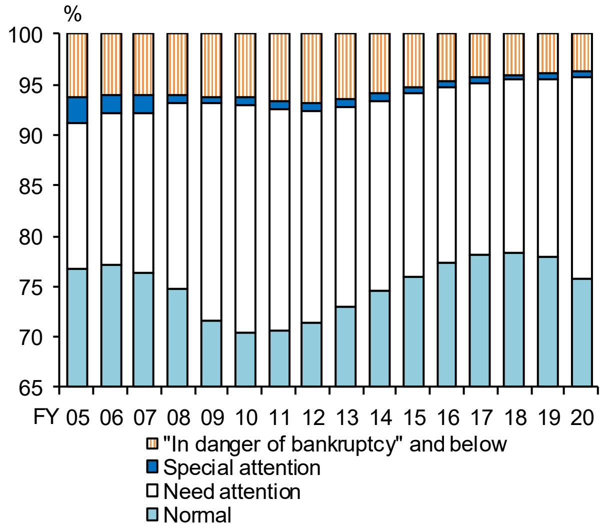
The NPL ratio continued to decline moderately and recorded its lowest level since fiscal 2001. Meanwhile, although the proportion of loans outstanding for loans requiring special attention increased slightly, the proportion of loans outstanding for "normal" loans remained large.

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



Source: BOJ.

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



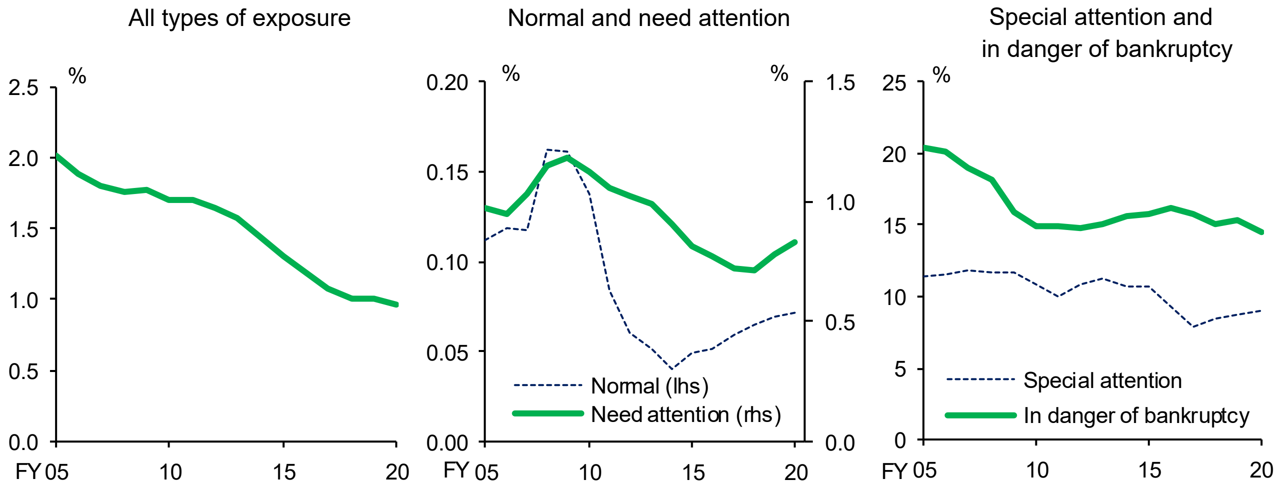
Note: The data are calculated on a write-off basis.
Source: BOJ.

3. Loan-Loss Provisions

(1) Loan-Loss Provision Ratios

The average loan-loss provision ratios for all types of exposure decreased slightly due mainly to an increase in the proportions of the outstanding amounts of loans whose loan-loss provision ratios are relatively low, namely, "normal" and "need attention" loans.

