

The Bank's Accounts

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I. SETTLEMENT OF ACCOUNTS FOR THE 120TH FISCAL YEAR ⁷

On April 26, 2005, the Policy Board finalized the Bank of Japan's financial statements (the inventory of property, balance sheet, and statement of income) for the 120th fiscal year (fiscal 2004: April 1, 2004–March 31, 2005), prepared under Article 52, Paragraph 1 of the Bank of Japan Law, and the statement of income for the second half of the 120th fiscal year (October 1, 2004–March 31, 2005). The Bank submitted these financial statements to the Minister of Finance together with the Executive Auditors' opinion and received the Minister's approval on May 23.

On April 26, 2005, the Policy Board also finalized the schedule for the financial statements for the 120th fiscal year. These were then audited by the Executive Auditors, whose opinion was that the statements duly complemented the financial statements.

The overview of the settlement of accounts for fiscal 2004 is as below.

A. Assets and Liabilities (Table 1)

The balance sheet of the Bank at the end of fiscal 2004 shows that total assets increased by 0.8 percent (1,135.3 billion yen) from a year earlier to 150,517.3 billion yen, mainly due to an increase in bills purchased. Total liabilities increased by 0.7 percent (988.5 billion yen) from the previous year to 147,820.9 billion yen, mainly due to increases in payables under repurchase agreements and banknotes.

Detailed developments in the Bank's balance sheet in fiscal 2004 are as follows.

Total assets marked a record fiscal year-end high at the end of March 2005 as there was an expansion of the overall balance sheet. This was mainly because the Bank continued to provide ample funds to the money market through outright purchases of bills and other market operations. These were carried out in accordance with the guideline for money market operations whose main operating target was the outstanding balance of current accounts at the Bank.

As noted above, the balance sheet expanded, but the Bank continued to make efforts to maintain the quality of its balance sheet in terms of liquidity and soundness of assets. Specifically, the Bank continued to underwrite one-year treasury bills (TBs) to refund maturing Japanese government bonds (JGBs) held by the Bank. In addition, all of the one-year TBs underwritten in fiscal 2003 to refund JGBs that matured in fiscal

⁷ The financial statements and the schedule for the financial statements for the first half of the 120th fiscal year (April 1–September 30, 2004) were finalized by the Policy Board on November 2, 2004. The financial statements had received the Minister of Finance's approval on November 24, 2004.

2004 were redeemed in cash, except for those that had already been sold. Furthermore, the amount outstanding of special loans pursuant to Article 38 of the Bank of Japan Law dropped to zero from 141.1 billion yen at the end of March 2004.

Turning to liabilities, the amount outstanding of banknotes issued increased by 4.6 percent from the previous year, registering 74,671.9 billion yen at end-March 2005. Payables under repurchase agreements were 24,452.0 billion yen at end-March 2005, an increase of 23 percent from a year earlier, reflecting the government's management of treasury funds. Meanwhile, the amount outstanding of current account deposits at the Bank was 35,756.2 billion yen at end-March 2005, decreasing by only 1.7 percent from a year earlier, as the Bank continued to provide ample funds to the money market in accordance with the guideline for money market operations, as in the previous year.

B. Profits and Losses (Table 2)

The Bank's statement of income for fiscal 2004 shows that operating profits increased by 529.7 billion yen to 507.4 billion yen, mainly due to net foreign exchange-related gains (gains on sales and purchases of foreign currency assets) arising from the depreciation of the yen.²

Special profits amounted to 3.9 billion yen, due to gains on disposal of premises and movable property. Meanwhile, special losses amounted to 96.9 billion yen, due mostly to the transfer of funds to the provision for possible losses on foreign exchange transactions that resulted from net foreign exchange-related gains.

As a result of the above, net income before taxes for the term increased, by 365.8 billion yen, to 414.4 billion yen, an 8.5-fold gain on its level the previous year. Net income for the term—after subtracting corporate income tax, inhabitants taxes, and enterprise taxes—increased, by 138.5 billion yen, to 194.0 billion yen, a 3.5-fold gain on its level the previous year.

2. Until fiscal 2003, government securities and foreign currency-denominated bonds listed on stock exchanges were valued at the lower of cost or market value, and others were valued at cost. The Policy Board decided on May 1, 2003 to make an amendment to change the valuation method of securities in the Accounting Rules of the Bank of Japan effective from fiscal 2004 as follows: government securities would be valued at amortized cost, and foreign currency-denominated bonds would be valued at market value. As a result of the amendments, operating profits decreased by about 264.0 billion yen relative to their level calculated by the previous valuation methods.

Table 1

Principal Assets and Liabilities¹

bil. yen

Item	End of fiscal 2003 (March 31, 2004)	End of fiscal 2004 (March 31, 2005)
Total Assets	149,381.9 (+5.8) <+8,214.5>	150,517.3 (+0.8) <+1,135.3>
Of which:		
Receivables under resale agreements	11,133.8 (-8.6) <-1,054.2>	5,228.4 (-53.0) <-5,905.3>
Bills purchased	27,219.2 (-6.5) <-1,906.9>	37,609.9 (+38.2) <+10,390.7>
Government securities (including financing bills)	100,022.0 (+12.8) <+11,370.7>	99,123.9 (-0.9) <-898.0>
Pecuniary trusts (stocks held as trust property)	1,948.6 (+66.8) <+780.6>	2,022.5 (+3.8) <+73.8>
Loans and bills discounted (excluding loans to the Deposit Insurance Corporation)	141.1 (-51.4) <-149.1>	4.0 (-97.2) <-137.1>
Total Liabilities	146,832.4 (+6.3) <+8,664.3>	147,820.9 (+0.7) <+988.5>
Of which:		
Banknotes	71,403.2 (+0.5) <+345.9>	74,671.9 (+4.6) <+3,268.6>
Deposits (excluding those of the government)	37,073.2 (+15.7) <+5,019.4>	36,128.6 (-2.5) <-944.6>
Deposits of the government	13,080.4 (-10.5) <-1,533.0>	7,587.1 (-42.0) <-5,493.3>
Payables under repurchase agreements	19,885.2 (+12.9) <+2,274.4>	24,452.0 (+23.0) <+4,566.7>
Bills sold	2,570.8 (...) <...>	1,793.2 (-30.2) <-777.6>

Note: 1. "..." indicates that figures are not applicable. Figures in parentheses are the percentage changes from a year earlier; figures in angular brackets are changes (billions of yen) from a year earlier.

