



# ANNUAL REVIEW 2011

BANK OF JAPAN





BANK OF JAPAN

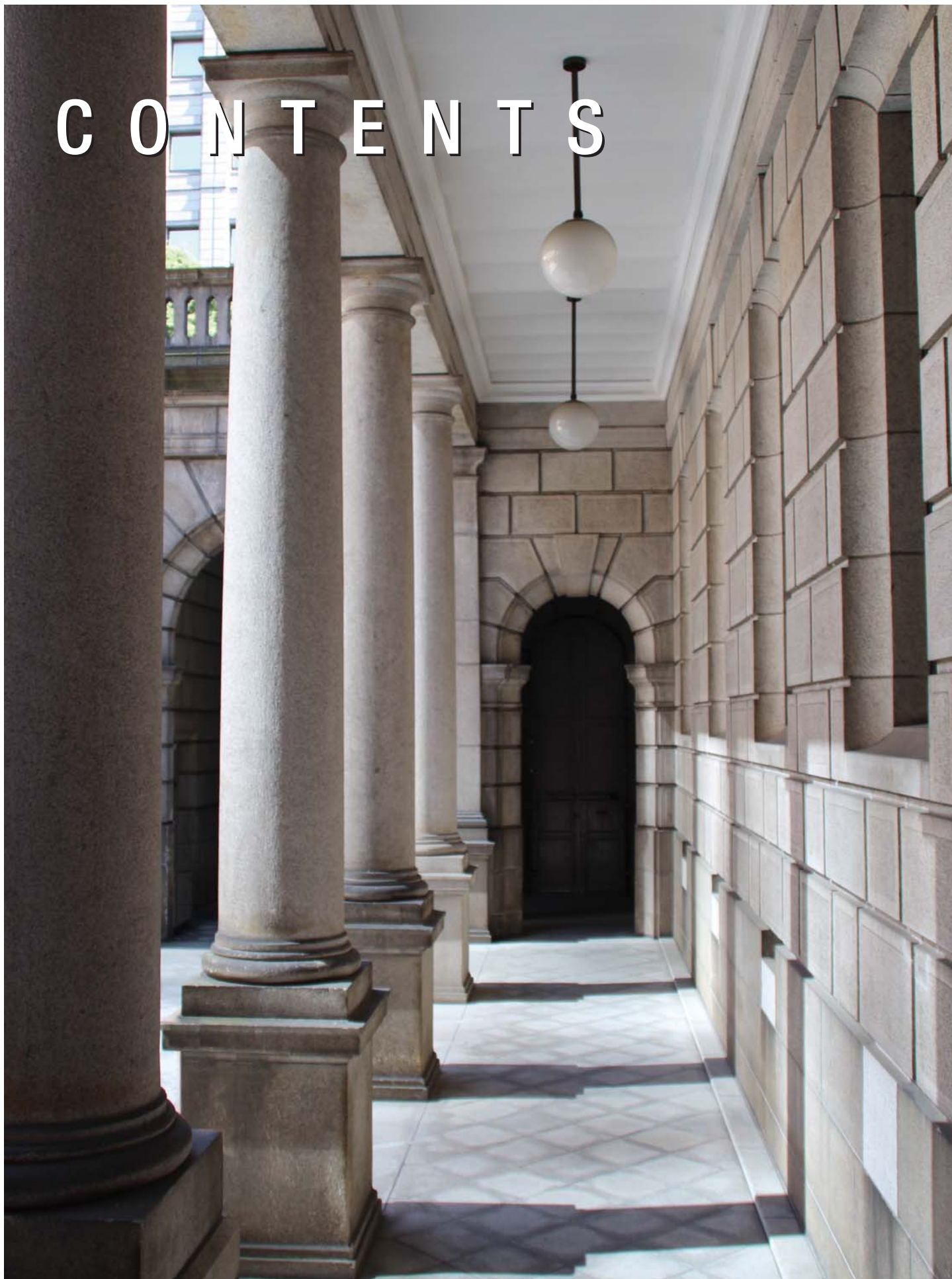
# ANNUAL REVIEW 2011

Year Ended March 31, 2011

OUR POLICY AND OPERATIONS



# C O N T E N T S



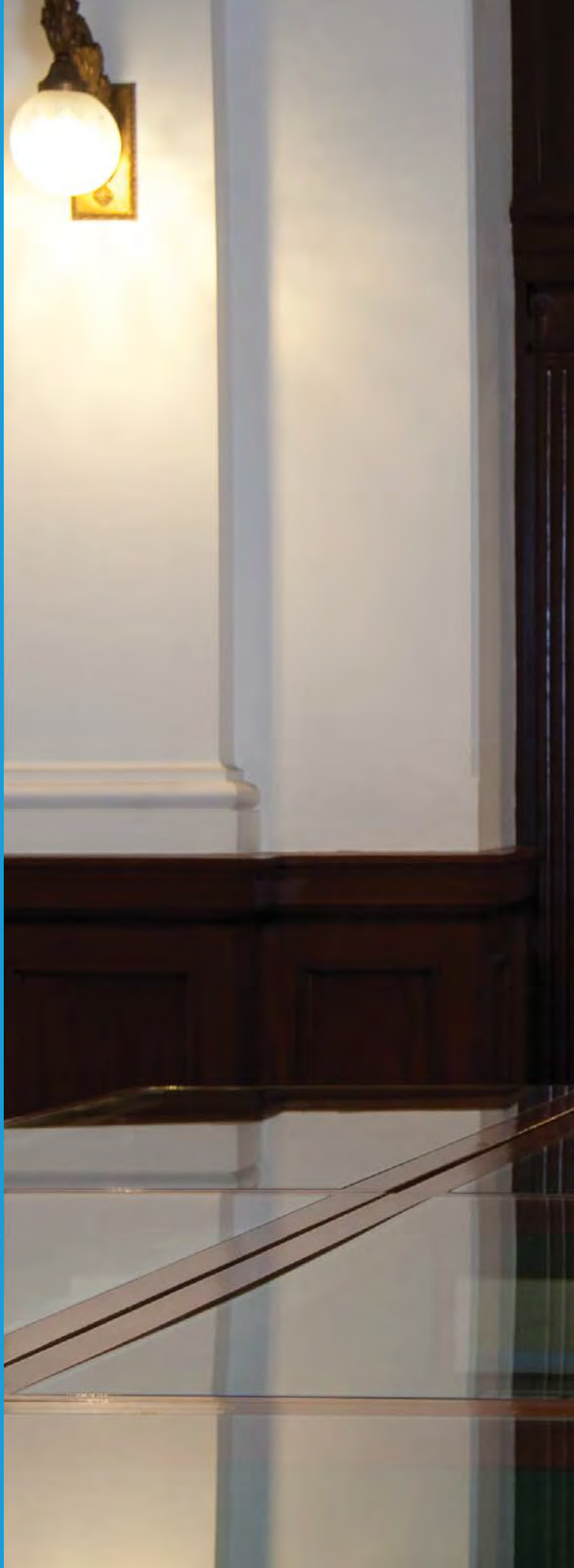


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BANK OF JAPAN

# FOREWORD BY THE GOVERNOR





Looking back at fiscal 2010, Japan's economy remained on a moderate recovery path for the first half of the fiscal year mainly due to improvements in overseas economic conditions and to various policy measures. The pace of recovery slowed temporarily from the beginning of autumn reflecting, among other factors, the effects of a decline in demand for durable consumer goods following the sharp increase seen previously, but the economy began gradually to emerge from the deceleration phase from early 2011. The situation changed significantly with the Great East Japan Earthquake that struck on March 11, after which Japan's economy faced strong downward pressure, mainly on the production side.

Throughout the year, the Bank of Japan continued to consistently make its utmost contribution as the central bank in order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, through the three-pronged approach of pursuing powerful monetary easing via comprehensive monetary easing, ensuring financial market stability, and providing support to strengthen the foundations for economic growth.

To maintain the functioning of financial and settlement systems following the earthquake, the Bank exerted every possible effort to provide cash to disaster areas and to ensure the stable operation of payment and settlement systems. Also, with a view to ensuring financial market stability, the Bank provided ample funds sufficient to meet demand in the markets. Moreover, the Bank further strengthened monetary easing by increasing the amount of assets purchased through the Asset Purchase Program, mainly purchases of risk assets, by about 5 trillion yen. The Bank continued to take policy actions in fiscal 2011 including the introduction of the funds-supplying operation to support financial institutions in disaster areas.

During fiscal 2010, the Bank implemented measures aimed at ensuring financial system stability. It also worked steadily to enhance the safety and efficiency of Japan's payment and settlement systems through, for example, the construction of the new Bank of Japan Financial Network System (BOJ-NET). In addition, the Bank worked actively to enhance market



infrastructure and to promote international financial stability. The Bank supported economic and financial activities in Japan through, for example, the issuance, circulation, and maintenance of banknotes, as well as through operations related to treasury funds and Japanese government securities. At the same time, it worked to provide the public with a clear explanation of its efforts across these wide-ranging areas.

