

## Japan Bank Industry

**Bank stocks may be lower after NIRP end declared; stock selection should be key**

Price Objective Change

**Bank stocks may be relatively weak after BOJ ends NIRP**

Some long-term investors and the interest-rate futures market appear to have begun to discount the possibility of a BOJ shift to a positive policy rate after ending the negative interest rate policy (NIRP). A shift to a positive policy rate, which could lead to a rise in the short-term prime rate, requires careful consideration ([in terms of its impact on the mortgage market, SMEs with a fragile financial base, and the BOJ's balance sheet – as reported by our Japan Economics Team](#)). The expected timing of such a move seems to be late-2024 to 1H 2025 at the earliest, as the Fed is likely to cut rates from 2H 2024. Bank valuations could benefit from “positive optionality” on potential future interest rate rises, but the more immediate impact of an end to NIRP on bank sector shares could be negative.

**Likely reversals for Mizuho**

We have Buy ratings on MUFG (high total-shareholder yield and quality of management) and Mizuho (extent of ROE improvement and attractive valuation).

**Total shareholder yield and growth: MUFG and Mizuho rank high**

MUFG and Mizuho among the major banks rank high in the balance of total shareholder payout yield and total payout growth.

**ROE upside from zero X-shareholdings: Scenario analysis**

Resona is well positioned in both scenarios of accelerated reductions of cross-shareholdings (reducing them to zero by FY3/30) and a 50bp policy rate (Jan-Mar 2026), unlike in our earnings estimate scenario.

08 March 2024

Equity  
Japan  
Banks

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Timestamp: 11 March 2024 03:25AM EDT

## Bank stocks could soften after NIRP ends, resume outperformance from year-end

Looking ahead to the 2024 macro environment, our macro team estimates that the 10-year yen bond yield will be higher than the consensus market forecast, and that the dollar will be stronger and the yen weaker than consensus, while the team is also relatively bullish on the stock market. Based on these conditions we would expect (1) US economic resilience to last longer than expected, possibly pushing Fed rate cuts back into 2H 2024 (roughly meaning that the US inverse yield persists, and foreign currency financing depresses fragile banks' international net interest margins [NIM]), (2) prolonged dollar strength/yen weakness to benefit megabanks' earnings, and (3) Bank of Japan (BOJ) negative interest rates to end in Mar–Apr 2024 (Apr in our economists' main scenario), and the recent reversal in banks' relative share prices comes as no surprise.

### Exhibit 1: Banks' macro environment

We forecast a larger rate hike by Fed and stronger USD/weaker JPY vs consensus. We expect cancellation of NIRP in Apr 2024

	23 Actual	24 BofAe	24 Consensus	BofA estimates
Real GDP (US)	2.5%	2.7%	2.1%	Above consensus
Real GDP (Japan)	1.9%	0.3%	0.7%	Below consensus
Real GDP (China)	5.2%	4.8%	4.6%	Same as consensus
UST 10-year yield (EoP)	3.88%	4.25%	3.83%	Above consensus
FF target range - upper limit (EoP)	5.50%	4.50%	4.50%	Same as consensus
JGB 10-year yield (EoP)	0.61%	1.05%	0.90%	Above consensus
BoJ policy rate (EoP)	-0.10%	0.25%	0.10%	Expect NIRP cancellation in Apr 2024
Credit spr US IG (bps/12m target)	104	123	---	Widening vs current level
Credit spr US non-IG (bps/12m target)	334	400	---	Widening vs current level
S&P500 (EoP)	4,770	5,400	5,000	Above consensus
TOPIX (EoP)	2,366	2,850	2,688	Above consensus
WTI crude oil (EoP)	72	75	79	Below consensus
USDJPY (EoP)	141	142	138	Stronger USD/weaker JPY vs consensus

Source: Bloomberg, BofA Global Research estimates. As of Mar 6, 2024. Note: Figures of GDP are based on BofA forecasts.

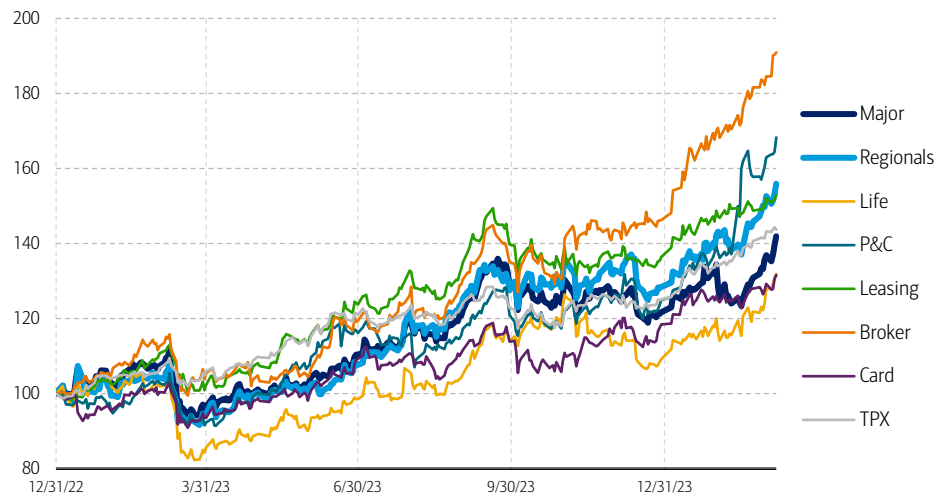
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However, the bank sector's P/B relative to TOPIX ran at around a 35–40% discount before the negative interest rate policy (NIRP) was introduced in January 2016, but it has already recovered to discounts of 40% at the megabanks and 45% at the top regional banks, as of the latest data points. Our view is that the megabanks have already priced in the end to NIRP while the top regional banks' high interest rate sensitivity has left them lagging the megabanks slightly, and that the current regional bank stock reversal is also broadly as expected.

On the other hand, we believe some long-term investors and the interest-rate futures market have started to anticipate an upturn to a positive policy interest rate after the NIRP ends. A turnaround to positive interest rates with the potential to feed through to a rise in the short-term prime rate needs cautious consideration ([impact on residential mortgage market](#) and [on small/medium-sized enterprises \(SMEs\) with weak financial profiles](#); [impact on the BOJ's balance sheet](#)), while the market is looking for Fed rate cuts in 2H 2024, and our sense is that the above argument is based on a timeframe from end-2024 through 1H 2025. We need to keep an eye on the "call option" valuation dynamic, looking ahead to a turnaround to a positive policy interest rate, but we likely must recognize that banks' relative share prices could remain soft for a while once negative interest rates actually end.

**Exhibit 2: Relative performance of each financial sub-sector in Japan**

Securities, P&C insurance, regional banks solid, life insurance weak over past three months

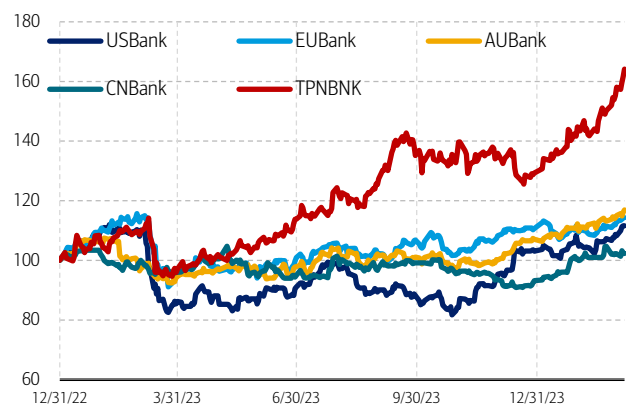


Source: Bloomberg, BofA Global Research. 2022/12/31 = 100

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**Exhibit 3: Global comparison of bank stocks' performance**

Japan's bank stocks again outperform global peers YTD

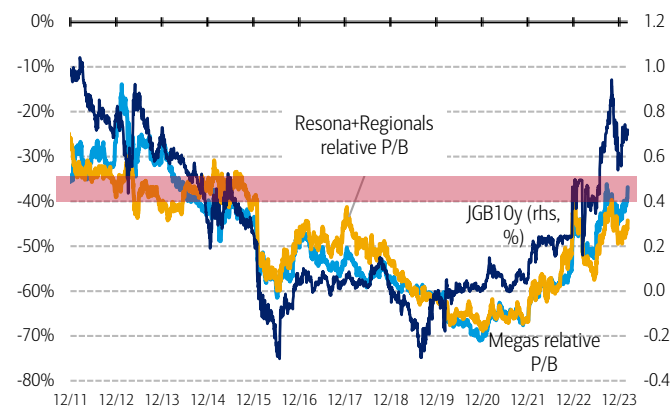


Source: Bloomberg, BofA Global Research. 2022/12/31 = 100

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**Exhibit 4: 10yr JGB yield and P/B relative to TOPIX**

Banks' relative P/B discount is around 40-45%; factoring in the end of NIRP appears to be happening again, especially among major bank stocks

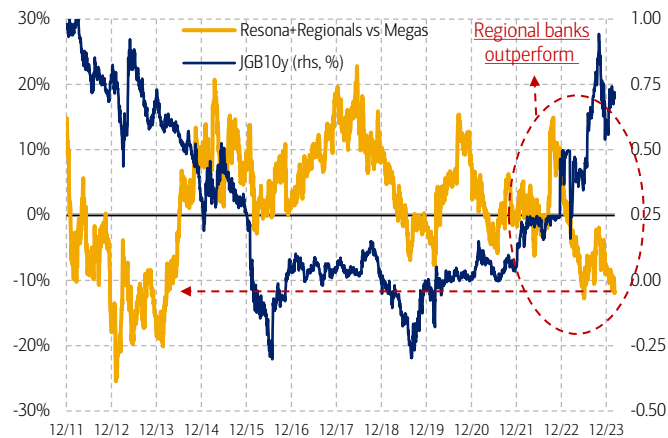


Source: Bloomberg, BofA Global Research.