Table 2

Principal Profits and Losses¹

bil. yen

Item	Fiscal 2003 (April 1, 2003–March 31, 2004)	Fiscal 2004 (April 1, 2004–March 31, 2005)
Operating profits/losses (A – B)²	–22.2 (...) <–684.2>	507.4 (...) <+529.7>
Operating income (A)	1,768.7 <–241.3>	784.6 <–984.0>
Operating expenses (B)	1,790.9 <+442.8>	277.2 <–1,513.7>
Of which:		
“Core” operating income ³	1,630.5 <–44.0>	536.6 <–1,093.8>
Transfer to/from provision for possible loan losses ⁴	... <–111.9>	2.9 <+2.9>
Net government bond-related gains/losses ⁵	–1,129.9 <–399.2>	23.2 <+1,153.1>
Net foreign exchange-related gains/losses ⁶	–327.3 <–126.5>	192.7 <+520.1>
Special profits/losses (C – D)²	70.8 <+134.0>	–92.9 <+163.8>
Special profits (C)	71.2 <+68.0>	3.9 <–67.2>
Special losses (D)	0.3 <–66.0>	96.9 <+96.5>
Of which:		
Net transfer to/from provision for possible losses on securities transactions	... <...>	... <...>
Net transfer to/from provision for possible losses on foreign exchange transactions ⁴	... <...>	–96.3 <–96.3>
Provision for unrealized losses on stockholdings ⁴	+65.8 <+131.6>	... <–65.8>
Net income before taxes	48.6 (–91.9) <–550.1>	414.4 (8.5 times) <+365.8>
Provision for corporate income tax, inhabitants taxes, and enterprise taxes	17.8 <+13.5>	220.4 <+202.5>
Taxes for prior fiscal year	–24.8 <–24.8>	... <+24.8>
Net income	55.5 (–90.7) <–538.9>	194.0 (3.5 times) <+138.5>

Notes: 1. Figures in parentheses are the percentage changes from the previous fiscal year; figures in angular brackets are changes (billions of yen) from the previous fiscal year. “...” indicates that figures are not applicable.

The Bank, the sole issuer of banknotes in Japan, obtains most of its profits from banknote issuance. It is obliged to pay the government all of its net income after deducting expenses and income taxes, excluding certain provisions and dividends. This payment to the government is treated as deductible losses for income tax purposes, and is excluded from taxable income when corporate income tax and enterprise taxes are calculated.

The Bank does not apply the interperiod allocation of income taxes because of the unique tax treatment explained above, which is very different from that of the private sector in that all of the Bank's net income (excluding provisions and dividends) is paid to the government and is not taxable. If the Bank used the interperiod allocation of income taxes, the amount of income taxes would vary with changes in its net income and payment to the government.

2. Figures for operating profits/losses (A – B) and special profits/losses (C – D) are calculated in yen and then rounded down to the nearest 0.1 billion yen, thus they are not necessarily equal to the total of relevant items listed in the above table.

3. The total of interest on loans and discounts, interest on receivables under resale agreements, discounts on bills purchased, interest and discounts on government securities, on asset-backed securities, and on foreign currency securities, lending fees on foreign currency securities, and interest on foreign currency deposits. The Bank has changed the components of operating income, in line with the change in the valuation method of securities, and therefore figures for fiscal 2004 are not comparable with those of and before fiscal 2003.

4. A minus sign shows net transfer to the relevant provisions (negative figures reduce net income).

5. Net gains/losses on sale of government bonds. With the new method to value Japanese government bonds at amortized cost, figures for fiscal 2004 are not comparable with those of and before fiscal 2003, when they were the total of net gains/losses on sale and arising from redemption of government bonds and losses arising from devaluation of government bonds.

6. Gains/losses on sale and purchase of foreign currency assets resulting from fluctuations in foreign exchange rates during the fiscal year. Figures of and before fiscal 2003 consisted of the above and gains/losses arising from revaluation at the end of the fiscal year.

C. Transfers to/from Provisions

In preparing its financial statements, the Bank made transfers of funds to various provisions in accordance with rules and regulations including the Bank of Japan Law, the Bank's by-laws, and the Accounting Rules decided by the Policy Board on October 9, 1998. The following transfers were made in fiscal 2004.

1. Provision for possible loan losses

The provision for possible loan losses is maintained in accordance with Article 16 of the Accounting Rules. This provision is divided into two categories: the general provision and the special provision. Regarding the former, the Accounting Rules prescribe that it should be based on the past experience of the ratio of actual loan losses to total loans (the loan-loss ratio). In fiscal 2004, however, no transfer to the provision was made because the Bank had experienced no loan losses, which are the basis for calculating the loan-loss ratio, in the recent past.

With regard to the special provision, the exception clause of Article 16 of the Accounting Rules stipulates that the Bank's Policy Board should decide the necessity for and size of the special provision for possible losses on loans specified. In fiscal 2004, however, no transfer to the special provision was made because the Bank had no such loans.

2. Provision for retirement benefits

In fiscal 2001, the Bank introduced accounting for retirement benefits with a view to clarifying the Bank's financial situation, given the changes in accounting practices in the private sector. In line with the Accounting Rules, the Bank decided that appropriation for the provision for retirement benefits for fiscal 2004 would be based on the estimated amount of retirement benefit obligations at end-March 2005.

3. Provisions for possible losses on securities transactions and foreign exchange transactions

The Bank appropriates provisions for possible losses on securities transactions and foreign exchange transactions, pursuant to such rules and regulations as Article 15 of the Bank of Japan Law Enforcement Order, Articles 9, 10, and 11 of the Enforcement Regulations of the Bank of Japan Law, and Article 18 of the Bank's Accounting Rules. The amount of funds transferred to/from these provisions is determined by the following criteria, which are prescribed in Article 18 of the Accounting Rules: (1) for both securities transactions and foreign exchange transactions, about 50 percent of net gains/losses should be transferred to/from the relevant provisions; and (2) the level of the Bank's capital adequacy ratio should also be taken into consideration.³

3. For the definition of the Bank's capital adequacy ratio, see page 129.

In fiscal 2004, net gains on government securities transactions and foreign exchange transactions were recorded. In line with the above-mentioned rules and regulations, the Bank decided to transfer about 50 percent of net gains on foreign exchange transactions to the provision for possible losses on such transactions, taking into account the level of the Bank's capital adequacy ratio.

4. Provision for unrealized losses on stockholdings

The Bank appropriates a provision for unrealized losses on stockholdings pursuant to Article 18-2 of the Bank's Accounting Rules when the market value is less than the book value after impairment procedures, in an amount equivalent to the difference in value between these.

In fiscal 2004, the Bank did not appropriate a provision for unrealized losses on stockholdings, as the market value of the Bank's total stockholdings exceeded their book value.

D. Appropriation of Net Income

On April 26, 2005, the Bank's Policy Board decided on the appropriation of net income under Article 53 of the Bank of Japan Law. The Bank is required to transfer 5 percent of net income for the fiscal year to the legal reserve in accordance with Paragraph 1 of the above Article. However, in fiscal 2004, upon the approval of the Minister of Finance in accordance with Paragraph 2 of the above Article, the Bank transferred a larger amount of 24.9 billion yen to the legal reserve in order to secure the Bank's financial soundness. This amount represented the sum of the following transfers: (1) a transfer of 19.4 billion yen, which was 10 percent of net income, 194.0 billion yen, to improve the Bank's capital base in fiscal 2004; and (2) a transfer of 5.5 billion yen to prevent impairment of the Bank's financial soundness due to losses arising from special loans to Yamaichi Securities, pursuant to Article 38 of the Law. This latter amount was calculated by multiplying uncollectible special loans to Yamaichi Securities of 111.1 billion yen by the required rate of 5 percent as prescribed by Article 53, Paragraph 1 of the Law, and represented the amount that should have been transferred from net income to the legal reserve if these loans had been collected.