The *Annual Review* is based on the Japanese original of the *Gyomu Gaikyo Sho* (Outline of Business Operations), which is prepared pursuant to Article 55 of the Bank of Japan Act. The Japanese original and the *Annual Review 2011* have been drawn up and released to explain to readers the implementation of the Bank's business operations during fiscal 2010. I hope this year's *Annual Review* will enable readers to gain a better overall understanding of the Bank's efforts.

The above business operations are conducted in line with the Bank's Strategic Priorities, which have a rolling three-year horizon. The Bank maintains a medium-term perspective and updates the Strategic Priorities at the end of every fiscal year to respond to changes in Japan's economic and financial environment in a flexible and timely manner. During fiscal 2010, the Bank, in accordance with the Strategic Priorities, implemented various action plans and mostly achieved the anticipated results. Given that there remains significant uncertainty regarding the effects of the earthquake, the Bank, with due regard for its Strategic Priorities, will continue to make efforts as the country's central bank toward the sustainable growth and development of Japan's economy.



**Masaaki Shirakawa**  
Governor of the Bank of Japan







# About the Bank of Japan

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**I. Core Purposes**

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**II. Capital**

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**III. The Bank's Officers**

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**IV. Organization**



The Bank of Japan is the central bank of Japan. It is a juridical person established based on the Bank of Japan Act (hereafter the Act), and is not a government agency or a private corporation (Table 1).

## I. CORE PURPOSES

The Act determines the Bank's core purposes as follows:

### Article 1

- (1) The purpose of the Bank of Japan, or the central bank of Japan, is to issue banknotes and to carry out currency and monetary control.
- (2) In addition to what is prescribed in the preceding paragraph, the Bank of Japan's purpose is to ensure smooth settlement of funds among banks and other financial institutions, thereby contributing to the maintenance of stability of the financial system.

The Act also stipulates the principle governing the Bank's currency and monetary control as follows:

### Article 2

Currency and monetary control by the Bank of Japan shall be aimed at achieving price stability, thereby contributing to the sound development of the national economy.

## II. CAPITAL

The Bank is capitalized at 100 million yen in accordance with Article 8, paragraph 1 of the Act. As of the end of March 2011, 55,008,000 yen is subscribed by the government, and the rest by the private sector (Table 2).<sup>1</sup>

The Act does not grant holders of subscription certificates the right to participate in the Bank's management, and, in the case of liquidation, only gives them the right to request distribution of residual assets up to the sum of the paid-up capital and, if any, the special reserve fund (Article 60, paragraph 2, and Supplementary Provisions Article 22, paragraph 2). Dividend payments as a proportion of paid-up capital are limited to 5 percent or below in each fiscal year.<sup>2</sup>

## III. THE BANK'S OFFICERS

The Bank's officers are the Governor, Deputy Governors, Members of the Policy Board, Auditors, Executive Directors, and Counsellors.<sup>3</sup> Of the above, the Governor, the two Deputy Governors, and six Members of the Policy Board make up the Policy Board.<sup>4</sup>

The Governor, the Deputy Governors, and Members of the Policy Board are appointed by the Cabinet, subject to the consent of the House of Representatives and the House of Councillors. Auditors are appointed by the Cabinet. Executive Directors and Counsellors are appointed by the Minister of Finance based on the Board's recommendation.<sup>5</sup>

1. Article 8, paragraph 2 of the Act states as follows: "Of the amount of stated capital set forth in the preceding paragraph, the amount of contribution by the government shall be no less than fifty-five million yen."

2. Stipulated by Article 53, paragraph 4.

3. Stipulated by Article 21. The officers of the Bank consist of a Governor, two Deputy Governors, six Members of the Policy Board, three or fewer Auditors, six or fewer Executive Directors, and a small number of Counsellors.

4. Stipulated by Article 16, paragraph 2.

5. Stipulated by Article 23.



The terms of office are five years for the Governor, Deputy Governors, and Members of the Policy Board; four years for Auditors and Executive Directors; and two years for Counsellors.<sup>6</sup> The Bank's officers, excluding Executive Directors, are not dismissed against their will during their terms of office, except in the

cases prescribed in the Act, such as the formal commencement of bankruptcy proceedings against them.<sup>7</sup>

For duties and powers of the Bank's officers, see Table 3.<sup>8</sup>

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6. Stipulated by Article 24.

7. Stipulated by Article 25.

8. Duties and powers are stipulated by Article 16, paragraph 2, and Article 22.

Table 1

**History of the Bank of Japan**

1882	June	The Bank of Japan Act of 1882 is promulgated; the Bank is to have capital of 10 million yen and is given a license to operate for 30 years from the start of business.
	Oct. 10	Business operation begins.
1887	Mar.	An increase in the Bank's capital is announced from 10 million yen to 20 million yen.
1895	Aug.	An increase in the Bank's capital is announced from 20 million yen to 30 million yen.
1896	Apr.	The Head Office is moved to a new building at the present location.
1910	Feb.	The Bank is given a license to operate for 30 more years from October 10, 1912, and an increase in the Bank's capital is announced from 30 million yen to 60 million yen.
1942	Feb.	The Bank of Japan Act of 1942 is promulgated; the Bank is to have capital of 100 million yen.
	May 1	The Bank is reorganized under the Bank of Japan Act of 1942.
1949	June	The Policy Board is established.
1997	June	The Bank of Japan Act of 1997 is promulgated; the Bank is to have capital of 100 million yen.
1998	Apr. 1	The Bank of Japan Act of 1997 comes into effect.

Table 2

**Subscribers by Category**

Subscribers	Amount of subscription (thous. yen) <sup>1</sup>	Percentage of the total subscription (%)
The government	55,008	55.0
The private sector	44,991	45.0
Individuals	36,796	36.8
Financial institutions	2,309	2.3
Public organizations	221	0.2
Securities companies	56	0.1
Other firms	5,606	5.6
Total	100,000	100.0

Note: 1. Rounded down to the nearest 1,000 yen. As of the end of March 2011.

Table 3

**Duties and Powers of the Bank's Officers**

	Duties and powers
Policy Board members	Decide the guideline for currency and monetary control and other important matters concerning the Bank's operations, and supervise the officers (excluding Auditors and Counsellors) in the fulfillment of their duties.
Governor	Represents the Bank and exercises general control over the Bank's business in accordance with decisions made by the Board. At the same time, fulfills the duties of an independent Board member.
Deputy Governors	In accordance with decisions made by the Governor, represent the Bank, administer the business of the Bank assisting the Governor, act for the Governor whenever the Governor is prevented from attending to his/her duties, and perform the Governor's duties during a vacancy in the office of the Governor. At the same time, fulfill the duties of independent Board members.
Members of the Policy Board	Comprise the Board, together with the Governor and the Deputy Governors.
Auditors	Audit the business of the Bank. May, when they find it necessary based on the audit results, submit their opinions to the Minister of Finance, the Prime Minister (the Commissioner of the Financial Services Agency when the Prime Minister delegates such authority under Article 61-2 of the Bank of Japan Act), or the Board.
Executive Directors	In accordance with the decisions made by the Governor, administer the business of the Bank assisting the Governor and the Deputy Governors, act for the Governor when the Governor and the Deputy Governors are prevented from attending to their duties, and perform the Governor's duties during a vacancy in the office of the Governor and the Deputy Governors.
Counsellors	Give advice to the Board when consulted on any important matter concerning the Bank's business operations. May also express their opinions to the Board when they find it necessary.

# Policy Board Members<sup>1</sup>



Standing from left to right: Sayuri Shirai, Ryuzo Miyao, Seiji Nakamura, Hidetoshi Kamezaki, Yoshihisa Morimoto, and Koji Ishida  
Seated from left to right: Hirohide Yamaguchi, Masaaki Shirakawa, and Kiyohiko G. Nishimura

## Masaaki Shirakawa

*Governor (the 30th) and Chairman of the Policy Board*

### Date of Birth

September 27, 1949

### Education

The University of Tokyo  
(1972, B.A. in Economics)  
The University of Chicago  
(1977, M.A. in Economics)

1972	Joined the Bank of Japan
1990	Director, Head of Financial System Division, Financial and Payment System Office
1993	Director, Head of Planning Division, Policy Planning Office
1994	General Manager, Oita Branch
1995	General Manager for the Americas
1996	Deputy Director-General, Institute for Monetary and Economic Studies
1997	Deputy Director-General, International Department Adviser to the Governor, Credit and Market Management Department
1998	Adviser to the Governor, Financial Markets Department
2000	Adviser to the Governor, Policy Planning Office
2002	Executive Director
2006	Professor, Kyoto University School of Government
2008	Deputy Governor, Bank of Japan
	Present position

Note: 1. Members are as of August 15, 2011.