III-C-5: Loan-loss provision ratios

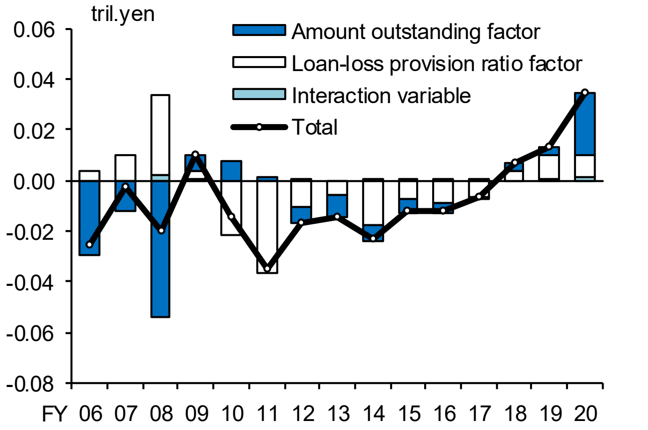


Notes: 1. The data include loans to which the discounted cash flow method is applied.
2. The loan-loss provision ratio is calculated by dividing loan-loss provisions by the total amount of claims (not the uncovered amount of claims).
Source: BOJ.

(2) Outstanding Amount of Loan-Loss Provisions

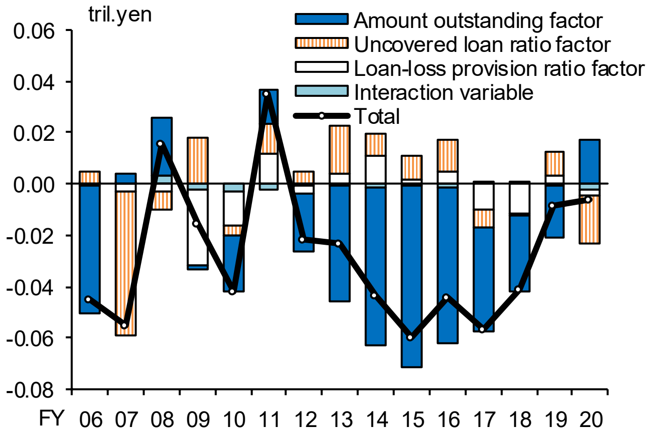
As for the outstanding amount of loan-loss provisions, general provisions continued to increase mainly due to the rise in the outstanding amount of relevant loans. Special provisions remained more or less unchanged as the outstanding amount of relevant loans increased while the coverage ratio of such provisions also improved.

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

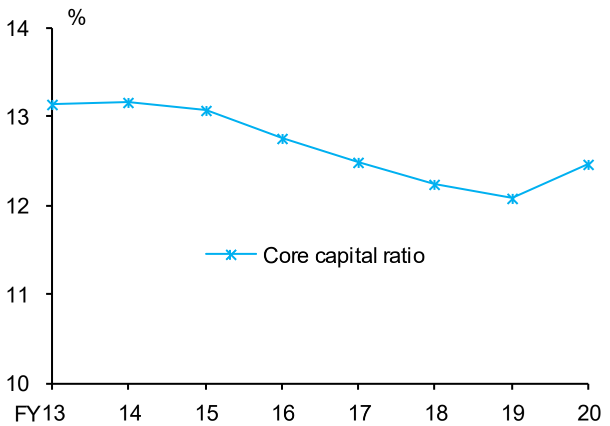


Note: Each factor represents the sum of the amount calculated by borrower classification.
Source: BOJ.

D. Capital Adequacy Ratios

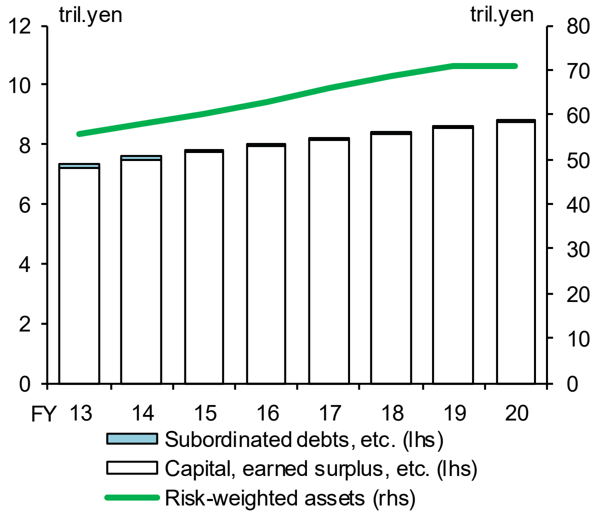
The capital adequacy ratio rose for the first time in six years as retained earnings were accumulated and an increase in risk-weighted assets was contained.

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.