After paying dividends totaling 5 million yen (5 percent of the face value of shares) upon the approval of the Minister of Finance in accordance with Article 53, Paragraph 4 of the Law, the Bank paid the remainder of its net income to the government (169.0 billion yen).

With regard to the appropriation of net income for the 120th fiscal year (see Section I.G.6 on page 136 for details), the opinion of the Executive Auditors was that the Bank's net income was properly appropriated in accordance with Article 53 of the Law.

E. Preliminary Payment to the Government

Under Article 17 of the Bank of Japan Law Enforcement Order, the Bank is obliged, by the end of November of every fiscal year, to pay a part of the final amount to be paid to the government for that fiscal year, in line with a guideline set by the Minister of Finance and based on the Bank's projection of net income.

On November 2, 2004, the Policy Board decided not to make a preliminary payment to the government. This was because, depending on financial conditions in the second half of fiscal 2004, there was a possibility that the Bank would make no final payment to the government due to a significant drop in its income.⁴

F. The Bank's Capital Base (Table 3)

The Bank has been making efforts to improve its capital base to maintain its financial soundness. In addition to keeping its capital account at a sufficient level (e.g., by appropriating part of net income to the legal reserve), the Bank has appropriated funds for various provisions, including those for possible losses arising from fluctuations in prices of assets held by the Bank and those for possible loan losses. From past experience, the Bank considers that its capital adequacy ratio (capital base divided by the period average of banknotes issued) should be around 10 percent. Based on this thinking, the Bank's Accounting Rules prescribe that the capital adequacy ratio should be around the 8–12 percent level (Article 18, Paragraph 1).

The capital adequacy ratio, after the appropriation of net income, rose to 7.35 percent at the end of fiscal 2004 (Table 3). This was the result of the following measures. First, the Bank transferred about 50 percent of net gains on foreign exchange transactions to the provision for possible losses on such transactions (see Section I.C.3 on pages 126–127 for details). And second, it transferred to the legal reserve 24.9 billion yen or about 13 percent of its net income for the fiscal year, which was more than the amount required under Article 53 of the Bank of Japan Law (see Section I.D on pages 127–128 for details).

4. No preliminary payments have been made to the government in the past.

Table 3

The Bank's Capital Base and Capital Adequacy Ratio ¹

bil. yen, except where otherwise noted

Item	End of fiscal 2002 (March 31, 2003)	End of fiscal 2003 (March 31, 2004)	End of fiscal 2004 (March 31, 2005)	Changes from a year earlier	[Reference] End of the first half of fiscal 2004 (September 30, 2004)
Capital accounts (A)	2,494.0	2,502.3	2,527.3	+24.9	2,502.3
Capital	0.1	0.1	0.1	...	0.1
Legal reserve and others ²	2,493.9	2,502.2	2,527.2	+24.9	2,502.2
Provisions (B)	2,672.7	2,672.7	2,769.1	+96.3	2,792.9
Provision for possible loan losses (excluding special provision for possible loan losses)
Provision for possible losses on securities transactions	2,243.3	2,243.3	2,243.3	...	2,243.3
Provision for possible losses on foreign exchange transactions	429.3	429.3	525.7	+96.3	549.6
Capital base³ (A) + (B) = (C)	5,166.7	5,175.0	5,296.4	+121.3	5,295.3
Annual average of banknotes issued (D)	67,754.4	70,526.0	72,029.3	+1,503.3	70,968.0
Capital adequacy ratio (C)/(D) × 100 (percent)	7.62	7.33	7.35	+0.02	7.46

Notes: 1. "..." indicates that figures are not applicable.

2. Includes the special reserve (13 million yen).

3. Calculated in yen and then rounded down to the nearest 0.1 billion yen, thus figures are not necessarily equal to the total of relevant items listed in the above table.

[Reference]**Calculation of the Bank's Capital Adequacy Ratio**

Capital adequacy ratio

$$= (\text{capital} + \text{legal reserve}^5 + \text{special reserve}^6 + \text{general provision for possible loan losses}^7 + \text{provision for possible losses on securities transactions} + \text{provision for possible losses on foreign exchange transactions}) / (\text{period average of Bank of Japan notes issued}).$$

5. After appropriation of a part of net income for the fiscal year concerned.

6. The Bank, along with private financial institutions, suspended payment of dividends from the first half of fiscal 1945 to the first half of fiscal 1949, in accordance with an order of the Minister of Finance aimed at reconstructing financial institutions after World War II. The unpaid dividends were set aside as a "special reserve" under supplementary provisions in the Partial Amendment of the Bank of Japan Law (Law No. 46, 1947).

7. The special provision for possible loan losses and the provision for unrealized losses on stockholdings are not included in the capital base used for calculating the capital adequacy ratio. This is because these provisions cannot be used to cover possible losses from assets other than specific loans or stockholdings.

G. Financial Statements

1. Inventory of property as at March 31, 2005

Item	Value in yen	Unit (except where otherwise noted)
ASSETS		
Gold	441,253,409,037	
Cash	267,111,081,311	
Receivables under resale agreements	5,228,435,360,314	41
Bills purchased	37,609,900,000,000	844
Government securities	99,123,927,195,747	Face value at 96,905,157,000,000 yen
Asset-backed securities	83,099,617,627	Face value at 83,100,000,000 yen
Pecuniary trusts (stocks held as trust property)	2,022,529,362,820	
Loans and bills discounted	4,000,000,000	
Electronic loans	4,000,000,000	1
Foreign currency assets	4,523,078,432,029	
Foreign currency deposits	32,926,458,400	
Foreign currency securities	4,468,328,970,268	
Foreign currency mutual funds	21,823,003,361	
Deposits with agents	415,124,151,456	Deposits with 97 agents
Other assets	567,597,867,992	
Bills and checks in process of collection	6,833,380,718	60
Capital subscription to the Deposit Insurance Corporation, and the Agricultural and Fishery Cooperative Savings Insurance Corporation	225,000,000	2
Capital subscription to an international financial institution	12,715,067,265	1
Provision of funds to the Deposit Insurance Corporation's "Jusen account"	100,000,000,000	1
Provision of funds to the New Financial Stabilization Fund	20,000,000,000	1
Withdrawn cash to be returned to the government	93,964,095,181	6
Accrued interest receivable	204,929,037,573	
Others	128,931,287,255	
Premises and movable property	231,307,318,679	
Land, buildings, and movable property	230,490,581,564	Land: (area) 736,448.84 square meters (value) 79,866,949,057 yen Buildings: (area) 655,591.95 square meters (value) 132,594,755,731 yen Movable property: 12,384
Construction in progress	403,555,163	
Lease deposits and intangible	413,181,952	
Total assets	150,517,363,797,012	
LIABILITIES		
Banknotes	74,671,935,692,360	
Deposits (excluding those of the government)	36,128,603,741,784	
Current deposits	35,756,250,174,069	1,263
Other deposits	372,353,567,715	128
Deposits of the government	7,587,171,368,925	
Treasury deposit	150,000,097,746	
Domestic designated deposit	7,069,110,299,185	
Other government deposits	368,060,971,994	
Payables under repurchase agreements	24,452,067,102,646	54
Bills sold	1,793,200,000,000	17
Other liabilities	271,478,208,782	
Remittances payable	7,208,124,769	
Unearned interest and discounts	128,788,758	
Taxes payable	210,104,000,000	
Others	54,037,295,255	
Provision for retirement benefits	147,407,743,774	
Provision for possible losses on securities transactions	2,243,348,993,013	
Provision for possible losses on foreign exchange transactions	525,757,000,000	
Total liabilities	147,820,969,851,284	
CAPITAL ACCOUNTS		
Capital	100,000,000	
Legal reserve	2,502,232,439,259	
Special reserve	13,196,452	
Net income	194,048,310,017	
Total capital accounts	2,696,393,945,728	
Total liabilities and capital accounts	150,517,363,797,012	