## Hirohide Yamaguchi

*Deputy Governor*

Date of Birth	Education
March 6, 1951	The University of Tokyo (1974, B.A. in Economics)

1974	Joined the Bank of Japan
1992	Director, Head of Price Statistics Division, Research and Statistics Department
1993	Director, Head of Credit and Market Division, Osaka Branch
1995	Director, Head of Bank Relations Division, Credit and Market Management Department
1996	General Manager, Takamatsu Branch
1998	Deputy Director-General, Budget and Management Office
2004	Director-General, Monetary Affairs Department
2006	Executive Director
2008	Present position

## Seiji Nakamura

Date of Birth	Education
April 28, 1942	Keio University (1965, B.A. in Economics)

1965	Joined Mitsui O.S.K. Lines, Ltd.
1992	General Manager of Finance Division, Mitsui O.S.K. Lines, Ltd.
1994	Director and General Manager of Finance and Accounting Division, Mitsui O.S.K. Lines, Ltd.
1995	Director and General Manager of Corporate Planning Division, Mitsui O.S.K. Lines, Ltd.
1996	Managing Director, Mitsui O.S.K. Lines, Ltd.
1998	Senior Managing Director, Mitsui O.S.K. Lines, Ltd.
2000	Deputy President, Mitsui O.S.K. Lines, Ltd.
2003	President, MOL Ferry Co., Ltd.
2007	Present position

## Ryuzo Miyao

Date of Birth	Education
July 3, 1964	Kobe University (1987, B.A. in Economics and 1989, M.A. in Economics) Harvard University (1994, Ph.D. in Economics)

1989	Research Associate, Kobe University
1995	Associate Professor, Kobe University
2003	Professor, Kobe University
2008	Director, Research Institute for Economics and Business Administration, Kobe University
2010	Present position

## Sayuri Shirai

Date of Birth	Education
January 2, 1963	Keio University (1987, B.A. in Sociology and 1989, M.A. in Economics) Columbia University (1993, Ph.D. in Economics)

1993	Economist, International Monetary Fund
1998	Associate Professor, Keio University
2006	Professor, Keio University
2011	Present position

## Kiyohiko G. Nishimura

*Deputy Governor*

Date of Birth	Education
March 30, 1953	The University of Tokyo (1975, B.A. in Economics and 1977, M.A. in Economics) Yale University (1982, Ph.D. in Economics)

1981	Arthur M. Okun Memorial Research Fellow, Economic Studies Program, The Brookings Institution
1983	Associate Professor, The University of Tokyo
1994	Professor, The University of Tokyo
2003	Executive Research Fellow, Economic and Social Research Institute, Cabinet Office, and Professor, Graduate School of Economics, The University of Tokyo
2005	Member of the Policy Board, Bank of Japan
2008	Present position

## Hidetoshi Kamezaki

Date of Birth	Education
April 1, 1943	Yokohama National University (1966, B.A. in Economics) Harvard Business School (1990, Completed the Advanced Management Program)

1966	Joined Mitsubishi Corporation
1998	Executive Vice President, Director, Mitsubishi International Corporation (New York)
2000	President, Mitsubishi Corporation (Taiwan) Ltd.
2001	Senior Vice President, Mitsubishi Corporation
2002	Member of the Board, Executive Vice President, Chief Regional Officer, Mitsubishi Corporation
2005	Member of the Board, Senior Executive Vice President, Corporate Planning, Chief Regional Officer, Mitsubishi Corporation
2007	Present position

## Yoshihisa Morimoto

Date of Birth	Education
June 25, 1944	The University of Tokyo (1967, B.A. in Law)

1967	Joined The Tokyo Electric Power Company, Incorporated (TEPCO)
1998	General Manager, Pricing & Power Contract Department, TEPCO
2001	Director and General Manager, Marketing & Customer Relations Department, TEPCO
2002	Managing Director, TEPCO
2004	Executive Vice President and General Manager, Marketing & Sales Division, TEPCO
2007	Vice Chairman, The Federation of Electric Power Companies of Japan, and Director, TEPCO
2010	Present position

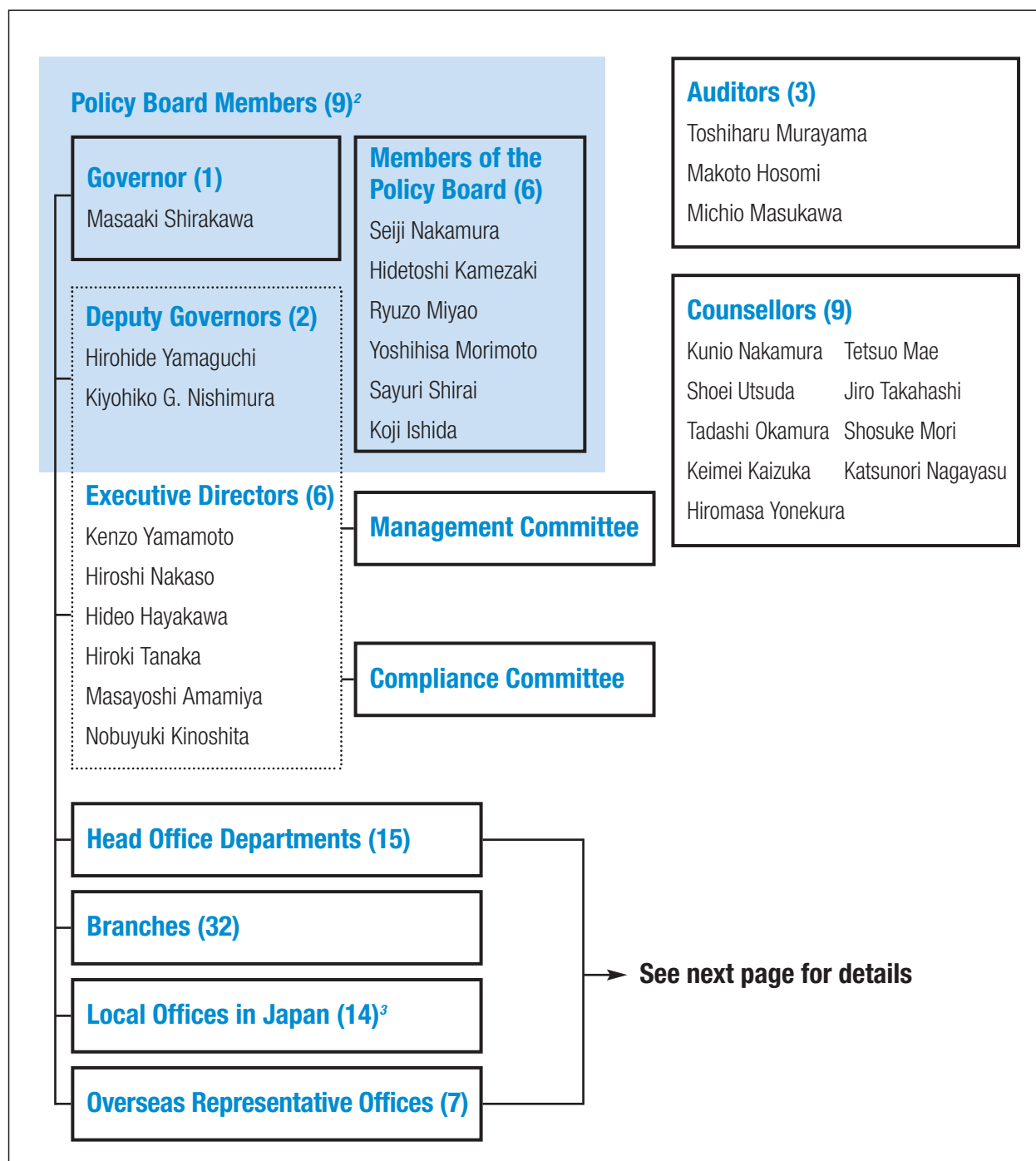
## Koji Ishida

Date of Birth	Education
June 22, 1947	The University of Tokyo (1970, B.A. in Economics)

1970	Joined The Sumitomo Bank, Ltd.
2001	Managing Director and General Manager, Planning Department, The Sumitomo Bank, Ltd. Managing Director and General Manager, Corporate Planning Department, Sumitomo Mitsui Banking Corporation (SMBC) <sup>2</sup>
2004	Senior Managing Director (Representative Director), Sumitomo Mitsui Financial Group, Inc. (SMFG) <sup>3</sup>
2006	President, SMBC Leasing Co., Ltd.
2007	President, Sumitomo Mitsui Finance and Leasing Co., Ltd. (SMFL) <sup>4</sup>
2011	Present position

Notes: 2. Established in 2001 through merger of The Sumitomo Bank, Ltd. and The Sakura Bank, Ltd.  
3. Established in 2002 as a holding company, and SMBC then became a wholly-owned subsidiary of SMFG.  
4. Established in 2007 through merger of SMBC Leasing Company, Ltd. and Sumisho Lease Co., Ltd.

## IV. ORGANIZATION

Organization Chart of the Bank<sup>1</sup>

Notes: 1. As of August 15, 2011.

2. The Policy Board shall consist of six Members of the Policy Board, the Bank of Japan's Governor and two Deputy Governors.

3. Includes the computer center, represented by the Director-General of the Information System Services Department; and the banknote operations center, represented by the Director-General of the Currency Issue Department.