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**Exhibit 5: JGB10Y yield and leading regional banks' P/B vs megabanks**

Regional banks' P/Bs soft vs. megabanks before NIRP ends

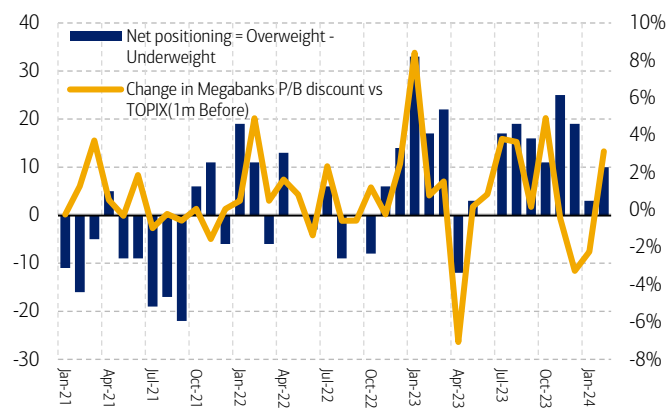


Source: Bloomberg, BofA Global Research

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**Exhibit 7: Extent of net overweight positions in financials in QUICK monthly survey and extent of previous month's changes in megabanks' P/B discount relative to TOPIX**

Net overweight positions in finance rising again

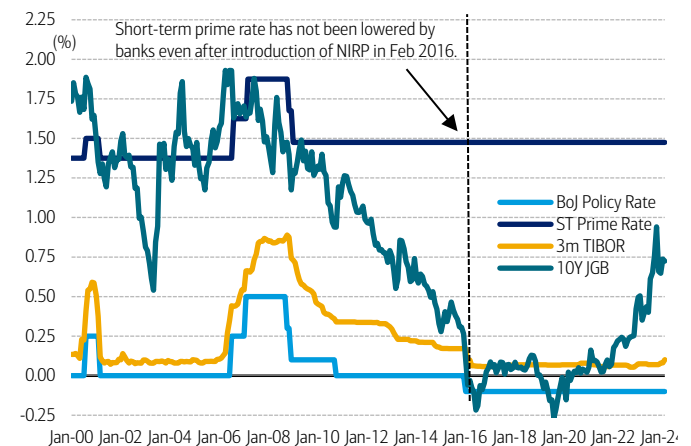


Source: QUICK, BofA Global Research

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**Exhibit 6: Long-term trends for policy/market rates**

The highest policy rate since 2000 was 0.50% (+60bp vs curr.), and short-term prime rate was 1.875% (+40bp)

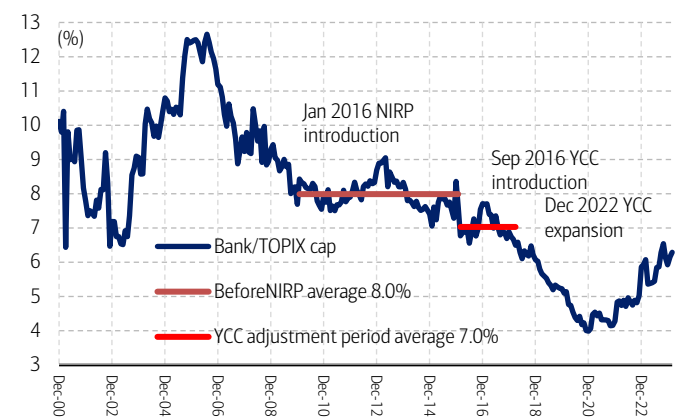


Source: Bloomberg, BofA Global Research

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**Exhibit 8: Bank stocks' TOPIX weighting by market cap**

Latest market cap 6%-plus, still scope to return to 7% as BOJ monetary policy normalizes



Source: Bloomberg, BofA Global Research

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## Stock selection: Buy ratings on MUFG and Mizuho

The stock selection below is based on (1) the macro environment in 2024, (2) interest rate sensitivity in connection to the NIRP's end (our assumption: April 2024) and the start of Fed rate cuts (2H 2024), and (3) P/B-ROE valuations, total shareholder payouts, and dividend yield based on improvement over the next three years.

We have Buy ratings on **(1) MUFG** appears overvalued, but with shareholder payouts and quality of management that are among the highest in the industry, it has been valued at a premium, similar to Tokio Marine (P&C insurance sector). We expect the relative stock price to remain firm until management announces a new medium-term plan (in mid-May), but the risk of the stock pulling back from a peak could be high, depending on yen appreciation vs the dollar and the pace of Fed rate cuts. **(2) Mizuho**: The key factors are the extent of ROE improvement over the next three years, how attractive the valuation is, and the dividend yield and dividend growth rate. We assume management will buy back shares, for the first time since 2007, in late FY3/25.

We are Neutral on **SMFG (Neutral, unchanged)**: Its ROE is weaker than many other megabanks', and its P/B-ROE valuation is no longer attractive. We do not expect the total shareholder yield to be much better than other stocks' even after factoring in share buybacks of more than ¥200bn a year.

### Exhibit 9: Our approach to stock picks

P/B-ROE valuations and total shareholder yields based on improvement over next three years and low business risk in light of the macro environment

	PBR - ROE	FY23-25 ROE estimates	Vs. consensus (NP)	Increase in shareholder payouts/total shareholder yield	Positive impact from rise in yen rates	Investment thesis
Buy						
MUFG	Slightly overvalued	FY23: 7.3% FY25: 7.8%	Slightly above	Attractive	Relatively small	Valuation no longer attractive, but core earnings likely to remain strong as ROE steadily improves, and total shareholder yield likely to be highest of any major bank thanks to substantial share buybacks and further dividend increases; however, negative impact of yen appreciation and Fed rate cuts might exceed market expectations
Mizuho	Undervalued	FY23: 7.0% FY25: 7.8%	Above	Attractive from FY3/25	Relatively large	Valuation still attractive, with ROE likely to improve by more than the market expects thanks to synergies with Greenhill; likely share buyback (¥100bn) announcement in late FY3/25; pace of rise in total shareholder yield relatively strong among major bank stocks
Neutral						
SMFG	Not Undervalued	FY23: 6.8% FY25: 7.2%	In line	Attractive from FY3/25	Relatively small	ROE weaker than many other megabanks'; P/B-ROE valuation no longer that attractive; total shareholder yield unlikely to be significantly better than other stocks' even after factoring in share buybacks of more than ¥200bn a year

Source: BofA Global Research estimates

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**Stock selection: Buy**

**Reiterate Buy on MUFG**, with ¥1,750 PO (ADR \$11.68; our FY3/25 BPS forecast of ¥1,597 x 1.10x theoretical P/B). Our PO earlier was ¥1,400 (ADR \$9.20; our FY3/24 BPS forecast of ¥1,423 x 1.00x theoretical P/B). Continued outperformance has eroded the P/B–ROE discount (FY3/24). Nevertheless, we reiterate our Buy rating on MUFG premised on the following: (1) We envision continued strength in core earnings owing to the benefits of yen depreciation/Fed rate cuts, leading to steady improvement in capital efficiency, with equity capital-based ROE (NP in brackets) climbing to 7.25% (¥1,400bn) in FY3/24, 7.43% (¥1,460.6bn) in FY3/25, and 7.80% (¥1,530bn) in FY3/26. (2) We forecast consistently high share buybacks/dividend hikes, lifting FY3/24–FY3/26 total shareholder return to the highest level among the major banks. However, the P/B has already reached 1.0x against the above ROE, leaving little valuation discount, and we therefore also flag the risk that the relative share price could peak out, depending on how far the negative impact of yen appreciation/Fed rate cut expands.