2. Balance sheet as at March 31, 2005

yen

ASSETS	
Gold	441,253,409,037
Cash	267,111,081,311
Receivables under resale agreements	5,228,435,360,314
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Electronic loans	4,000,000,000
Foreign currency assets	4,523,078,432,029
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Deposits with agents	415,124,151,456
Other assets	567,597,867,992
Bills and checks in process of collection	6,833,380,718
Capital subscription to the Deposit Insurance Corporation, and the Agricultural and Fishery Cooperative Savings Insurance Corporation	225,000,000
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Provision of funds to the New Financial Stabilization Fund	20,000,000,000
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CAPITAL ACCOUNTS	
Capital	100,000,000
Legal reserve	2,502,232,439,259
Special reserve	13,196,452
Net income	194,048,310,017
Total capital accounts	2,696,393,945,728
Total liabilities and capital accounts	150,517,363,797,012

3. Statement of income for the 120th fiscal year (April 1, 2004–March 31, 2005)

yen

Operating income	784,674,830,981
Interest on loans and discounts	58,147,354
Interest on loans	58,147,354
Interest on receivables under resale agreements	188,273,679
Discounts on bills purchased	1,062,188,513
Interest and discounts on government securities	341,053,422,492
Interest and discounts on asset-backed securities	18,827,851
Gains on sale of government securities	23,422,669,584
Gains on foreign currency assets	322,315,694,174
Foreign exchange gains	192,773,458,948
Gains on foreign currency securities	128,932,567,462
Gains on foreign currency mutual funds	2,239,316
Interest on foreign currency deposits and loans	607,428,448
Other operating income	96,555,607,334
Gains from pecuniary trusts (stocks held as trust property)	38,599,191,244
Dividends	571,913,773
Fees and commissions	44,499,399,528
Transfer from provision for possible loan losses	2,983,818,246
Other income	9,901,284,543
Operating expenses	277,228,296,854
Interest on payables under repurchase agreements	248,133,110
Discounts paid on bills sold	24,257,460
Losses on sale of government securities	449,400
General and administrative expenses and costs	232,158,570,287
Cost of production of banknotes	64,698,822,000
Administrative expenses for treasury business and government securities	39,560,424,148
Personnel expenses	49,071,030,457
Expenses for transportation and communications	5,661,468,709
Expenses for maintenance and repairs	1,332,694,193
Other general and administrative expenses and costs	49,183,673,004
Taxes excluding corporate income tax, inhabitants taxes, and enterprise taxes	4,285,726,707
Depreciation and amortization	18,364,731,069
Other general and administrative expenses	44,796,886,597
Fees and commissions paid	250,073,818
Other expenses	44,546,812,779
Operating profits	507,446,534,127
Special profits	3,971,317,232
Gains on disposal of premises and movable property	3,971,317,232
Special losses	96,945,369,027
Losses on disposal of premises and movable property	559,369,027
Transfer to provision for possible losses on foreign exchange transactions	96,386,000,000
Net income before taxes	414,472,482,332
Provision for corporate income tax, inhabitants taxes, and enterprise taxes	220,424,172,315
Net income	194,048,310,017

4. Summary of significant accounting policies

a. Securities

Yen-denominated bonds and CP are valued at amortized cost determined by the moving-average method.

Foreign currency-denominated bonds and foreign currency-denominated mutual funds are valued at market value.

Stockholdings (including stocks held as trust property in pecuniary trusts⁸) are valued at cost determined by the moving-average method.

Impairment procedures will be applied for asset-backed securities (ABSs) and stocks whose market value has fallen considerably.

b. Premises and equipment

Depreciation is computed as follows:

(1) Buildings

Depreciation is computed by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998, at a rate based on the Corporation Tax Law.

(2) Leasehold improvements and equipment

Depreciation is computed by the declining-balance method at a rate based on the Corporation Tax Law.

(3) Others

Depreciation is computed in accordance with the Corporation Tax Law.

c. Foreign currency transactions

Assets and liabilities denominated in foreign currencies are translated into yen at the foreign exchange rate prevailing at the balance-sheet date. However, the amount of capital subscription to an international financial institution is translated into yen at the foreign exchange rate prevailing at the time of subscription.

d. Transfers to/from provisions

(1) Provision for possible loan losses

The general provision for possible loan losses is maintained based on the past experience of the ratio of actual loan losses to total loans (the loan-loss ratio). However, a special provision for possible losses on specific loans will be recorded separately, should the Bank's Policy Board deem it necessary.

⁸ Includes (1) "money trusts" where the beneficiaries entrust money as trust property, and at the end of the term receive money; and (2) "pecuniary trusts other than money trusts" where the beneficiaries entrust money as trust property, and at the end of the term receive securities or other forms of property in which the money has been invested.

(2) Provision for retirement benefits

Appropriation for the provision for retirement benefits is based on the estimated amount of retirement benefit obligations at the fiscal year-end.

Unrecognized actuarial differences are amortized from the following fiscal year by the straight-line method over a certain number of years, within the average remaining service period (ten years) of employees prevailing at the time when the differences arise.

An unrecognized net obligation arising from the application of the new accounting standard, which amounted to 158,412,228,000 yen, is being amortized equally over a period of five years.

(3) Provisions for possible losses on securities transactions and foreign exchange transactions

Provisions for possible losses on securities transactions and for possible losses on foreign exchange transactions are maintained pursuant to the following rules and regulations: Article 15 of the Bank of Japan Law Enforcement Order; Articles 9, 10, and 11 of the Enforcement Regulations of the Bank of Japan Law; and Article 18 of the Bank's Accounting Rules.

(4) Provision for unrealized losses on stockholdings

A provision for unrealized losses on stockholdings is appropriated when the market value is less than the book value, in an amount equivalent to the difference between these.

e. Significant changes in the accounting standard

Until fiscal 2003, government securities and foreign currency-denominated bonds listed on stock exchanges were valued at the lower of cost determined by the moving-average method or market value, and others at cost determined by the moving-average method in financial statements for both the first half of every fiscal year and for the full fiscal year. However, since the first half of fiscal 2004, government securities have been valued at amortized cost determined by the moving-average method, and foreign currency-denominated bonds have been valued at market value.