Head office departments	Officials
Secretariat of the Policy Board	Yuji Iino (Director-General) Toshitaka Sakoda (Director-General, Senior Secretary to the Governor) Nobuyasu Yoshioka (Director-General for Management Strategy, Budget, and Accounting) Ryuichi Shogan (Director-General for Parliamentary Affairs and Public Relations)
Internal Auditors' Office	Takamasa Hisada (Director-General)
Monetary Affairs Department	Kazuo Momma (Director-General)
Financial System and Bank Examination Department	Atsushi Miyanoya (Director-General)
Payment and Settlement Systems Department	Atsushi Miyauchi (Director-General)
Financial Markets Department	Shuhei Aoki (Director-General)
Research and Statistics Department	Eiji Maeda (Director-General)
International Department	Hideaki Ono (Director-General)
Currency Issue Department	Norio Shimizu (Director-General)
Operations Department	Yoshiki Tanji (Director-General)
Information System Services Department	Tomohisa Takeda (Director-General) <sup>4</sup>
Public Relations Department	Michio Ayuse (Director-General)
Personnel and Corporate Affairs Department	Toshihiro Oritate (Director-General)
Administration Department	Tomohiko Sakamoto (Director-General)
Institute for Monetary and Economic Studies	Tomoo Yoshida (Director-General)

Overseas representative offices		Telephone numbers	General managers/ chief representatives
New York	Bank of Japan Chief Representative Office for the Americas Bank of Japan Representative Office in New York 140 Broadway, 18th Floor, New York, NY 10005, U.S.A.	+1-212-269-6566	Haruyuki Toyama (General Manager for the Americas and Chief Representative in New York)
Washington, D.C.	Bank of Japan Representative Office in Washington, D.C. 2100 Pennsylvania Ave., N.W., Suite 505, Washington, D.C. 20037, U.S.A.	+1-202-466-2228	Takashi Hamano (Chief Representative in Washington, D.C.)
London	Bank of Japan Chief Representative Office for Europe Bank of Japan Representative Office in London Basildon House, 7-11 Moorgate, London EC2R 6AF, U.K.	+44-20-7606-2454	Satoshi Kawazoe (General Manager for Europe and Chief Representative in London)
Paris	Bank of Japan Representative Office in Paris 17 Avenue George V, 75008 Paris, France	+33-1-4720-7295	Naoyuki Suzuki (Chief Representative in Paris)
Frankfurt	Bank of Japan Representative Office in Frankfurt Taunusanlage 21, 60325 Frankfurt am Main, Germany	+49-69-9714310	Yuji Osawa (Chief Representative in Frankfurt)
Hong Kong	Bank of Japan Representative Office in Hong Kong Suite 1012, One Pacific Place, 88 Queensway, Central, Hong Kong	+852-2525-8325	Yuko Kawai (Chief Representative in Hong Kong)
Beijing	Bank of Japan Representative Office in Beijing 19th Floor, Unit 12C, China World Tower 2, No. 1 Jian Guo Men Wai Avenue, Beijing 100004, China	+86-10-6505-9601	Rikuichi Niikawa (Chief Representative in Beijing)

Note: 4. Concurrently also Director-General for new BOJ-NET planning for the Bank's three departments (Payment and Settlement Systems Department, Financial Markets Department, and Operations Department).

# Functions of Committees/Departments/Offices

## COMMITTEES/DEPARTMENTS/OFFICES

### Management Committee

Examines and manages Bank-wide issues regarding the Bank's operations. The members of this committee comprise the Deputy Governors and all Executive Directors.

### Compliance Committee

Ensures that the officers and employees perform their duties fairly and in compliance with the relevant laws and regulations. The members of this committee comprise members appointed from among the Deputy Governors and Executive Directors by the Governor; the Director-General of the Internal Auditors' Office; and one or more legal experts from outside the Bank.

### Secretariat of the Policy Board

(1) Arranges proceedings for Policy Board meetings; (2) liaises with the Diet and the media; (3) reviews the content and wording of important documents, and offers a legal perspective on them; (4) plans and formulates measures relating to the Bank's business operations and organizational management; (5) handles the Bank's budget, settlement, and accounting; (6) provides administrative services for the Bank's officers; and (7) supports the Auditors in auditing.

### Internal Auditors' Office

Audits the Bank's business operations.

### Monetary Affairs Department

Plans and formulates monetary policy measures.

### Financial System and Bank Examination Department

(1) Plans and formulates measures that contribute to the maintenance of an orderly financial system; (2) conducts on-site examinations and off-site monitoring of financial institutions that hold current accounts at the Bank; (3) judges financial institutions' eligibility to hold current accounts at the Bank and to have access to its lending facilities; and (4) determines the specifics of credit extension and discounting of bills by the Bank.

### Payment and Settlement Systems Department

Plans and formulates measures in the following areas: (1) policy issues relating to the payment and settlement system; (2) financial institutions' access to payment and settlement services provided by the Bank; and (3) the Bank's business continuity planning.

### Financial Markets Department

(1) Determines the specifics of daily market operations; (2) conducts foreign exchange interventions; (3) works toward improving the functioning of Japanese financial markets, including the foreign exchange market; and (4) monitors and analyzes developments in financial markets in Japan as well as overseas, including foreign exchange markets.

### Research and Statistics Department

(1) Conducts research on the domestic economy and fiscal situation; and (2) compiles and releases statistics.



### International Department

(1) Liaises and coordinates with overseas central banks and international organizations; (2) makes arrangements for investment in yen assets by overseas central banks, and conducts operations aimed at providing international financial support; (3) manages foreign currency assets held by the Bank; (4) conducts research on global economic and financial conditions; and (5) compiles Japan's balance of payments and other such statistics.

### Currency Issue Department

(1) Conducts planning and operations relating to banknotes; and (2) conducts payment/receipt of coins, and examines and takes custody of them.

### Operations Department

Conducts banking operations including the following: (1) discounting of bills; (2) credit extension; (3) purchasing/selling of bills, Japanese government securities, and other securities; (4) borrowing/lending of securities with cash collateral; (5) accepting of deposits; (6) domestic funds transfers; (7) handling of treasury funds; and (8) operations relating to stocks purchased by the Bank.

### Information System Services Department

Manages the development and operation of the Bank's computer systems.

### Public Relations Department

(1) Is responsible for public relations; (2) administers the Bank's library; and (3) works toward raising the public's awareness and understanding of financial and economic issues.

### Personnel and Corporate Affairs Department

Handles business in corporate affairs, personnel policy issues relating to recruitment, assessment of job performance, career planning and training, wages and salaries, and the Bank's code of ethics.

### Administration Department

Conducts administrative operations relating to the Bank's facilities, supplies, security, and transportation.

### Institute for Monetary and Economic Studies

(1) Studies theoretical, institutional, technological, and historical aspects of monetary and economic issues; (2) collects, preserves, and exhibits historical materials and documents related to monetary and economic issues; and (3) exchanges views with academics.

## OTHER OFFICES

### Branches

The 32 branches mainly conduct operations relating to currency issue and banking operations, and research on the economic and financial situation in their respective areas.

### Local Offices in Japan

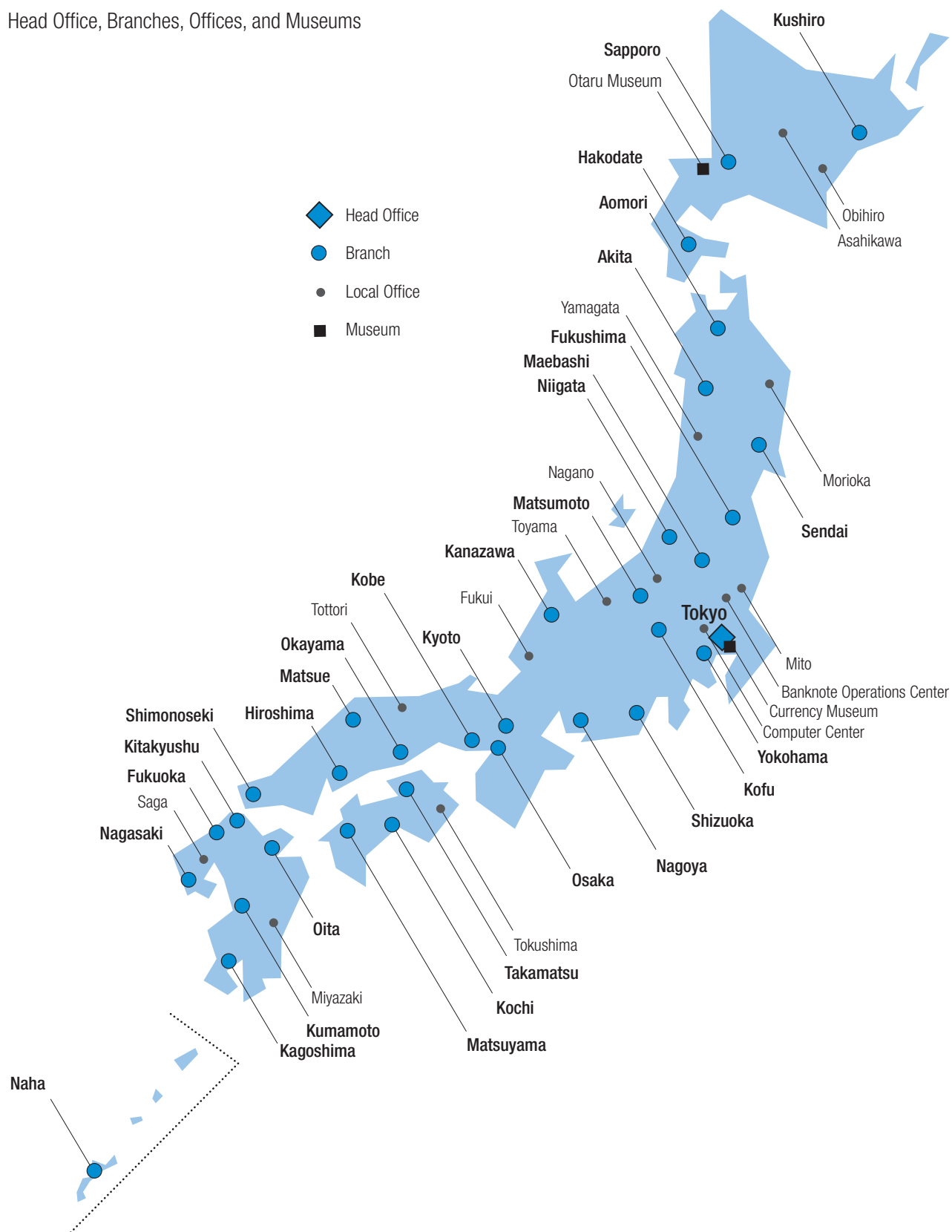
The computer center operates the Bank's systems. The banknote operations center in Toda City, Saitama Prefecture, receives, pays, and stores banknotes. The other twelve local offices handle some of the operations of the Head Office or branches.