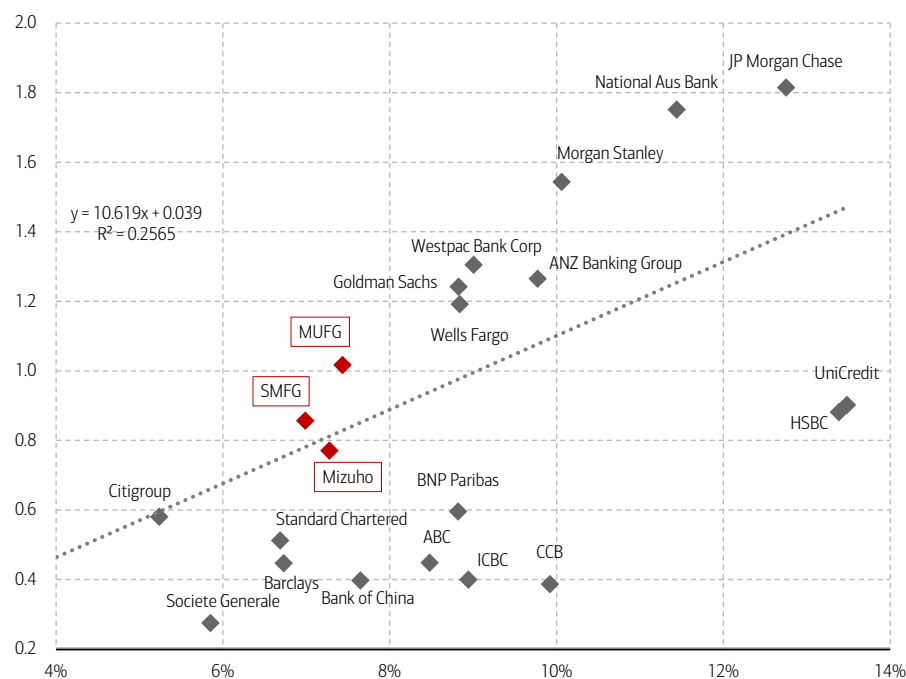
**Reiterate Buy on Mizuho**, with ¥3,300 PO (ADR \$4.36; our FY3/25 BPS forecast of ¥3,980 x 0.82x theoretical P/B). Our PO earlier was ¥2,950 (ADR \$3.90; our FY3/24 BPS forecast of ¥3,779 x 0.77x theoretical P/B). We reiterate our Buy rating on Mizuho FG, premised on the following: (1) We estimate that equity capital-based ROE (NP) will outpace market expectations and climb to 7.01% (¥675.5bn) in FY3/24, 7.28% (¥730.7bn) in FY3/25, and 7.78% (¥804.1bn) in FY3/26 on the back of steadily expanding core earnings, including synergy with Greenhill, while the valuation discount is comparatively deep in the context of the major banks. (2) We expect the group to announce a ¥100bn share buyback at end-FY3/25 and estimate that total shareholder return yield will improve relatively rapidly through FY3/26 in the context of the major banks.

**Stock selection: Neutral**

**Reiterate Neutral on SMFG**, with a ¥9,250 PO (ADR \$12.20; our FY3/25 BPS forecast of ¥10,456 x theoretical P/B of 0.88x). Our previous PO was ¥7,750 (ADR \$10.19; our ¥9,060 FY3/24 BPS forecast x theoretical P/B of 0.86x). (1) Although we forecast ongoing improvement in equity capital-based ROE (NP) from 6.82% (¥923.1bn) in FY3/24 to 6.99% (¥973.1bn) in FY3/25, and 7.19% (¥1,014.2bn) in FY3/26 on the back of steadily expanding core earnings, we estimate that both the level of ROE and the pace of improvement will be somewhat inferior in the context of the three megabanks. (2) We estimate that share buybacks of ¥200bn-plus annually (disclosure based) will be higher than hitherto, but we think the group will have no great edge among the major banks in terms of total shareholder return. There is also only a limited discount in the P/B–ROE valuation, and we reiterate our Neutral rating on SMFG.

**Exhibit 10: Global banks' P/B-ROE(FY24) matrix**

Relative to regression line, MUFG's valuation at a premium in line with US bank stocks'; SMFG's at a slight premium and Mizuho's still at a discount, leaving it undervalued



**Source:** BofA Global Research estimates    **Note:** Current P/B and ROE FY24 BofA estimates.

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**Exhibit 11: Earnings estimate summary (1/7)**

MUFG/SMFG ROE/NP growth likely to be in line with market consensus outlook. Mizuho ROE/NP growth should beat consensus on Greenhill synergies

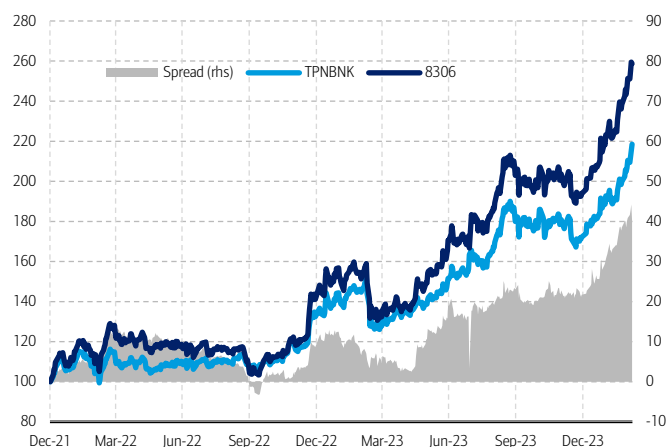
MUFG (8306, BUY)								SMFG (8316, NEUTRAL)								Mizuho (8411, BUY)							
Consol. (JPY, bn)	Ce	F3/24e	YoY	F3/25e	YoY	F3/26e	YoY	Ce	F3/24e	YoY	F3/25e	YoY	F3/26e	YoY	Ce	F3/24e	YoY	F3/25e	YoY	F3/26e	YoY		
Gross profit		4,652	3%	4,970	7%	5,214	5%		3,516	17%	3,708	5%	3,886	5%		2,520	17%	2,692	7%	2,854	6%		
NII		2,397	-18%	2,442	2%	2,514	3%		1,767	3%	1,788	1%	1,832	2%		888	-8%	940	6%	1,002	7%		
Fee income + Trust fees		1,760	4%	1,852	5%	1,943	5%		1,432	17%	1,522	6%	1,615	6%		898	11%	978	9%	1,045	7%		
Other trading/op. income		495	---	676	36%	757	12%		318	40%	397	25%	439	11%		735	45%	775	5%	807	4%		
Expenses		-2,862	-2%	-3,053	7%	-3,204	5%		-2,203	13%	-2,318	5%	-2,426	5%		-1,596	10%	-1,688	6%	-1,759	4%		
PPOP	1,450	1,790	12%	1,916	7%	2,011	5%	1,400	1,435	18%	1,467	2%	1,543	5%	950	947	17%	1,049	17%	1,146	9%		
Core PPOP (BofAe)		2,157	-13%	1,966	-9%	1,976	0%		1,514	16%	1,477	-2%	1,513	2%		1,028	4%	1,059	3%	1,126	6%		
Credit cost	-300	-344	-49%	-331	-4%	-345	4%	-230	-220	5%	-236	7%	-251	6%	-100	-74	-17%	-84	12%	-91	8%		
Gains/losses on equity		360	25%	332	-8%	328	-1%		195	25%	209	7%	209	0%		107	23%	121	13%	136	12%		
RP		2,148	110%	2,226	4%	2,322	4%	1,320	1,367	18%	1,397	2%	1,459	4%	910	934	18%	1,031	10%	1,136	10%		
NP	1,300	1,400	25%	1,461	4%	1,530	5%	920	923	15%	973	5%	1,014	4%	640	676	22%	731	8%	804	10%		
NPAT (parent banks)		885	-22%	993	12%	1,033	4%	640	645	2%	634	-2%	646	2%		440	4%	505	15%	571	13%		
ROE		7.3%	1.0	7.4%	0.2	7.8%	0.4		6.8%	0.4	7.0%	0.2	7.2%	0.2		7.0%	0.9	7.3%	0.3	7.8%	0.5		
OHR		61.5%	-3%	61.4%	0%	61.4%	0%		62.7%	1%	62.5%	0%	62.4%	0%		63.3%	0%	62.7%	-1%	61.6%	-1%		

Source: Company disclosure, BofA Global Research estimates

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**Exhibit 12: MUFG relative performance (vs. TOPIX Bank)**