This was because, out of the accepted standard accounting methods for valuing securities held by the private sector, the Bank judged the valuation methods described above to be the most suitable, taking into account the Bank's holdings of government securities and foreign currency-denominated bonds.

As a result of this change, operating profits decreased by about 264.0 billion yen relative to their level calculated by the previous valuation methods.

Explanatory Notes to Accounting for Retirement Benefits¹

1. Projected benefit obligation			yen
Projected benefit obligation	(A)	-210,924,873,000	
Fair value of plan assets	(B)	...	
Unfunded projected benefit obligation	(C) = (A) + (B)	-210,924,873,000	
Unrecognized actuarial differences	(D)	31,834,683,626	
Unrecognized prior service cost	(E)	...	
Unrecognized transitional obligation	(F)	31,682,445,600	
Net amount recorded on the balance sheet	(G) = (C) + (D) + (E) + (F)	-147,407,743,774	
Prepaid pension cost	(H)	...	
Provision for retirement benefits	(G) - (H)	-147,407,743,774	
2. Pension expenses			yen
Service costs		4,901,183,000	
Interest costs		4,093,190,000	
Expected return on plan assets		...	
Amortization of actuarial differences		3,495,880,669	
Amortization of prior service cost		...	
Amortization of transitional obligation		31,682,445,600	
Others (such as extra retirement benefits)		...	
Pension expenses		44,172,699,269	
3. Assumptions			
Discount rate		2.0%	
Expected rate of return on plan assets		...	
Method of attributing the projected benefits to periods of service		Straight-line method	
Amortization period of actuarial differences		10 years	
Amortization period of service cost		...	
Amortization period of transitional obligation		5 years	

Note: 1. "..." indicates that figures are not applicable.

5. Executive Auditors' opinion⁹

May 9, 2005

**Executive Auditors' Opinion on the Bank of Japan's Financial Statements
for the 120th Fiscal Year**

Pursuant to Article 52, Paragraph 1 of the Bank of Japan Law (Law No. 89, 1997), we have audited the financial statements of the Bank of Japan for the 120th fiscal year indicated below. In our opinion, the financial statements present fairly the state of property and the results of operations for the 120th fiscal year.

The financial statements comprise the following:
Inventory of property as at March 31, 2005;
Balance sheet as at March 31, 2005; and
Statement of income for the 120th fiscal year.

Toshiharu Murayama
Sanya Suzuki
Yasutada Sasaki

Executive Auditors, Bank of Japan

6. Appropriation of net income for the 120th fiscal year

yen

Net income	194,048,310,017
Appropriations:	
Transfer to legal reserve	24,961,240,090
Dividends, 5 percent of share face value	5,000,000
Payment to the government	169,082,069,927
Total	194,048,310,017

⁹ This presents a translation, for convenience only, of the original report issued in Japanese.

H. Schedule for the Financial Statements for the 120th Fiscal Year

1. Details of assets

yen

Item	Balance at the beginning of the fiscal year	Balance at the end of the fiscal year	Changes during the fiscal year
1. Gold	441,253,409,037	441,253,409,037	0
2. Cash¹	284,630,130,228	267,111,081,311	-17,519,048,917
3. Receivables under resale agreements²	11,133,825,398,799	5,228,435,360,314	-5,905,390,038,485
Purchases of JGSs under repurchase agreements	2,282,801,289,949	2,744,450,150,564	461,648,860,615
Purchases of CP under repurchase agreements	2,702,078,288,219	2,483,985,209,750	-218,093,078,469
Purchases of foreign currency securities under resale agreements	6,148,945,820,631	0	-6,148,945,820,631
4. Bills purchased	27,219,200,000,000	37,609,900,000,000	10,390,700,000,000
5. Government securities	100,022,002,265,632	99,123,927,195,747	-898,075,069,885
Financing bills and treasury bills	34,445,232,256,683	33,658,898,377,866	-786,333,878,817
Financing bills	13,492,057,270,860	7,629,090,584,809	-5,862,966,686,051
Treasury bills	20,953,174,985,823	26,029,807,793,057	5,076,632,807,234
Government bonds	65,576,770,008,949	65,465,028,817,881	-111,741,191,068
2-year government bonds	7,504,997,437,000	9,357,590,920,991	1,852,593,483,991
4-year government bonds	488,343,045,000	0	-488,343,045,000
5-year government bonds	7,553,853,648,000	9,995,563,843,718	2,441,710,195,718
6-year government bonds	2,853,399,088,000	2,017,693,624,584	-835,705,463,416
10-year government bonds	35,266,178,429,949	32,020,965,222,034	-3,245,213,207,915
20-year government bonds	11,535,910,361,000	11,873,234,206,554	337,323,845,554
Other government bonds ³	374,088,000,000	199,981,000,000	-174,107,000,000
6. Asset-backed securities	120,398,148,582	83,099,617,627	-37,298,530,955
Asset-backed bonds	1,100,000,000	100,000,000	-1,000,000,000
Asset-backed CP	119,298,148,582	82,999,617,627	-36,298,530,955
7. Pecuniary trusts (stocks held as trust property)⁴	1,948,662,452,549	2,022,529,362,820	73,866,910,271
Stocks	1,934,486,892,849	2,004,784,973,270	70,298,080,421
Dividends receivable and others	14,175,559,700	17,744,389,550	3,568,829,850
8. Loans and bills discounted	141,192,407,078	4,000,000,000	-137,192,407,078
Loans on bills	119,192,407,078	0	-119,192,407,078
Loans pursuant to Article 38 of the Bank of Japan Law	119,192,407,078	0	-119,192,407,078
Loans on deeds	22,000,000,000	0	-22,000,000,000
Loans pursuant to Article 38 of the Bank of Japan Law	22,000,000,000	0	-22,000,000,000
Electronic loans	0	4,000,000,000	4,000,000,000
9. Foreign currency assets	4,165,971,841,348	4,523,078,432,029	357,106,590,681
Foreign currency deposits ⁵	27,364,156,281	32,926,458,400	5,562,302,119
Foreign currency securities ^{6,7}	4,127,781,421,022	4,468,328,970,268	340,547,549,246
Foreign currency mutual funds	10,826,264,045	21,823,003,361	10,996,739,316
10. Deposits with agents⁸	3,082,537,261,383	415,124,151,456	-2,667,413,109,927

Notes: 1. Coins reserved for circulation.

2. Monetary obligations arising from the purchase of government securities, CP, and foreign currency securities under repurchase agreements.

3. Government compensation bonds held by the Bank.

4. Stocks purchased from financial institutions through a trust bank, and other trust properties.

5. Deposits held at foreign central banks and the Bank for International Settlements.

6. Includes securities issued by foreign governments.

7. 1,283,533,668,042 yen of the amount outstanding of the foreign currency securities at the fiscal year-end comprises loans due to lending/borrowing of securities.