### Overseas Representative Offices

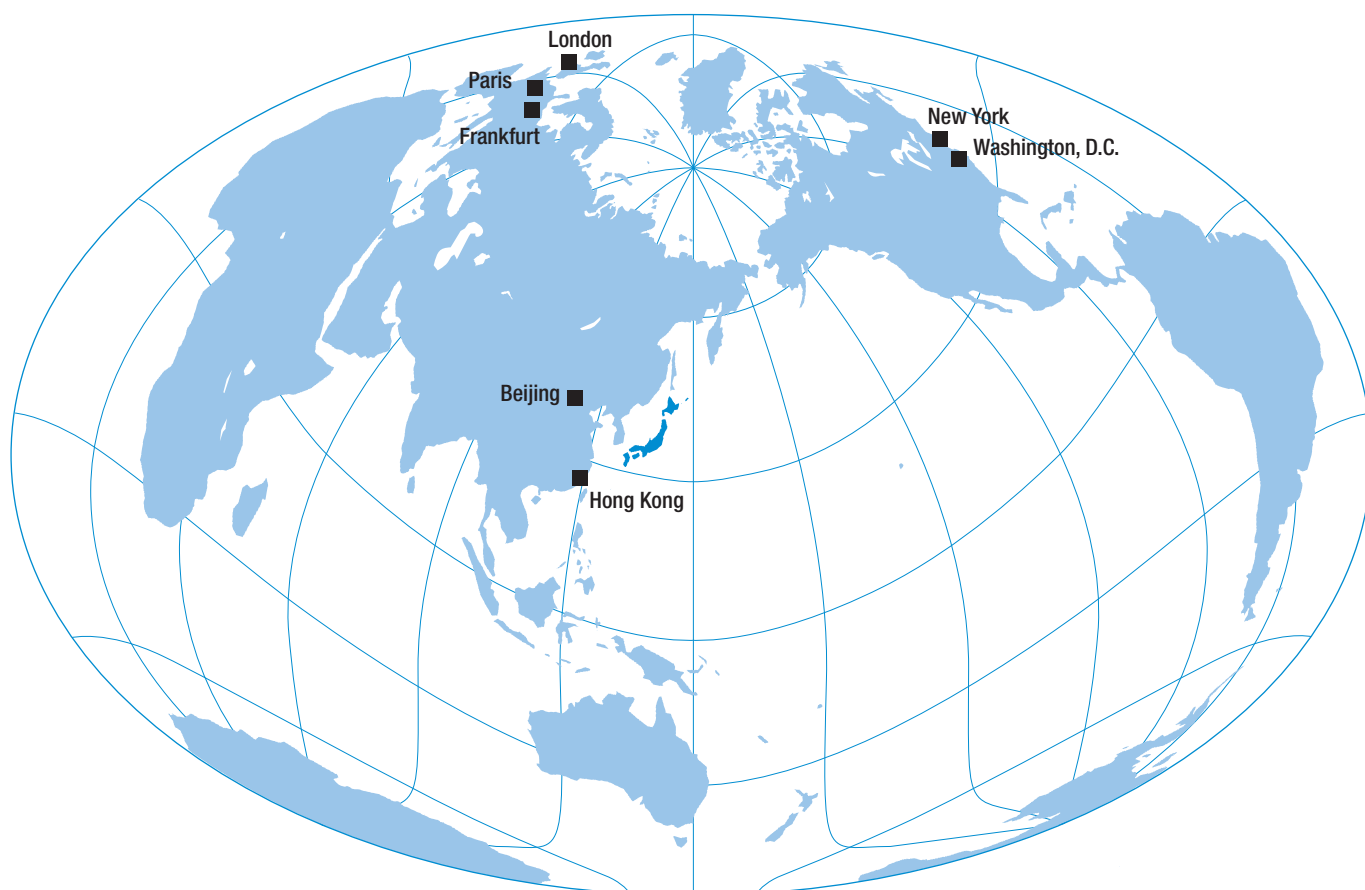
The seven overseas representative offices perform a liaison function, gather information, and conduct research.

# The Bank's Offices

Head Office, Branches, Offices, and Museums



## Overseas Representative Offices<sup>1</sup>



Note: 1. For details, see page 17.





# The Bank's Business Operations

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**I. Monetary Policy**

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**II. Financial System Policy**

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**III. Enhancement of Payment and Settlement Systems and  
Market Infrastructure**

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**IV. International Operations**

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**V. Issuance, Circulation, and Maintenance of Banknotes**

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**VI. Services Relating to the Government**

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**VII. Communication with the Public**



## I. MONETARY POLICY

The Bank of Japan decides and implements monetary policy, with the aim of achieving price stability and thereby contributing to the sound development of the national economy, as stipulated in Article 2 of the Bank of Japan Act (hereafter the Act). Monetary policy is decided by the Policy Board at Monetary Policy Meetings (MPMs), and money market operations—the Bank's day-to-day provision and absorption of funds in the market—are carried out based on the guideline decided at each MPM. The Bank held 16 MPMs, two of which were unscheduled, in fiscal 2010.

The Policy Board members' assessment of the economic and financial situation is expressed in the statement on monetary policy released after each MPM. The Bank also releases semiannually, in April and October, the *Outlook for Economic Activity and Prices* (hereafter the Outlook Report), after the Policy Board has decided the text of "The Bank's View" section at a second MPM held in each of those months. In the Outlook Report, taking into account the "understanding of medium- to long-term price stability,"<sup>1</sup> the Bank presents its outlook for developments in economic activity and prices, assesses upside and downside risks, and outlines its views on the future conduct of monetary policy. Furthermore, the Bank makes semiannual interim assessments of the outlook laid out in the Outlook Report at MPMs in January and July. Each interim assessment is included in the statement on monetary policy released after the relevant MPM.

In order to make appropriate policy decisions, the Bank conducts research and analysis on economic and financial developments at home and abroad. Major findings are reflected in the Bank's releases including the *Monthly Report of Recent Economic and Financial Developments*, the Outlook Report, the *Financial Markets Report*, and the *Regional Economic Report*. The Bank also conducts fundamental studies on economic and financial issues; it publishes the major findings in the *Bank of Japan Working Paper Series* and in research papers released by the Institute for Monetary and Economic Studies (IMES), namely, those published in *Monetary and Economic Studies* and the *IMES Discussion Paper Series*.<sup>2</sup>

The Bank, pursuant to Article 54, paragraph 1 of the Act, prepares the *Semiannual Report on Currency and Monetary Control* approximately every six months, covering matters related to the conduct of monetary policy (those listed in the items of Article 15, paragraph 1 of the Act) and business operations that the Bank has conducted based thereon, and submits it to the Diet through the Minister of Finance. In the most recent two issues of this report, the Bank explains in detail economic and financial developments as well as the Bank's conduct of monetary policy and money market operations during fiscal 2010.<sup>3</sup>

1. The "understanding of medium- to long-term price stability" is the level of inflation that each Policy Board member understands, when conducting monetary policy, as being consistent with price stability over the medium to long term, and is, in principle, reviewed annually.

2. Papers and statistics as well as lists of the Bank's publications in English are available on the Bank's web site (<http://www.boj.or.jp/en/index.htm>) and on the IMES web site (<http://www.imes.boj.or.jp/english/index.html>).