Accelerated year-to-date outperformance of leading Japanese bank stocks

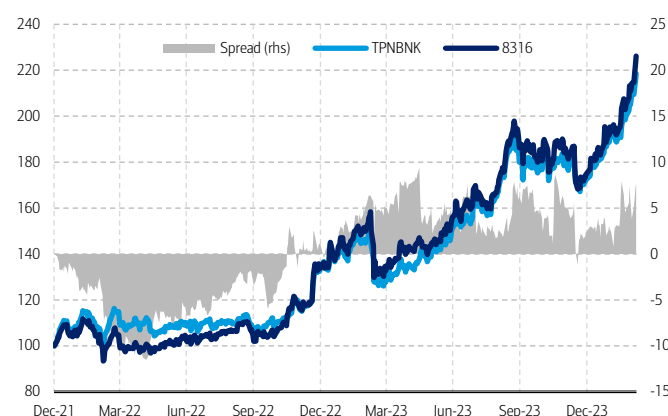


Source: Bloomberg, BofA Global Research. 2021/12/31 = 100

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**Exhibit 13: SMFG relative performance (vs. TOPIX Bank)**

Temporary outperformance on upward guidance revisions and strong shareholder payouts that time of 1H results announcements, but recent leveling off

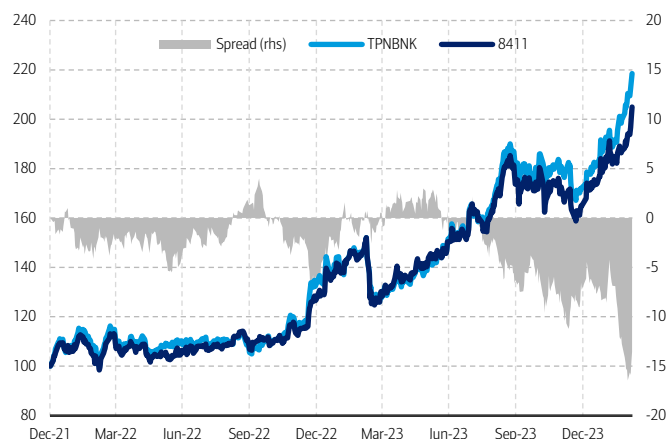


Source: Bloomberg, BofA Global Research. 2021/12/31 = 100

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**Exhibit 14: Mizuho FG relative performance (vs. TOPIX Bank)**

Weakness after 3Q results on banks' reluctance to buy back shares



Source: Bloomberg, BofA Global Research. 2021/12/31 = 100

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# Change in Japanese bank stock valuation methodology to reflect BOJ end of NIRP

We use the P/B-ROE correlation in our method to value the bank stocks. Specifically, we calculate the implied risk premium for each stock by applying each stock's mean beta to the average market risk premium of 7.15% since 2016, when the BoJ's implementation of NIRP substantially altered the business environment, and then add the average risk-free rate (the 10-year JGB yield; 0.75% earlier). We then apply a premium or discount based on qualitative factors (including attractiveness of the bank's long-term business portfolio, its capital policies, governance, and regulatory risks) to calculate the theoretical cost of capital, the denominator. We previously used the FY3/24-26 average ROE estimate (weighted by 50% for FY3/24, 40% for FY3/25, and 10% for FY3/26) as the numerator to arrive at a theoretical P/B and applied it to our end-March 2024 BPS estimates to derive our POs.

**Price objective = theoretical P/B (3-year average ROE estimate/theoretical cost of capital) x current FY-end BPS estimate**

**Theoretical cost of capital = [implied risk premium (average market risk premium since 2016 x individual stock beta (weekly average since 2016) + average risk-free rate since 2016)] x [1 + individual stock premium/discount]**

With an impending end to the NIRP (our assumption for our main scenario: April 2024), bank stocks in the past three months have been on a reversal trend relative to the TOPIX. On this basis, we generally use a lower cost of capital than before by applying the average risk premium of 7.14% since 2016 and a risk-free rate of 1.0% (the 10-year JGB yield) and reflecting BOJ policy normalization to improve the valuation premium/discount on individual stocks. Given that the FY3/24 full-year results announcements are approaching, we change the weightings for our FY3/24-26 average ROE estimates to 10% for FY3/24, 60% for FY3/25, and 30% for FY3/26.

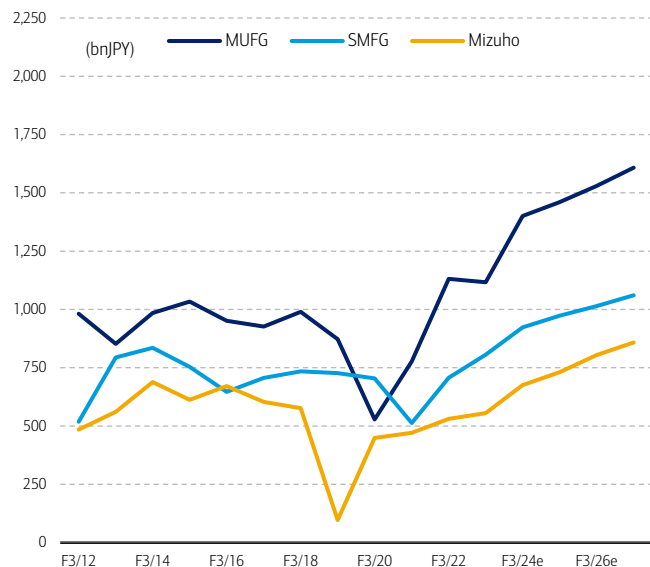
## Scenario analysis of five major banks' ROE upside

We have already factored into our earnings estimates the end of the NIRP in April 2024 and a gradual steepening of the JGB yield curve. Here we analyze five major banks' ROE upside in different scenarios, as a mental exercise.

- (1) Base scenario for our earnings estimates (Exhibit 15 and Exhibit 16).
- (2) Scenario of accelerated reductions of cross-shareholdings (zero cross-shareholdings by FY3/30; Exhibit 17 and Exhibit 18).
- (3) Scenario of 50bp policy rate (25bp hike in Jan-Mar 2025 and another 25bp hike in Jan-Mar 2026; Exhibit 19, and Exhibit 20).
- (4) Scenario of accelerated reductions of cross-shareholdings and 50bp policy rate (combination of scenarios 2 and 3 above; Exhibit 21 and Exhibit 22).

**Exhibit 15: Our base scenario: NP**

In our base case, MUFG's FY3/27 NP is expected to reach 1.6 trillion yen

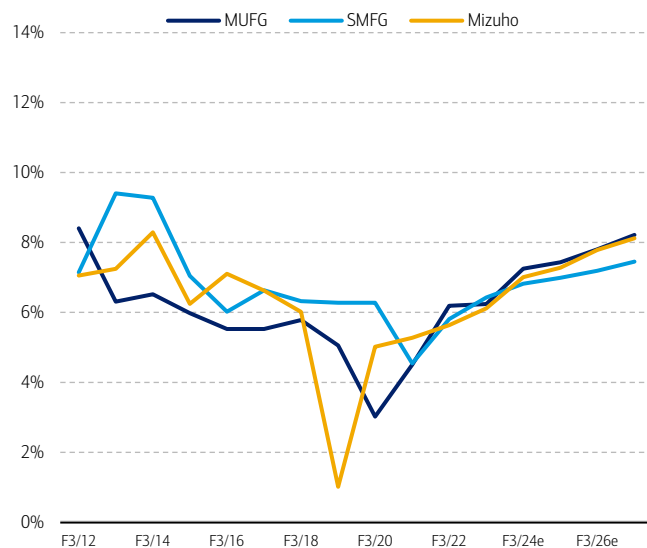


Source: BofA Global Research estimates

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**Exhibit 16: Our base scenario: ROE**

In terms of the pace of ROE/NP improvement toward FY3/27, SMTH/Mizuho/JPB have a relative advantage.

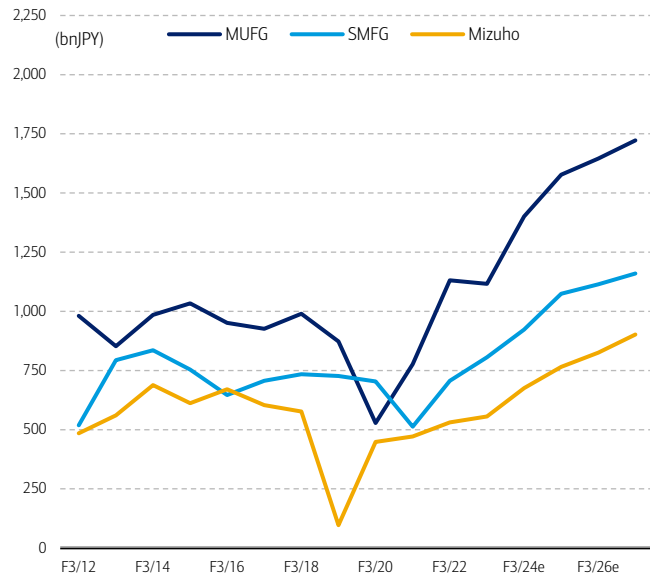


Source: BofA Global Research estimates

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**Exhibit 17: Scenario for acceleration of X-shares reduction:NP**