8. Deposits held at agents that conduct operations relating to treasury funds and government securities on behalf of the Bank. These deposits are reserved for such operations.

yen

Item	Balance at the beginning of the fiscal year	Balance at the end of the fiscal year	Changes during the fiscal year
11. Other assets	696,558,597,638	567,597,867,992	-128,960,729,646
Bills and checks in process of collection ⁹	4,587,900,089	6,833,380,718	2,245,480,629
Capital subscription to the Deposit Insurance Corporation, and the Agricultural and Fishery Cooperative Savings Insurance Corporation	225,000,000	225,000,000	0
Capital subscription to an international financial institution ¹⁰	12,715,067,265	12,715,067,265	0
Provision of funds to the Deposit Insurance Corporation's "Jusen account" ¹¹	100,000,000,000	100,000,000,000	0
Provision of funds to the New Financial Stabilization Fund ¹²	20,000,000,000	20,000,000,000	0
Withdrawn cash to be returned to the government ¹³	265,628,366,196	93,964,095,181	-171,664,271,015
Refund on accrued tax	1,229,360,893	0	-1,229,360,893
Accrued interest receivable	226,568,332,932	204,929,037,573	-21,639,295,359
Others	65,604,570,263	128,931,287,255	63,326,716,992

Notes: 9. Checks and bills received as cash and in process of collection.

10. A subscription to the Bank for International Settlements.

11. Funds provided to the Deposit Insurance Corporation's "Jusen (housing loan companies) account."

12. Funds provided to the New Financial Stabilization Fund, an incorporated association.

13. Includes coins that became unfit for circulation through damage and received as treasury funds by the Bank.

yen

Item	Balance at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	Of which:	Balance at the end of the fiscal year	Cumulative total of depreciation
				Depreciation		
12. Premises and movable property¹⁴	239,857,076,947	16,661,500,276	25,211,258,544	17,219,380,073	231,307,318,679	261,311,052,793
Land ¹⁵	79,870,459,476 (757,052.36)	0 (12.53)	3,510,419 (20,616.05)	...	79,866,949,057 (736,448.84)	...
Buildings ^{15,16}	137,669,012,523 (663,947.05)	7,074,845,993 (558.93)	12,149,102,785 (8,914.03)	11,965,237,919 (...)	132,594,755,731 (655,591.95)	232,083,355,129 (...)
Movable property ^{16,17}	19,275,452,409 (12,531)	4,326,062,587 (467)	5,572,638,220 (614)	5,204,545,529 (...)	18,028,876,776 (12,384)	28,635,658,526 (...)
Construction in progress ¹⁸	2,578,165,048	5,253,882,209	7,428,492,094	...	403,555,163	...
Lease deposits and intangible	463,987,491	6,709,487	57,515,026	49,596,625	413,181,952	592,039,138

Notes: 14. "..." indicates that figures are not applicable.

15. Figures in parentheses for "land" and "buildings" show areas in square meters.

16. Repairs to the buildings for the Bank's business operations were the main factor responsible for the increase in "buildings." Purchase of new automatic banknote examination machines was the main factor responsible for the increase in "movable property."

17. Figures in parentheses for "movable property" are the number of pieces of movable property.

18. An increase in "construction in progress" was mainly due to the repairs to the buildings for the Bank's business operations, and the decrease was mainly due to the debit and transfer of funds to "buildings" as the repairs to the buildings for the Bank's business operations had been completed.

yen

Item	Balance at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	Balance at the end of the fiscal year
13. Provision for possible loan losses¹⁹	114,112,000,000	0	114,112,000,000	0
Special provision	114,112,000,000	0	114,112,000,000	0

Note: 19. Appropriated in accordance with the Bank's Significant Accounting Policies.

2. Details of liabilities and capital accounts

yen

Item	Balance at the beginning of the fiscal year	Balance at the end of the fiscal year	Changes during the fiscal year
1. Banknotes	71,403,288,071,569	74,671,935,692,360	3,268,647,620,791
10,000 yen notes	64,743,958,960,000	67,701,521,575,000	2,957,562,615,000
5,000 yen notes	2,232,487,877,500	2,483,523,775,000	251,035,897,500
2,000 yen notes	964,731,750,000	838,396,419,000	-126,335,331,000
1,000 yen notes	3,295,538,740,500	3,483,756,954,500	188,218,214,000
Other banknotes ¹	166,570,743,569	164,736,968,860	-1,833,774,709
2. Deposits (excluding those of the government)	37,073,223,285,447	36,128,603,741,784	-944,619,543,663
Current deposits	36,360,074,278,499	35,756,250,174,069	-603,824,104,430
Current deposits of financial institutions ²	35,404,779,738,363	34,820,734,542,062	-584,045,196,301
Other current deposits of nonfinancial institutions ³	955,294,540,136	935,515,632,007	-19,778,908,129
Other deposits ⁴	713,149,006,948	372,353,567,715	-340,795,439,233
3. Deposits of the government	13,080,482,140,247	7,587,171,368,925	-5,493,310,771,322
Treasury deposit	150,000,979,595	150,000,097,746	-881,849
Domestic designated deposit ⁵	12,375,482,349,355	7,069,110,299,185	-5,306,372,050,170
Other government deposits ⁶	554,998,811,297	368,060,971,994	-186,937,839,303
4. Payables under repurchase agreements⁷	19,885,274,255,049	24,452,067,102,646	4,566,792,847,597
Sales of JGBs under repurchase agreements to the government	18,441,038,604,817	22,314,246,933,275	3,873,208,328,458
Sales of TBs and FBs under repurchase agreements to foreign central banks and other foreign entities	1,444,235,650,232	1,606,226,725,431	161,991,075,199
Sales of JGBs under repurchase agreements to financial institutions	0	531,593,443,940	531,593,443,940
5. Bills sold	2,570,800,000,000	1,793,200,000,000	-777,600,000,000
6. Other liabilities	34,542,981,722	271,478,208,782	236,935,227,060
Remittances payable	7,111,462,322	7,208,124,769	96,662,447
Unearned interest and discounts	364,740,828	128,788,758	-235,952,070
Taxes payable	17,874,000,000	210,104,000,000	192,230,000,000
Others	9,192,778,572	54,037,295,255	44,844,516,683

Notes: 1. The total of banknotes of denominations that are no longer issued new but are still legal tender (i.e., notes of 500 yen, 100 yen, 50 yen, 10 yen, 5 yen, and 1 yen).

2. Deposits held by financial institutions including institutions such as *tanshi* companies and securities finance companies.

3. Deposits held by institutions, for example, securities companies.

4. Deposits held by foreign central banks and others.

5. A deposit to which the surplus funds from management of the treasury is transferred from the "treasury deposit."

6. Includes the special deposit, which balances "cash" (coins reserved for circulation) and "withdrawn cash to be returned to the government" (coins withdrawn from circulation) in the asset account.