3. The full texts in Japanese and the summary in English are available on the Bank's web site.

## II. FINANCIAL SYSTEM POLICY

One of the core purposes of the Bank, as stipulated in Article 1, paragraph 2 of the Act, is to ensure smooth settlement of funds among banks and other financial institutions, thereby contributing to the maintenance of financial system stability. To this end, the Bank provides safe and convenient settlement assets in the form of deposits in financial institutions' current accounts held at the Bank, and takes measures to enhance the safety and efficiency of payment and settlement systems. In order to ensure financial system stability, the Bank also takes various measures to make sure that a financial institution's inability to complete settlement of a transaction does not result in a chain of settlement failures at other institutions and thus disrupt the overall functioning of the financial system.

Specifically, the Bank may provide financial institutions suffering a shortage of liquidity with the following: (1) loans against collateral in the form of securities, pursuant to Article 33; and/or (2) other forms of liquidity, in its role as the lender of last resort, pursuant to Articles 37 and 38 of the Act. In order to be ready to act effectively as the lender of last resort, the Bank strives to gain an accurate grasp of the business conditions at financial institutions and to encourage the maintenance of sound financial conditions, offering guidance and advice as necessary, through the conduct of on-site examinations (examinations that the Bank carries out by visiting the premises of financial institutions pursuant to Article 44 of the Act) as well as off-site monitoring (monitoring that is conducted through meetings with executives and staff of financial institutions, as well as through analysis of various documents submitted by these institutions) (Tables 1 and 2). In addition, through activities such as seminars

and workshops organized by the Bank's Center for Advanced Financial Technology (CAFT), the Bank encourages financial institutions' efforts to improve their management of risks and business activities.

The Bank, making use of insights obtained through its on-site examinations and off-site monitoring, conducts research and analysis assessing risks in the financial system as a whole, i.e., taking a macroprudential perspective. The findings of this research and analysis are published in various forms—for example, the *Financial System Report*—and the Bank draws on them when taking part in initiatives with relevant parties to ensure the stability of the financial system. These findings are also made use of in developing financial system policies and implementing monetary policy. The Bank has also been participating in international initiatives to maintain the stability of the global financial system. One of these initiatives is its participation in discussions held by the Basel Committee on Banking Supervision (Basel Committee), which comprises central banks and supervisory authorities from major countries.

The Bank, as and when necessary, conducts business requisite to maintaining financial system stability, including the provision of loans, pursuant to Article 38 of the Act (hereafter the term "special loans" covers all such business). The Bank decides on the extension of special loans based on the following four principles, taking into account the nature and purpose of the lender-of-last-resort function:

### Principle 1

There must be a strong likelihood that systemic risk will materialize.

**Principle 2**

There must be no alternative to the provision of central bank money.

**Principle 3**

All relevant parties are required to take clear responsibility to avoid moral hazard.

**Principle 4**

The financial soundness of the Bank of Japan itself must not be impaired.

**Table 1**
**Number of Financial Institutions that Conduct Transactions with the Bank as of the End of Fiscal 2010<sup>1</sup>**

	Financial institutions that hold current accounts at the Bank	Of which: Financial institutions that have concluded on-site examination contracts with the Bank	Financial institutions that have concluded agreements for bilateral electronic lending with the Bank	Financial institutions that have concluded loans-on-bills agreements with the Bank	Financial institutions that have concluded intraday-overdraft agreements with the Bank
City and regional banks	125 (126)	125 (126)	124 (125)	124 (125)	124 (125)
Trust banks	18 (19)	18 (19)	12 (12)	12 (12)	18 (19)
Foreign banks	56 (56)	56 (56)	42 (41)	46 (46)	44 (43)
<i>Shinkin</i> banks	262 (263)	262 (263)	98 (97)	127 (126)	126 (125)
Financial instruments business operators	39 (39)	39 (39)	33 (33)	39 (39)	37 (37)
Bankers associations	33 (33)	0 (0)	0 (0)	0 (0)	0 (0)
Other institutions	21 (20)	11 (11)	10 (10)	11 (11)	14 (14)
<b>Total</b>	<b>554 (556)</b>	<b>511 (514)</b>	<b>319 (318)</b>	<b>359 (359)</b>	<b>363 (363)</b>

Note: 1. Figures in parentheses indicate the number of institutions as of the end of fiscal 2009.

**Table 2**
**Number of Financial Institutions Examined**

	Fiscal 2008	Fiscal 2009	Fiscal 2010
Domestic banks	52	46	38
<i>Shinkin</i> banks	46	47	43
Other institutions <sup>1</sup>	30	19	19
<b>Total</b>	<b>128</b>	<b>112</b>	<b>100</b>

Note: 1. Including financial instruments business operators and Japanese branches of foreign banks.

### III. ENHANCEMENT OF PAYMENT AND SETTLEMENT SYSTEMS AND MARKET INFRASTRUCTURE

The Bank provides safe and convenient settlement assets in the form of banknotes and deposits in current accounts that financial institutions hold at the Bank. In addition, the Bank conducts settlement for Japanese government securities (JGSs) in its role as the book-entry transfer institution in the Japanese government bond (JGB) book-entry system. To ensure the safety and efficiency of these services, the Bank operates a computer network system for the settlement of funds and JGSs, the Bank of Japan Financial Network System (BOJ-NET).

The Bank conducts oversight of payment and settlement systems, monitoring their safety and efficiency and inducing improvements where necessary. Moreover, the Bank participates with other central banks in various international discussions and initiatives related to payment and settlement systems, including those of the Committee on Payment and Settlement Systems (CPSS) at the Bank for International Settlements (BIS).

The Bank also takes initiatives to improve the functioning and efficiency of the market infrastructure

as well as to support stronger risk management of financial services and transactions and to promote related innovations by exchanging views with market participants, supporting the formulation of additional rules on and revisions of market practices, and compiling and releasing statistics on market transactions. As part of its initiatives, the Bank has continued to enhance its business continuity arrangements in preparation for times of disaster and other emergency situations, and has provided active support to market participants in developing effective business continuity planning (BCP) in financial markets, payment and settlement systems, and the financial system.

In order to effectively implement measures to enhance payment and settlement systems and market infrastructure, the Bank conducts research and analysis on the safety and efficiency of payment and settlement systems as well as on the financial system and financial markets, in addition to fundamental research on related issues. Major findings are reflected in the Bank's releases including the *Payment and Settlement Systems Report* and the *Financial Markets Report*.

#### **IV. INTERNATIONAL OPERATIONS**

The Bank conducts operations in the field of international finance, such as foreign exchange transactions, including those executed as part of the Bank's management of its foreign currency assets, as well as business related to assisting foreign central banks and international organizations in their investment in yen. The Bank also handles government affairs that relate to international finance, such as the compilation and dissemination of Japan's balance of payments statistics and foreign exchange intervention.

In addition, the Bank takes part in international discussions on the state of the world economy as well as on measures to ensure the stability and improve the structure of financial markets. The Bank participates in various forums, such as meetings of the Group of

Twenty (G-20) countries, the Group of Seven (G-7) countries, the International Monetary Fund (IMF), the BIS, the Financial Stability Board (FSB), and other meetings of monetary authorities including central banks in Asia.

In particular, the Bank's Center for Monetary Cooperation in Asia (CeMCoA) engages in activities to promote monetary cooperation in Asia and to strengthen technical cooperation and staff training, through participation in forums such as the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) and the Association of Southeast Asian Nations Plus Three (ASEAN Plus Three). It also conducts joint research on Asia with researchers from outside the Bank.

#### **V. ISSUANCE, CIRCULATION, AND MAINTENANCE OF BANKNOTES**

The Bank, as the country's sole issuer of banknotes (Bank of Japan notes), ensures the stability of banknote supply and maintains public confidence in banknotes through the conduct of the following operations at its Head Office and branches in Japan. First, the Bank receives banknotes from and pays banknotes to financial institutions that hold current accounts at the Bank (BOJ account holders). Second, the Bank counts the banknotes it receives from BOJ account holders, examines them to verify their authenticity, and checks their fitness for recirculation. As for coins, they are delivered to the Bank by the government, which is the

authorized issuer of coins, and then put into circulation.

As part of its measures to secure confidence in banknotes and coins, the Bank works to maintain the cleanliness of banknotes in circulation by preventing damaged or worn banknotes from being returned to circulation. In addition, the Bank remains active in advancing research and promoting public understanding regarding counterfeit deterrence and security for currency and other means of payment, in cooperation with relevant institutions at home and abroad, including other central banks.



## VI. SERVICES RELATING TO THE GOVERNMENT

The Bank provides various services relating to the government, such as treasury funds and JGS services. Specifically, these are (1) receipt, disbursement, and accounting of treasury funds (the Bank classifies receipts and disbursements of treasury funds by the specific government account as well as by the individual government agency); (2) management of the deposits of the Japanese government; (3) custody of securities acquired by or submitted to the government; (4) issuance of, and principal and interest payment on,

JGSs; and (5) operations relating to its role as the book-entry transfer institution in the JGB book-entry system. For the convenience of the public, the Bank designates certain branches and offices of financial institutions throughout the country as its agents and entrusts them with some of the services relating to treasury funds and JGSs.

Besides the above operations, the Bank engages in various transactions with the government, such as buying and selling JGSs.