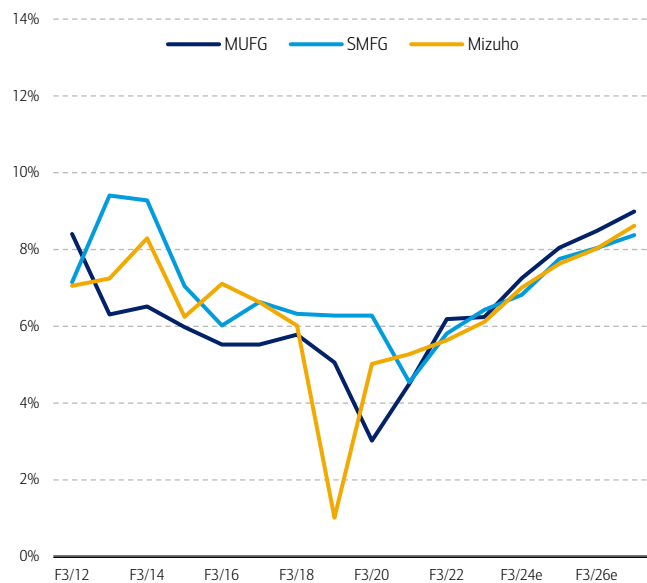
FY3/27 NP upside compared to the base case is +1.1% (SMTH) - 18.1% (Resona)



Source: BofA Global Research estimates Note: JPB's forecasts are based on our base case scenario  
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**Exhibit 18: Scenario for acceleration of X-shares reduction:ROE**

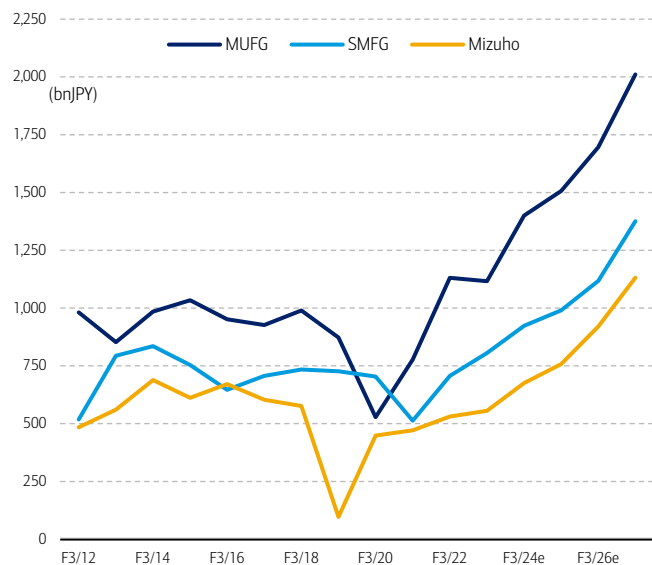
Resona's ROE improvement expands, and megabank ROE also follows an improving trend toward around 8.4%-9.0% in FY3/27



Source: BofA Global Research estimates Note: JPB's forecasts are based on our base case scenario  
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**Exhibit 19: Scenario for 50bp policy rates hikes: NP**

FY3/27 NP upside compared to base case +25.0% (MUFG) - 72.5% (Resona)

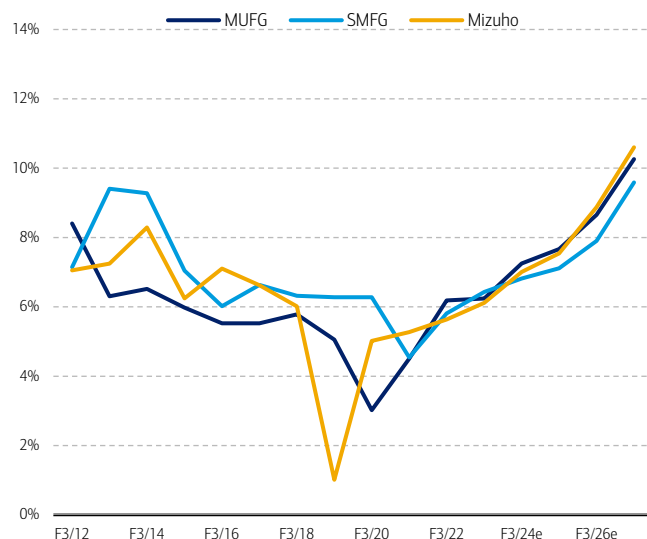


Source: BofA Global Research estimates

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**Exhibit 20: Scenario for 50bp policy rates hikes: ROE**

ROE improvement at Resona/SMTH/JPB is expanding, and megabank ROE is also on a significant improving trend toward 9.6%-10.6% in FY3/27

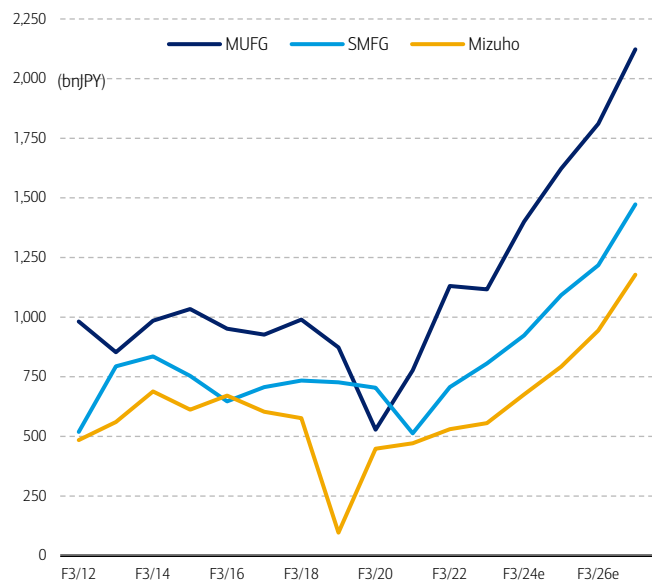


Source: BofA Global Research estimates

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**Exhibit 21: Scenario for acceleration of X-shares reduction + 50bp policy rates hikes: NP**

FY3/27 NP upside compared to base case is +32.0% (MUFG) - 90.4% (Resona)

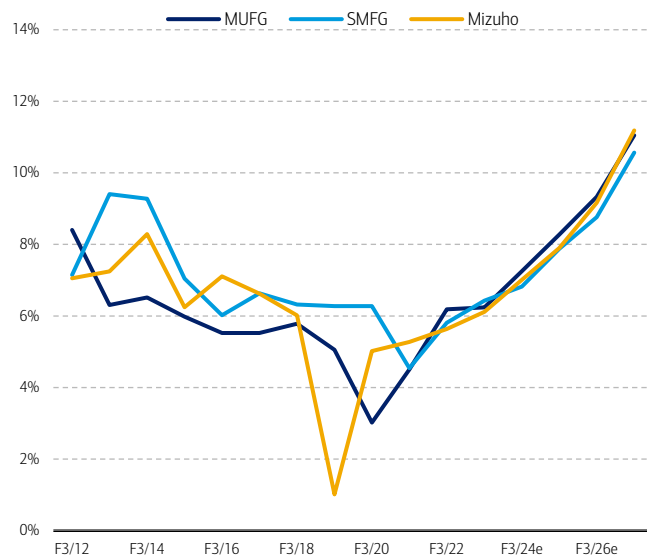


Source: BofA Global Research estimates Note: JPB's forecasts are based on +50bp policy rate hikes scenario

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**Exhibit 22: Scenario for acceleration of X-shares reduction + 50bp policy rates hikes: ROE**

ROE improvement expands at Resona; also improves sharply at megabanks and SMTH to 10.6-12.0% in FY3/27



Source: BofA Global Research estimates Note: JPB's forecasts are based on +50bp policy rate hikes scenario

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**Exhibit 23: Major banks' cross-shareholding reduction policy**

FY3/24 planned reductions by book value: MUFG 11%, SMTH 10%, Mizuho 9%, Resona 7%, and SMFG 5%; however, SMFG/SMTH's actual reductions likely to be 9%/14%