7. Monetary obligations arising from the sale of government securities under repurchase agreements.

yen

Item	Balance at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	Balance at the end of the fiscal year
7. Provisions⁸	2,784,812,664,811	140,558,699,269	8,857,627,293	2,916,513,736,787
Provision for retirement benefits	112,092,671,798	44,172,699,269	8,857,627,293	147,407,743,774
Provision for possible losses on securities transactions	2,243,348,993,013	0	0	2,243,348,993,013
Provision for possible losses on foreign exchange transactions	429,371,000,000	96,386,000,000	0	525,757,000,000
8. Capital accounts	2,494,014,820,181	8,330,815,530	0	2,502,345,635,711
Capital	100,000,000	0	0	100,000,000
Legal reserve ⁹	2,493,901,623,729	8,330,815,530	0	2,502,232,439,259
Special reserve ¹⁰	13,196,452	0	0	13,196,452

Notes: 8. Appropriated in accordance with the Bank's Significant Accounting Policies.

9. A reserve maintained to cover possible losses and to pay dividends under Article 53, Paragraphs 1 and 2 of the Bank of Japan Law.

10. The Bank, along with private financial institutions, suspended payment of dividends from the first half of fiscal 1945 to the first half of fiscal 1949, in accordance with an order of the Minister of Finance with the aim of reconstructing financial institutions after World War II. The unpaid dividends were set aside as a "special reserve" under supplementary provisions in the Partial Amendment of the Bank of Japan Law (Law No. 46, 1947).

3. Details of revenues and expenses

a. Operating income

Interest on loans and discounts	
Interest on loans	58,013,698 yen from loans on deeds and 133,656 yen from electronic loans.
Interest on receivables under resale agreements	51,701,245 yen from interest income on purchase of Japanese government securities under resale agreements; 104,527,035 yen from interest income on purchase of CP under resale agreements; and 32,045,399 yen from interest income on purchase of foreign currency securities under resale agreements.
Discounts on bills purchased	1,062,188,513 yen
Interest and discounts on government securities	341,053,422,492 yen from interest income on Japanese government securities after an adjustment.
Interest and discounts on asset-backed securities	18,827,851 yen from interest income on asset-backed securities after an adjustment.
Gains on sale of government securities	213,769,584 yen from gains on sale of financing bills and treasury bills and 23,208,900,000 yen from those of Japanese government bonds.
Gains on foreign currency assets	
Foreign exchange gains	192,773,458,948 yen from gains on sale and purchase of foreign currency assets resulting from fluctuations in foreign exchange rates during the fiscal year.
Gains on foreign currency securities	Total of 192,375,342,363 yen from interest and discounts on foreign currency securities and 1,325,136,529 yen from lending fees on them; and 64,767,911,430 yen of losses arising from sale, redemption, and revaluation at end-March 2005 of foreign currency securities.
Gains on foreign currency mutual funds	2,239,316 yen
Interest on foreign currency deposits and loans	607,428,448 yen from interest income on foreign currency deposits held at foreign central banks and the Bank for International Settlements.
Other operating income	
Gains from pecuniary trusts (stocks held as trust property)	38,599,191,244 yen from gains arising from dividends.
Dividends	571,913,773 yen for dividends from shares of the Bank for International Settlements held by the Bank.
Fees and commissions	44,499,399,528 yen for fees and commissions for operations regarding government securities, the BOJ-NET, foreign exchange transactions, and other operations.
Transfer from provision for possible loan losses	2,983,818,246 yen
Other income	9,901,284,543 yen from transfer from provision for retirement benefits and other miscellaneous income.

b. Operating expenses

Interest on payables under repurchase agreements	248,133,110 yen for interest payment on sale of Japanese government securities under repurchase agreements.
Discounts paid on bills sold	24,257,460 yen
Losses on sale of government securities	449,400 yen of losses on sale of financing bills and treasury bills.
General and administrative expenses and costs	
Cost of production of banknotes	64,698,822,000 yen from payments to the National Printing Bureau, an incorporated administrative agency, for the cost of production of banknotes.
Administrative expenses for treasury business and government securities	39,560,424,148 yen from fees and commissions paid to agents of the Bank for administration of treasury business and government securities.
Personnel expenses	443,045,700 yen for remuneration of the executives; 39,718,678,464 yen for remuneration of the staff; and 8,909,306,293 yen for retirement benefits.
Expenses for transportation and communications	2,170,424,049 yen for transportation and 3,491,044,660 yen for communications.
Expenses for maintenance and repairs	1,332,694,193 yen on offices and other premises.
Other general and administrative expenses and costs	1,734,661,906 yen for the cost of expendable supplies; 2,122,381,671 yen for expenses for electricity and water supply; 11,162,506,876 yen for leasing fees for buildings and equipment; 8,168,234,295 yen for expenses for maintenance of buildings and equipment; and 25,995,888,256 yen for miscellaneous expenses.
Taxes, excluding corporate income tax, inhabitants taxes, and enterprise taxes	4,285,726,707 yen for taxes and public charges (including fixed-asset tax and urban development tax).
Depreciation and amortization	18,364,731,069 yen on buildings and movable property.
Other general and administrative expenses	
Fees and commissions paid	250,073,818 yen
Other expenses	44,546,812,779 yen for interest on transfers to provision for retirement benefits, domestic designated deposit, and other expenses.

c. Special profits

Gains on disposal of premises and movable property	3,971,317,232 yen for gains on sale of land for the Bank's premises and other properties.
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d. Special losses

Losses on disposal of premises and movable property	559,369,027 yen for losses on disposal of automatic banknote examination machines and other properties.
Transfer to provision for possible losses on foreign exchange transactions	96,386,000,000 yen

e. Net income

Net income before taxes	414,472,482,332 yen
Provision for corporate income tax, inhabitants taxes, and enterprise taxes	220,424,172,315 yen
Net income	194,048,310,017 yen

II. SETTLEMENT OF ACCOUNTS FOR GENERAL AND ADMINISTRATIVE EXPENSES AND COSTS FOR THE 120TH FISCAL YEAR

A. Overview

On April 26, 2005, the Policy Board finalized the Bank's settlement of accounts for general and administrative expenses and costs for the 120th fiscal year. Regarding general and administrative expenses and costs subject to the approval of the Minister of Finance under Article 51, Paragraph 1 of the Bank of Japan Law, the Bank submitted the annual report on the settlement of accounts, with the Executive Auditors' opinion attached, to the Minister of Finance for authorization (as prescribed in Article 52, Paragraph 2 of the Bank of Japan Law). The settlement of accounts for the purchase of premises used for the Bank's business operations is not subject to the Minister's authorization, but it was also audited by the Executive Auditors, who approved it as fairly presenting the expenses for such purchases. Figures hereafter are rounded to the nearest 0.1 billion yen.

1. General and administrative expenses and costs (excluding the cost of fixed-asset purchases and contingency funds)

The settlement of accounts for general and administrative expenses and costs (excluding the cost of fixed-asset purchases and contingency funds) for fiscal 2004 decreased by 0.8 percent (1.6 billion yen) to 209.5 billion yen compared to the previous year. The details of the above year-on-year changes are as follows.

a. Increasing factor

The "cost of production of banknotes" increased by 0.6 billion yen due to the increase in the number of banknotes the Bank ordered from the National Printing Bureau, an incorporated administrative agency, upon the introduction of the new series of Bank of Japan notes.

b. Decreasing factors

(1) "Administrative expenses for treasury business and government securities" decreased by 1.6 billion yen. This was due mainly to decreases in fees and commissions paid to the Bank's agents regarding treasury funds services, after national universities and other public organizations became incorporated administrative agencies, and government securities services associated with redemptions.