## VII. COMMUNICATION WITH THE PUBLIC

With a view to satisfying the requirements of public accountability, the Bank releases the minutes of MPMs and public statements on most of the Policy Board decisions in a timely manner. The Bank actively discloses information through a variety of channels including the following: reporting to and attendance at the Diet; press conferences held and speeches delivered by the Bank's officials; and the dissemination of information through the Bank's web site. The transcripts of MPMs held more than ten years previously have been released.

To promote better understanding of the policies and business operations of the Bank, not only in the eyes of

financial professionals but also of the public as a whole, the Bank endeavors to make its publications and releases better suited to the diverse needs and interests of their users. The Bank also works to promote financial literacy among the public.

The Bank compiles and releases various statistics to be widely shared with the public and implements measures as part of refining its statistics to improve their user-friendliness.

Meanwhile, the Bank discloses information in accordance with the Act on Access to Information Held by Independent Administrative Agencies.







# Implementation of the Bank's Strategic Priorities: Progress Made during Fiscal 2010

## **I. Introduction**

## **II. The Bank's Response to the Great East Japan Earthquake**

## **III. The Bank's Progress in Addressing Issues and Implementing Action Plans in Fiscal 2010**

- A. Matters Relating to the Conduct of Monetary Policy
- B. Matters Relating to the Financial System
- C. Matters Relating to Payment and Settlement Systems and Market Infrastructure
- D. Matters Relating to the Regional Economic and Financial Environment
- E. Matters Relating to Banknotes, Treasury Funds, and JGS Services
- F. Matters Relating to Communication with the Public



## I. INTRODUCTION

In March 2010, the Bank of Japan formulated and released "The Bank of Japan's Strategic Priorities for Fiscal 2010–2012." The Bank conducted its daily business operations for fiscal 2010 in accordance with these Strategic Priorities, which comprise the set of issues to be addressed and concrete measures to be taken during this period.

In fiscal 2010, the Bank generally made the anticipated progress in addressing and implementing the issues and action plans outlined for fiscal 2010–2012. In addition, the Bank has promptly

implemented various emergency measures since the Great East Japan Earthquake on March 11, 2011.<sup>1</sup> This section provides an overview of the Bank's response to the earthquake, followed by a detailed evaluation of the Bank's progress made during fiscal 2010.

The Strategic Priorities have a rolling three-year horizon. At the end of every fiscal year, the Bank conducts a performance review and then updates the Strategic Priorities accordingly, resetting the horizon to cover the next three years.<sup>2</sup>

## II. THE BANK'S RESPONSE TO THE GREAT EAST JAPAN EARTHQUAKE

The Bank took the following measures in response to the Great East Japan Earthquake.

First, the Bank worked to maintain the financial intermediation function and secure the smooth settlement of funds. Specifically, to cope with demand for cash in disaster areas, the Bank provided cash to financial institutions in disaster areas promptly and in sufficient quantities, not only on business days but also on weekends and holidays. Moreover, the Governor of the Bank, jointly with the Minister of State for Financial Services, released a document regarding financial measures to respond to the disaster triggered by the earthquake, requesting that financial institutions take appropriate measures to accommodate the needs of those affected by the disaster, for example by permitting the withdrawal of deposits in cases where depositors had lost passbooks or seals. Furthermore, the Bank, in

cooperation with relevant parties, maintained the stable functioning of Japan's core payment and settlement systems, such as the Bank of Japan Financial Network System (BOJ-NET), even after the earthquake.

Second, the Bank strived to prevent an excessive increase in risk aversion from emerging in financial markets or other areas of financial and economic activity. To this end, the Bank provided ample funds to meet demand in financial markets for several successive days after the earthquake, and worked to ensure stability in the markets by maintaining confidence on the funding front. Also, with a view to preventing any deterioration in business sentiment or heightening of risk aversion in financial markets from adversely affecting economic activity, the Bank further enhanced monetary easing by increasing the amount of the Asset Purchase Program, mainly of the purchases

1. There were various names given to the earthquake in its immediate aftermath; but it was officially termed "The Great East Japan Earthquake" by the government on April 1, 2011.

2. For the text of "The Bank of Japan's Strategic Priorities for Fiscal 2011–2013," see Appendix 2 on pages 84–90.



of risk assets by about 5 trillion yen, under the comprehensive monetary easing framework.

Third, the Bank worked to ensure calm in markets at home and abroad by providing accurate information. Specifically, immediately after the earthquake, it expanded the communications offered on its web site, setting up a section devoted to the earthquake in both Japanese and English, and releasing a continuous

stream of information regarding its business continuity situation. In addition, on various occasions such as at international conferences, in speeches given at home and abroad, and at press conferences, the Bank emphasized the continuing robustness of Japan's financial markets as well as its financial and settlement systems.

### MEASURES TAKEN BY THE BANK OF JAPAN FROM MARCH 11 TO APRIL 28, 2011

#### **Friday, March 11**

- ◆ The Great East Japan Earthquake occurred at 2:46 p.m., affecting mainly the Tohoku region, the north-east part of Japan.
- Set up a disaster management team at the Bank's Head Office, headed by the Governor, at 3:00 p.m.
- Carried out business operations as usual at its Head Office and branches. The Bank of Japan Financial Network System (BOJ-NET) was functioning normally.
- Established a framework to enable the Bank to assess the impact of the earthquake on financial markets as well as on the business operations of financial institutions and of operators of clearing systems and to stand ready to respond as necessary.
- Announced the Bank's commitment to do its utmost to ensure stability in financial markets and the smooth settlement of funds by, for example, providing liquidity.
- Released, in cooperation with the Financial Services Agency, a document regarding financial measures to respond to the disaster triggered by the earthquake.
- Temporarily closed the Currency Museum.<sup>1</sup>

#### **Saturday, March 12**

- Informed financial institutions in the Tohoku region that the Bank stood ready to support their initiatives to remain open for business in disaster areas during weekends and holidays.
- Provided cash to financial institutions at the Bank's branches in Aomori City, Aomori Prefecture, in Sendai City, Miyagi Prefecture, in Fukushima City, Fukushima Prefecture, and at its local office<sup>2</sup> in Morioka City, Iwate Prefecture, as well as at its Head Office.
- Also kept in close contact with financial institutions outside the Tohoku region, standing ready to respond flexibly to their needs.

<sup>1</sup> The Currency Museum reopened on April 12, 2011. It has been closed again on weekdays since July 2011.

<sup>2</sup> Designated by the Bank as custodians to hold unissued banknotes.

**Sunday, March 13**

- Provided cash to financial institutions at the Bank's branches in Sendai City, Fukushima City, and at its local office in Morioka City.
- Released, in cooperation with Local Finance Bureaus in Nagano and Niigata Prefectures, documents regarding financial measures to respond to the disaster triggered by the earthquake near the border between the two prefectures.

**Monday, March 14**

- Further enhanced monetary easing.
  - Decided, at the Monetary Policy Meeting (MPM), to increase by about 5 trillion yen the amount of purchases, mainly of risk assets, made under the Asset Purchase Program. (This MPM was shortened from the scheduled two days to one day.)
- Provided ample funds with a view to ensuring stability in financial markets.
  - Conducted funds-supplying operations totaling 21.8 trillion yen on a daily basis, nearly three times larger than the largest daily funds provision after the Lehman crisis in autumn 2008.
- In anticipation of planned rolling blackouts, suspended its in-house tours and closed its Archives on a temporary basis.<sup>3</sup>

**Wednesday, March 16**

- In anticipation of planned rolling blackouts, temporarily suspended the examination of as well as the receipt and payment of banknotes at the banknote operations center in Toda City, Saitama Prefecture.<sup>4</sup>

**Friday, March 18**

- Statement of the Group of Seven (G-7) finance ministers and central bank Governors was released.
  - At the request of the Japanese authorities, the authorities of the United States, the United Kingdom, Canada, and the European Central Bank (ECB) issued a joint statement to the effect that they would join Japan, on March 18, 2011, in concerted intervention in exchange markets.

**Tuesday, March 22**

- Set up a web section titled "Releases Related to the Great East Japan Earthquake" on the Bank's web site.

**Thursday, March 24**

- Released a statement regarding the exchange of damaged banknotes and coins.
  - Announced to the public that the Bank, at its Head Office and branches, would exchange damaged banknotes and coins for new ones, in accordance with the criteria laid down by law.

3. The Bank's in-house tours resumed and Archives reopened on April 25 and April 1, 2011, respectively. The Bank's in-house tours have been suspended again since July 2011.

4. The examination of and the receipt and payment of banknotes were resumed on March 23 and 24, respectively.

**Friday, March 25**

- Announced that business operations normally carried out at the windows of the Bank's agents in disaster areas, entrusted to execute services relating to treasury funds and Japanese government securities (JGS), had mostly been shifted to the Bank's Head Office and branches in Sendai City and Fukushima City.
- Began sending employees from the Bank's Head Office to its branch in Sendai City to support its business operations.

**Tuesday, March 29**

- Began sending employees from the Bank's Head Office to its branch in Fukushima City to support its business operations.

**Friday, April 1**

- Announced its decision to release the reference data for the diffusion index of business conditions in the March 2011 *Tankan* (Short-Term Economic Survey of Enterprises in Japan)<sup>5</sup> in two parts: (1) aggregates of survey forms returned to the Bank before the earthquake; and (2) aggregates of those returned after the earthquake.