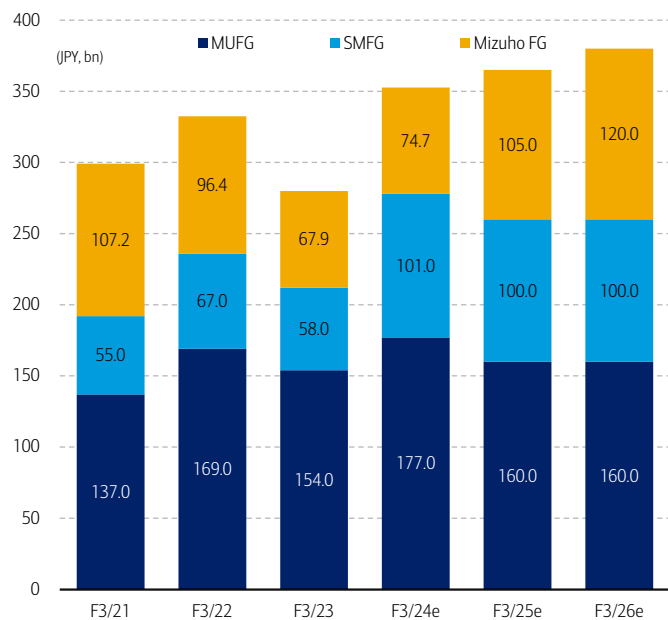
F3/24 guidance				BV of strategic holdings/unrealized gains (FY3/23)	Shares' mkt value as % of net asset
	Decline in BV	Planned realized gains	Plans for reduction in BV		
MUFG	¥170bn	¥330bn	Reduction of more than ¥500bn in FY3/22-24; 65% achieved as of end-FY3/23	Book value ¥1.56tn, unrealized gains ¥2.55tn (164% of book value)	23.6%
SMFG	¥60bn	¥120bn	Reduction of ¥200bn in FY3/24-26.	Book value ¥1.15tn, unrealized gains ¥1.83tn (159% of book value)	23.9%
Mizuho FG	¥90bn	¥80bn	Reduction of ¥300bn in FY3/24-26.	Book value ¥1.00tn, unrealized gains ¥1.48tn (148% of book value)	26.6%

Source: Company reports, BofA Global Research. Note: Includes our estimates

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**Exhibit 24: Cross-shareholding reduction amount estimates**

SMFG's and SMTH's likely to exceed targets in FY3/24 onward; Mizuho's also likely to increase in FY3/25 onward

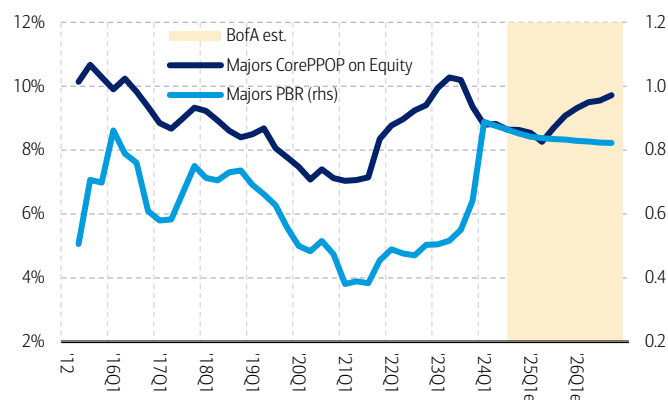


Source: Company reports, BofA Global Research

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**Exhibit 25: Core PPOP on equity and P/B for the megabanks**

Core PPOP margin to weaken in FY3/25, before returning to growth from FY3/26

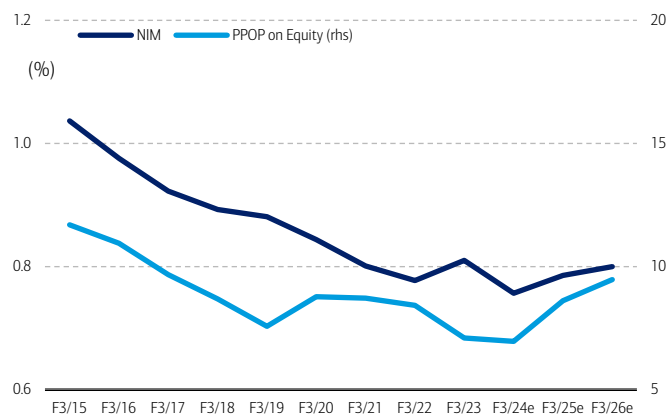


Source: Company disclosure, BofA Global Research estimates

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**Exhibit 27: Net interest margin trends – major banks (ex. SMTH, JPB, Seven)**

NIMs and PPOP bottoming out in FY3/24

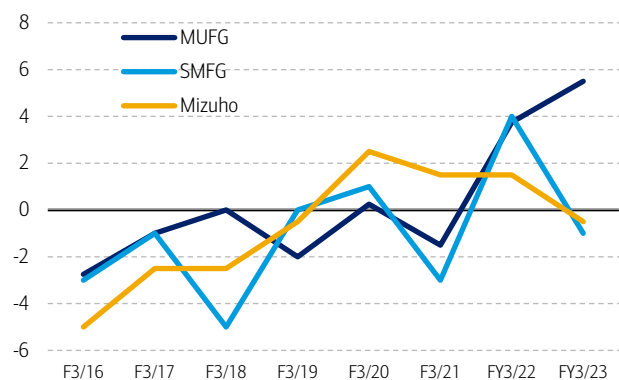


Source: Company disclosure, BofA Global Research estimates

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**Exhibit 29: Loan spread to domestic large companies - YoY delta (bps)**

Spreads on loans to large Japan companies improving

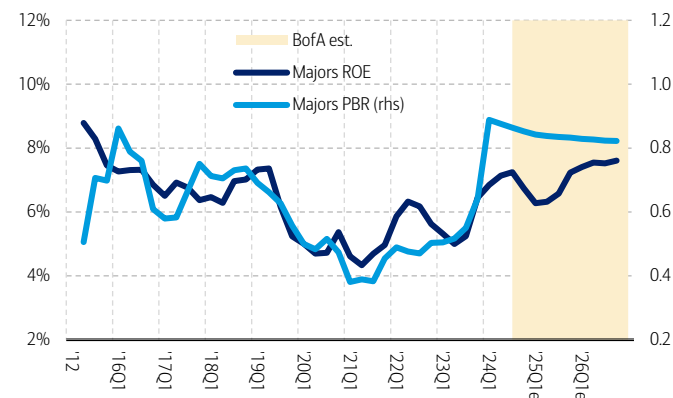


Source: Company disclosure, BofA Global Research

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**Exhibit 26: ROE and P/B for the major banks**

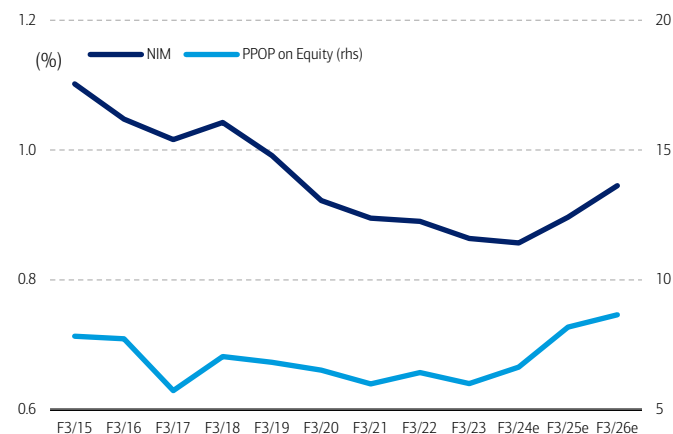
ROE improvement over the next two years is factored in ahead of time



Source: Company disclosure, BofA Global Research estimates Note: ROE for Aozora are excluded  
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**Exhibit 28: Net interest margin trends – Regionals (ex. Suruga)**

Domestic business-oriented Regionals have higher pace of NIM/PPOP improvement

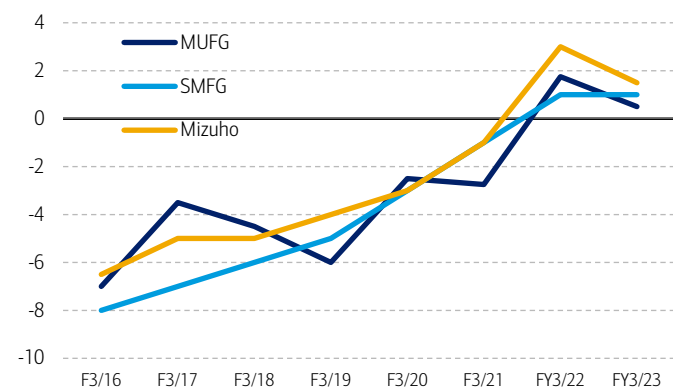


Source: Company disclosure, BofA Global Research estimates

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**Exhibit 30: Loan spread to domestic SMEs - YoY delta (bps)**

Spreads on loans to Japan SMEs also show clear improvement



Source: Company disclosure, BofA Global Research

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**Exhibit 31: CET1 ratio (Basel III finalized basis, BofA est.)**

Three megabanks, SMTH, and Resona likely to use some surplus capital (for share buybacks); JPB has surplus capital for buying back shares at the time of next share offering while substantially increasing DPS

CET 1 ratio	Definition	FY9/23(A)	FY3/24	FY3/25	FY3/26	Regulatory Min.	Management target
MUFG	Excl. net unrealized gain	10.5%	10.3%	10.3%	10.3%	8.5%	10-10.5%
SMFG	Excl. net unrealized gain	10.1%	10.2%	10.3%	10.3%	8.0%	10.0%
Mizuho	Excl. net unrealized gain	9.6%	9.8%	9.9%	9.9%	8.0%	9.5% or higher

Source: Company disclosure, BofA Global Research estimates. Note: JPB is based on our estimates (assuming RWA 15+%)

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**Exhibit 32: DPS / share buyback estimates**

Ranking by likely balance between dividend growth and share buybacks; MUFG, Mizuho, SMTH are relatively high among major banks while Chiba and Kyoto are relatively high among regionals

	DPS (JPY)				Buyback (JPY, bn)		
	F3/24 BofAe	F3/25 BofAe	F3/26 BofAe	2yr CAGR	F3/24 BofAe	F3/25 BofAe	F3/26 BofAe
MUFG	41	49	53	13.7%	400.0	540.0	660.0
SMFG	270	300	310	7.2%	150.0	200.0	300.0
Mizuho	100	115	130	14.0%	0.0	0.0	100.0

Source: Company disclosure, BofA Global Research. Note: Share buybacks based on actual buybacks; JP Bank's and Suruga's share buybacks excluded.