(2) "Other general and administrative expenses and costs" decreased by 0.6 billion yen. This was due mainly to decreases in expenses related to computerization and

the cost of expendable supplies.

The surplus amounted to 16.5 billion yen compared to the initial budget, due mainly to smaller-than-budgeted expenses for the “cost of production of banknotes” and “administrative expenses for treasury business and government securities.”

2. Cost of fixed-asset purchases and contingency funds

The settlement of accounts for the “cost of fixed-asset purchases” was 12.8 billion yen, an increase of 45.7 percent (4.0 billion yen) from the previous year, due mainly to the rise in the cost of purchasing land for the renovation of the Bank of Japan Naha branch and that of purchasing banknote examination machines.

The surplus amounted to 3.8 billion yen compared to the initial budget. This was due mainly to the delay in the renovation of flats for the Bank's staff and smaller-than-budgeted expenses for the remodeling of banknote examination machines to suit the new banknotes series.

No contingency funds were used in fiscal 2004.

B. Annual Report on Settlement of Accounts

1. Settlement of accounts for the 120th fiscal year

yen

Item	Initial budget	Use of contingency funds	Diversion of funds	Adjusted budget ¹	Settlement of accounts	Surpluses	Changes from the previous year's settlement of accounts
Cost of production of banknotes	69,248,364,000	0	0	69,248,364,000	64,698,822,000	4,549,542,000	642,494,000
Administrative expenses for treasury business and government securities	43,384,995,000	0	0	43,384,995,000	39,560,424,148	3,824,570,852	-1,639,977,011
Personnel expenses	51,167,639,000	0	0	51,167,639,000	49,071,030,457	2,096,608,543	-202,763,107
Remuneration of the executives	444,484,000	0	0	444,484,000	443,045,700	1,438,300	6,173,300
Remuneration of the staff	41,136,465,000	0	0	41,136,465,000	39,718,678,464	1,417,786,536	-326,785,970
Retirement allowances	9,586,690,000	0	0	9,586,690,000	8,909,306,293	677,383,707	117,849,563
Expenses for transportation and communications	6,336,910,000	0	0	6,336,910,000	5,661,468,709	675,441,291	88,736,543
Expenses for transportation	2,326,818,000	0	0	2,326,818,000	2,170,424,049	156,393,951	-96,669,475
Expenses for communications	4,010,092,000	0	0	4,010,092,000	3,491,044,660	519,047,340	185,406,018
Expenses for maintenance and repairs	1,700,000,000	0	0	1,700,000,000	1,332,694,193	367,305,807	66,314,027
Other general and administrative expenses and costs	54,173,055,000	0	0	54,173,055,000	49,183,673,004	4,989,381,996	-574,600,958
Cost of expendable supplies	2,196,780,000	0	0	2,196,780,000	1,734,661,906	462,118,094	-370,409,105
Expenses for electricity and water supply	2,412,033,000	0	0	2,412,033,000	2,122,381,671	289,651,329	-24,607,637
Leasing fees for buildings and equipment	12,485,004,000	0	0	12,485,004,000	11,162,506,876	1,322,497,124	-1,684,033,529
Expenses for maintenance of buildings and equipment	9,000,865,000	0	0	9,000,865,000	8,168,234,295	832,630,705	496,029,366
Miscellaneous expenses	28,078,373,000	0	0	28,078,373,000	25,995,888,256	2,082,484,744	1,008,419,947
Subtotal	226,010,963,000	0	0	226,010,963,000	209,508,112,511	16,502,850,489	-1,619,796,506
Cost of fixed-asset purchases	16,649,859,000	0	0	16,649,859,000	12,848,004,068	3,801,854,932	4,029,289,445
Of which: Subject to the approval of the Minister of Finance ²	8,026,374,000	0	0	8,026,374,000	5,262,518,779	2,763,855,221	1,271,840,157
Contingency funds	1,000,000,000	0	0	1,000,000,000	0	1,000,000,000	0
Total	243,660,822,000	0	0	243,660,822,000	222,356,116,579	21,304,705,421	2,409,492,939
Of which: Subject to the approval of the Minister of Finance ²	235,037,337,000	0	0	235,037,337,000	214,770,631,290	20,266,705,710	-347,956,349

Notes: 1. Initial budget plus/minus "use of contingency funds" and "diversion of funds."

2. Excludes the cost of purchasing fixed assets used for the Bank's business operations. Annual report for the settlement of accounts for the fiscal year concerned is compiled and submitted to the Minister of Finance.

2. Executive Auditors' opinion¹⁰

May 9, 2005

Executive Auditors' Opinion on the Bank of Japan's Annual Report on Settlement of Accounts for the 120th Fiscal Year

Pursuant to Article 52, Paragraph 2 of the Bank of Japan Law (Law No. 89, 1997), we have audited the annual report on settlement of accounts of the Bank of Japan for the 120th fiscal year. In our opinion, the report presents fairly the general and administrative expenses and costs for the 120th fiscal year.

Toshiharu Murayama
Sanya Suzuki
Yasutada Sasaki

Executive Auditors, Bank of Japan

¹⁰. This presents a translation, for convenience only, of the original report issued in Japanese.

C. General and Administrative Expenses and Costs by Area of Business Operation (Table 4)

General and administrative expenses and costs for services relating to the government¹¹ decreased in fiscal 2004 from a year earlier due mainly to a decline in administrative expenses for treasury business and government securities. Those associated with the issuance of banknotes also decreased with the decline in depreciation costs on the equipment at the banknote operations center in Toda City, Saitama Prefecture, as well as the machines for handling banknotes.

Table 4

General and Administrative Expenses and Costs by Area of Business Operation ¹

mil. yen

Area of business operation	General and administrative expenses and costs	Changes from a year earlier	Share of total (percent)
Issuance of banknotes	100,602	-1,148	43.3
Monetary policy	21,119	+216	9.1
Financial system policy	18,688	+88	8.0
Payment and settlement systems	26,684	-785	11.5
Services relating to the government ²	65,065	-2,482	28.0
Total	232,159	-4,112	100.0

Notes: 1. Calculated based on "general and administrative expenses and costs" (232.2 billion yen) in the statement of income for the 120th fiscal year. Figures are rounded to the nearest million yen, thus they are not necessarily equal to the total of relevant items listed in the above table.

General and administrative expenses and costs for the Bank's various business and organizational divisions (international finance, research and statistics, organizational management, and external relations activities), which contribute jointly to each of the above areas of business operation, are amortized equally and included in the relevant sections of the above table.

2. Services provided by the Bank, specifically those relating to treasury funds, JGSs, and others.

11. Services provided by the Bank, specifically those relating to treasury funds, JGSs, and others.

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