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**Exhibit 33: Payout ratio/total return ratio forecasts**

Estimated dividend payout ratios 40-50%, total payout ratios 50-80%; Japan Post to buy back shares and invest in growth using proceeds from sale of Japan Post Bank stake

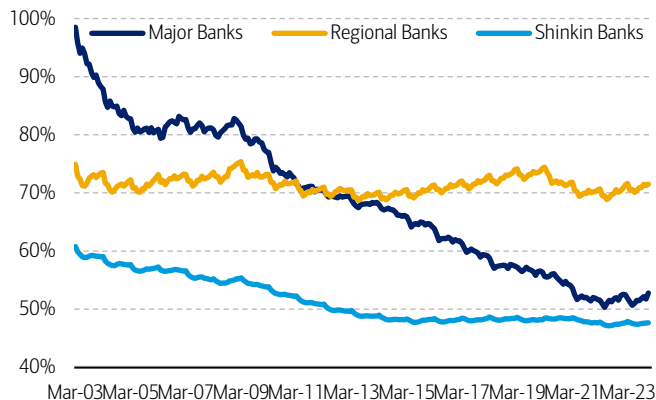
	Payout Ratio			TSR		
	F3/24 BofAe	F3/25 BofAe	F3/26 BofAe	F3/24 BofAe	F3/25 BofAe	F3/26 BofAe
MUFG	35.1%	39.7%	40.2%	63.7%	76.7%	83.4%
SMFG	38.9%	40.8%	40.1%	55.2%	61.3%	69.7%
Mizuho	37.5%	39.9%	40.5%	37.5%	39.9%	53.0%

Source: Company disclosure, BofA Global Research. Note: Share buybacks based on actual buybacks; SMTH's NP guidance excludes losses on sale of bearish investment trusts; Aozora's FY3/24 bottom line not shown because it is likely to be a loss; JP Bank's and Suruga's TSRs excludes share buybacks

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**Exhibit 34: Long-term domestic LDR trend by business types**

Regional banks' likely to stabilize at around 70%; megabanks' loan-deposit ratios down to around 50% on deposit inflows and profitability-focused lending stances, but bottoming out recently

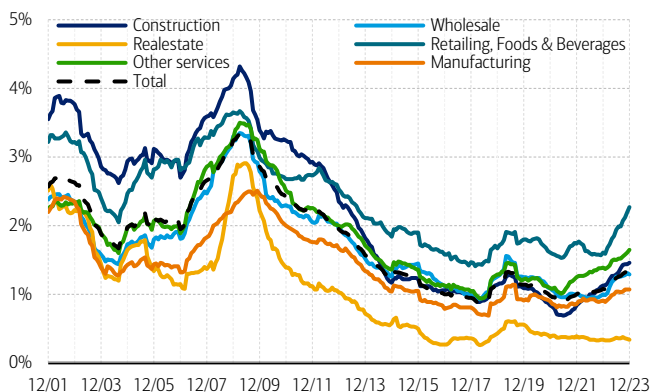


Source: BoJ, BofA Global Research

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**Exhibit 36: Historical default rates disclosed by RDB**

Likely rise in default rate for most industries except real estate, owing to inflation and slight tightening of financial conditions; impact on the major banks and top regional banks likely to be limited

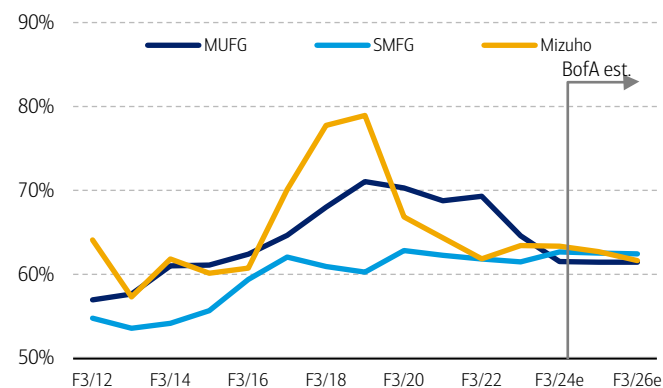


Source: RDB, BofA Global Research

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**Exhibit 35: Consolidated OHR and historical trend (1/3)**

Normalization for megabanks' ratios at around 61-62%

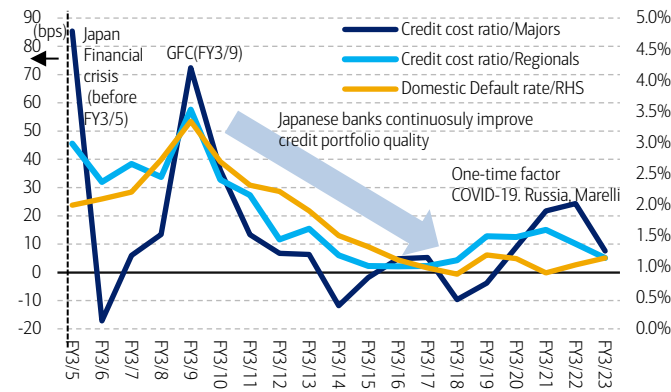


Source: Company disclosure, BofA Global Research estimates. e=BofA estimate

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**Exhibit 37: Historical credit cost ratio and default rate disclosed by RDB**

Historically high levels in FY3/21-22 owing to the pandemic, Russia, and Marelli; any additional credit cost ratio increases for Megs and major Regionals likely to be limited

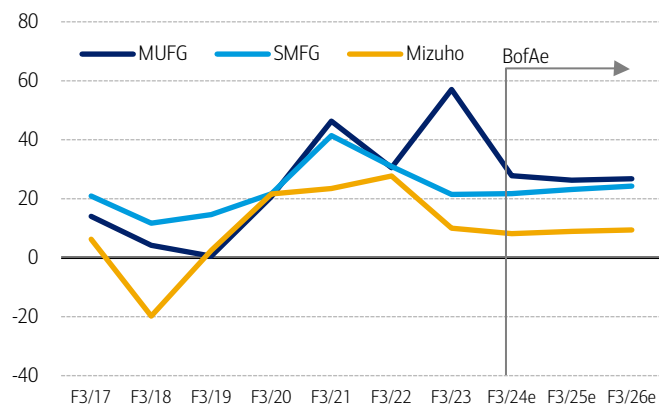


Source: BoJ, BofA Global Research

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**Exhibit 38: Consolidated credit cost ratio trend (1/3)**

MUFG's (after the sale of Union Bank) and SMFG's likely to level out at very similar levels, Mizuho's and SMTH's relatively low owing to limited overseas risk and consumer loan business



Source: Company disclosure, BofA Global Research estimates. e=BofA estimate

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**Exhibit 39: Stocks mentioned**

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating	Expected total return
MBFJF	8306 JP	Mitsubishi UFJ	¥1,632.0	B-1-7	9.7%
MZHOF	8411 JP	Mizuho FG	¥3,150.0	C-1-7	7.9%
SMFNF	8316 JP	Sumitomo Financial	¥9,116.0	B-2-7	4.4%
BofA Ticker	Bloomberg ticker	Company name	Price	Rating	Expected total return
MFG	MFG US	Mizuho FG	\$4.09	B-1-7	9.8%
MUFG	MUFG US	Mitsubishi UFJ	\$10.94	B-1-7	9.3%
SMFG	SMFG US	Sumitomo Financial	\$12.04	B-2-7	4.3%

Source: BofA Global Research

Note: Share prices are as of 8 March close. ADR prices are as of 7 March close.

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## Price objective basis & risk

### Mitsubishi UFJ Financial Group (8306 / MBFJF / MUFG)

Our price objective for MUFG of ¥1,750 (ADR \$11.73) is based on applying a fair P/B of 1.1x (estimated ROE of 7.53% for FY3/24-3/26 and theoretical cost of capital of 6.83%) to our FY3/25 BPS estimate of ¥1,586 (we weight our FY3/24-3/26 ROE estimates at 10% for FY3/24, 60% for FY3/25, and 30% for FY3/26). The 6.83% cost of capital we use is based on an implied risk premium of 8.65%, calculated from the averages since the BoJ's adoption of NIRP in 2016 of the risk premium for Japan stocks of 7.14%, of the risk-free rate of 1.00%, and of the weekly beta of 1.25, to which we apply a 21.0% premium to reflect qualitative factors (including the long-term attractiveness of the business portfolio, capital policies, governance, and regulatory risks).

Upside risks to our PO include (1) faster-than-expected business portfolio reshuffling and ROE improvement, (2) faster-than-expected growth in shareholder returns, and (3) faster-than-expected yen depreciation and improvement in US Morgan Stanley earnings. Downside risks include (1) more earnings deterioration than expected at US Morgan Stanley and partner banks in Southeast Asia: (2) slower-than-expected growth in shareholder payouts and missteps with M&A: and (3) more yen appreciation than expected.

### Sumitomo Mitsui Financial Group (8316 / SMFNF / SMFG)

Our price objective for SMFG of ¥9,250 (ADR \$12.04) is based on applying a fair P/B of 0.88x (estimated ROE of 7.03% for FY3/24-3/26 and theoretical cost of capital of 7.95%) to our FY3/25 BPS estimate of ¥10,456 (we weight our FY3/24-3/26 ROE estimates at 10% for FY3/24, 60% for FY3/25, and 30% for FY3/26). The 7.95% cost of capital we use is based on an implied risk premium of 8.11%, calculated from the averages since the BoJ adopted NIRP in 2016 of the risk premium for Japan stocks of 7.14%, of the risk-free rate of 1.00%, and of the weekly beta of 1.16, to which we apply a 2% premium to reflect qualitative factors (including the long-term attractiveness of the business portfolio, capital policies, governance, and regulatory risks).

Risks to our price objective include (1) a faster-than-expected recovery of its mainstay consumer finance, credit card, and asset-financing businesses, (2) faster-than-expected increases in shareholder payouts, and (3) faster earnings improvement at SMBC Nikko Securities and the US capital markets business. Downside risks include (1) a slower-than-expected recovery of its consumer finance, credit card, and asset-financing businesses, (2) slower-than-expected increases in shareholder payouts and overpayment for acquisitions, and (3) weak earnings improvement at SMBC Nikko Securities and relative weakness in its US capital markets business.

### Mizuho Financial Group (8411 / MZHOF / MFG)

Our price objective for Mizuho of ¥3,300 (ADR \$4.26) is based on applying a fair P/B of 0.82x (estimated ROE of 7.40% for FY3/24-3/26, theoretical cost of capital of 8.99%) to our FY3/25 BPS estimate of ¥3,980 (we weight our ROE estimates at 10% for FY3/24, 60% for FY3/25, and 30% FY3/26). The 8.99% cost of capital we use is based on an implied risk premium of 7.19%, calculated from the averages since the BoJ's adoption of NIRP in 2016 of the risk premium for Japan stocks of 7.14%, of the risk-free rate of 1.00%, and of the weekly beta of 1.01, to which we apply a 25.0% discount to reflect qualitative factors (including the long-term attractiveness of the business portfolio, capital policies, governance, and regulatory risks).

Upside risks include (1) growth in its share of the capital markets business on a loosening of regulatory firewalls between banking and securities: (2) faster-than-expected growth in shareholder returns, and (3) a faster-than-expected restructuring of

its business portfolio. Downside risks include (1) a faster-than-expected slowdown in its core capital markets business; (2) slower-than-expected growth in shareholder payouts, M&A missteps; and (3) worsening credit risk from its large borrowers and mistakes controlling unrealized losses on foreign bonds.

## Analyst Certification

I, Shinichiro Nakamura, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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## Japan - Financials and Property Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	AEON Financial Service	AEOJF	8570 JP	Yuki Yaginuma
	Chiba Bank	CHBAF	8331 JP	Shinichiro Nakamura
	Daiwa House Industry	DWAHF	1925 JP	Takumi Kasai
	Fukuoka Financial Group	FKKFF	8354 JP	Shinichiro Nakamura
	Integral Corporation	XIAQF	5842 JP	Yuki Yaginuma
	Japan Post Bank	JPSTF	7182 JP	Shinichiro Nakamura
	Japan Post HD	JPHLF	6178 JP	Shinichiro Nakamura
	Japan Post Insurance	JPIIF	7181 JP	Shinichiro Nakamura
	Kajima Corporation	KAJMF	1812 JP	Takumi Kasai
	Katitas	KTITF	8919 JP	Takumi Kasai
	LIFENET INSURANCE	LIFNF	7157 JP	Shinichiro Nakamura
	Mitsubishi UFJ Financial Group	MUFG	MUFG US	Shinichiro Nakamura
	Mitsubishi UFJ Financial Group	MBFJF	8306 JP	Shinichiro Nakamura
	Mitsui Fudosan	MTSFF	8801 JP	Takumi Kasai
	Mizuho Financial Group	MZHOF	8411 JP	Shinichiro Nakamura
	Mizuho Financial Group	MFG	MFG US	Shinichiro Nakamura
	Money Forward	MNYFF	3994 JP	Yuki Kaneko
	MS&AD Holdings	MSADF	8725 JP	Yuki Yaginuma
	Nihon M&A Center	NHMAF	2127 JP	Yuki Yaginuma
	Nomura Holdings	NRSCF	8604 JP	Yuki Yaginuma
	Nomura Holdings	NMR	NMR US	Yuki Yaginuma
	ORIX	ORXCF	8591 JP	Yuki Yaginuma
	ORIX	IX	IX US	Yuki Yaginuma
	SBI Sumishin Net Bank	XHRFF	7163 JP	Shinichiro Nakamura
	Sompo Holdings	NHOLF	8630 JP	Yuki Yaginuma
	Sumitomo Mitsui Trust Holdings	CMTDF	8309 JP	Shinichiro Nakamura
	T&D Holdings	TDHOF	8795 JP	Shinichiro Nakamura
	Tokyu Fudosan Holdings	TTUUF	3289 JP	Takumi Kasai
<b>NEUTRAL</b>				
	Concordia Financial Group	CCRDF	7186 JP	Shinichiro Nakamura
	Dai-ichi Life Holdings	DCNSF	8750 JP	Shinichiro Nakamura
	Daiwa Securities Group	DSECF	8601 JP	Yuki Yaginuma
	GMO Payment Gateway	GMYTF	3769 JP	Yuki Yaginuma
	Haseko Corporation	HSKCF	1808 JP	Takumi Kasai
	Kyoto Financial Group	XIDPF	5844 JP	Shinichiro Nakamura
	Mitsubishi Estate	MITEF	8802 JP	Takumi Kasai
	Rakuten Bank	XHRUF	5838 JP	Shinichiro Nakamura
	Resona Holdings	RSNHF	8308 JP	Shinichiro Nakamura
	Sekisui House	SKHSF	1928 JP	Takumi Kasai
	Shizuoka Financial Group	SFGIF	5831 JP	Shinichiro Nakamura
	Strike Company Limited	XVSEF	6196 JP	Yuki Yaginuma
	Sumitomo Mitsui Financial Group	SMFNF	8316 JP	Shinichiro Nakamura
	Sumitomo Mitsui Financial Group	SMFG	SMFG US	Shinichiro Nakamura
	Sumitomo Realty & Development	SURDF	8830 JP	Takumi Kasai
	Tokio Marine Holdings	TKOMF	8766 JP	Yuki Yaginuma
	Tokio Marine Holdings	TKOMY	TKOMY US	Yuki Yaginuma
	Tokyo Tatemono	TYTMF	8804 JP	Takumi Kasai
<b>UNDERPERFORM</b>				
	Aozora Bank	AOZOF	8304 JP	Shinichiro Nakamura
	Credit Saison	CSASF	8253 JP	Yuki Yaginuma
	Daito Trust Construction	DITTF	1878 JP	Takumi Kasai
	M&A Capital Partners	MNACF	6080 JP	Yuki Yaginuma
	Obayashi Corporation	OBYCF	1802 JP	Takumi Kasai
	Seven Bank	SEBNF	8410 JP	Shinichiro Nakamura
	Shimizu Corporation	SHMUF	1803 JP	Takumi Kasai
	Suruga Bank	SRGBF	8358 JP	Shinichiro Nakamura
	Taisei Corporation	TISCF	1801 JP	Takumi Kasai
<b>RSTR</b>				
	Digital Garage	DLGEF	4819 JP	Yuki Yaginuma

# Disclosures

## Important Disclosures

### Equity Investment Rating Distribution: Banks Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	100	49.75%	Buy	84	84.00%
Hold	54	26.87%	Hold	41	75.93%
Sell	47	23.38%	Sell	35	74.47%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

**INCOME RATINGS**, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

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