**Thursday, April 7**

- At the MPM, the Chairman instructed the staff to examine the specifics of two measures: the funds-supplying operation to support financial institutions in disaster areas; and the relaxation of collateral standards.

**Friday, April 8**

- Announced that the Bank would temporarily suspend on-site examinations of financial institutions likely to be affected by the disaster, while in principle proceeding with those of financial institutions located outside disaster areas.

**Friday, April 15**

- Explained, at the meeting of the Group of Twenty (G-20) finance ministers and central governors, Japan's economic and financial conditions and the Bank's monetary policy measures since the earthquake.

**Wednesday, April 20**

- Began the exchange of damaged banknotes and coins in Morioka City, where the Bank does not have a branch.

**Thursday, April 28**

- Established, at the MPM, Principal Terms and Conditions for the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas, and Temporary Rules regarding the Eligibility Standards for Debt of Companies in Disaster Areas.

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5. The aggregated results were released on April 4, 2011.

### III. THE BANK'S PROGRESS IN ADDRESSING ISSUES AND IMPLEMENTING ACTION PLANS IN FISCAL 2010

#### A. Matters Relating to the Conduct of Monetary Policy

1. **The Bank will enhance the quality of its research and analysis regarding developments in economic activity, prices, and the financial environment at home and abroad so as to make appropriate policy decisions. In particular, the Bank will devise better methods of monitoring the financial environment and further strengthen analysis related to the relationship between financial and economic activity. To this end, the Bank recognizes the importance of assessing risks in the financial system as a whole—i.e., taking a macroprudential perspective—in light of Japan's past experiences as well as the recent global financial crisis and subsequent policy responses by authorities worldwide.**

(1) Japan's economy remained on a moderate recovery path until the beginning of autumn when the pace of recovery slowed temporarily. The situation gradually improved over the following months, although strong downward pressure was exerted on the economy, mainly on the production side, in the aftermath of the Great East Japan Earthquake on March 11, 2011. As for the outlook, the economy is expected to return to a moderate recovery path as supply-side constraints ease, but uncertainty about the future remains high. Against this background, the Bank acted to enhance the quality of its research and analysis on developments in economic activity, prices, and the financial environment so as to be able to ensure monetary policy was appropriate to the situation.

(2) The Bank conducted an extensive analysis on

developments in economic activity and prices amid ongoing changes in the broader economic environment such as the disparities in growth rates between advanced and emerging economies as well as the waning effects of various demand-boosting policy measures. Moreover, the Bank enhanced the quality of its analysis of financial market developments both at home and abroad, taking account of, for example, fiscal problems in Europe, the worldwide shift toward stricter financial regulation, and monetary policy developments in advanced and emerging economies, while also remaining attentive to the growing interconnectedness of markets and developments in the international flow of funds.

(3) In monitoring the financial environment, the Bank conducted an overall assessment of developments in financial markets and corporate finance following the implementation of the fund-provisioning measure to support strengthening the foundations for economic growth and the comprehensive monetary easing. Furthermore, the Bank adopted a macroprudential perspective and conducted an extensive analysis of future risks. For example, the Bank examined methods for assessing the extent to which financial imbalances had accumulated as well as analyzing the relationship between such imbalances and the conduct of monetary policy.

2. **The Bank will deepen such research and analysis not only with regard to advanced economies but also with regard to emerging economies, maintaining close contact with overseas authorities and frequent exchanges of information regarding economic and financial conditions.**



- (1) The Bank, at international meetings, including those organized by the Bank for International Settlements (BIS), exchanged opinions and information with overseas authorities regarding overseas economic and financial conditions; it also made use of central bank networks particularly across Europe, North America, and Asia, to maintain close contact and frequent exchanges of information.
- (2) The Bank maintained close contact and frequent exchanges of information with other central banks and international organizations particularly in Asia, by participating in the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), the BIS Asian Consultative Council (ACC), the Tripartite Governors' Meeting of the Bank, the People's Bank of China and the Bank of Korea, and the Association of Southeast Asian Nations Plus Three (ASEAN Plus Three).

**3. The Bank will conduct money market operations appropriately, with a view to maintaining financial market stability and the proper functioning of market mechanisms, while ensuring that its business operations are executed and systems are operated with precision and deliberation. It will also make sure that transactions with the government are properly conducted.**

- (1) In its conduct of money market operations, the Bank provided ample funds through, for example, the fixed-rate funds-supplying operation against pooled collateral; it also launched various measures, such as the fund-provisioning measure to support strengthening the foundations for economic growth and the comprehensive monetary easing. At the same time, the Bank safeguarded the functioning of market mechanisms, by, for example, adjusting the frequency of its money market operations in

response to changes in the market situation. The Bank also executed business operations and operated related systems with precision and deliberation, including the management of financial assets purchased and collateral accepted.

- (2) Following the Great East Japan Earthquake, the Bank provided funds flexibly, in order to maintain stability in financial markets and smooth fund settlement.
- (3) The Bank ensured that transactions with the government were conducted properly, in accordance with the relevant laws and regulations.

**4. To facilitate the conduct of monetary policy, the Bank will discuss matters related to the frameworks for money market operations.**

- (1) The Bank formulated and implemented the following policy measures to pursue powerful monetary easing via comprehensive monetary easing, to ensure financial market stability, and to provide support to strengthen the foundations for economic growth.
  - (a) Introduction of a six-month term in the fixed-rate funds-supplying operation against pooled collateral.
  - (b) Re-establishment of U.S. dollar funds-supplying operations against pooled collateral. Following the Great East Japan Earthquake, the Bank introduced one-week term U.S. dollar funds-supplying operations against pooled collateral, in addition to existing operations that have a three-month term.
  - (c) Introduction of the fund-provisioning measure to support strengthening the foundations for economic growth.
  - (d) Establishment of the Asset Purchase Program to purchase various financial assets, such as government securities, commercial paper (CP), corporate bonds, exchange-traded funds (ETFs), and Japan real estate investment trusts (J-REITs),

as well as to conduct fixed-rate funds-supplying operations against pooled collateral. Following the Great East Japan Earthquake, the Bank increased the amount of assets purchased under the Asset Purchase Program, mainly purchases of risk assets, with a view to preempting any deterioration in business sentiment and preventing an increase in risk aversion in financial markets from adversely affecting economic activity.

**5. As part of the above process, the Bank will deepen its theoretical and empirical analysis of the conduct of monetary policy as well as further considering strategies for disseminating information on monetary policy and for communicating with market participants, taking into account related research developments at home and abroad.**

- (1) The Bank, taking into account academic discussion and research developments both at home and abroad, conducted empirical analyses into the relationship between financial imbalances and economic activity, and carried out a comprehensive examination of inflation expectations in Japan.
- (2) In order to achieve better understanding among both market participants and the public concerning its monetary policy conduct, the Bank made available on its web site a list of the various measures it has been implementing. The Bank made constructive use of overseas central banks' approaches to disseminating information, devising ways to provide easily digestible explanations of its policy schemes and updates on their implementation.
- (3) As for the fund-provisioning measure to support strengthening the foundations for economic growth, the Bank worked to provide a thorough explanation of the policy intention behind the measure by, for

example, releasing a paper in the *Bank of Japan Review Series* that not only offered a detailed description of the measure itself, but also outlined the background to its introduction and related efforts being made by private financial institutions.

**6. The Bank will communicate its research findings regarding the conduct of monetary policy to the public effectively.**

- (1) While research and analysis regarding monetary policy were being carried out both at home and abroad based on experiences during the global financial crisis of autumn 2008, the Bank released a paper in the *Bank of Japan Review Series* addressing the debate surrounding a monetary policy rule that takes explicit account of developments on the financial front (available only in Japanese). It also released a paper, analyzing the effects of monetary policy stance on investor behavior (available only in Japanese).

**7. The Bank will engage in discussions on various systemic reforms related to monetary policy by, for example, participating in the relevant government advisory councils.**

- (1) The Bank, in its capacity as central bank, actively participated in discussions held by the Amended Money Lending Business Act Follow-up Team as well as a conference on the amendment of the Civil Code on claims.

**8. The Bank will conduct a broad range of fundamental research in the economics field, as well as in fields related to the infrastructure of the financial system including financial and information technology, and the history of currency and finance. It will make use of these findings in conducting monetary policy. The Bank will strengthen cooperation with other**

central banks, as well as academics and research institutes both at home and abroad, so as to steadily raise the quality of such research activities. Furthermore, the Bank will make efforts to manage the activities of the Archives and the Currency Museum so as to respond more efficiently to users' needs.

- (1) The Bank continued to carry out research and analysis on structural problems related to economic and financial developments, such as the long-run growth potential of the economy and long-term price movements.
- (2) The Bank, in light of the global financial crisis of autumn 2008, worked to extend and advance existing standard theories within the disciplines of economics and finance, as well as to contribute to research in new fields such as behavioral finance. Moreover, it made steady progress in finance-related research, including research into legal and accounting systems as well as information security, and also in historical research, for example into financial intermediation mechanisms during the interwar and postwar reconstruction periods.
- (3) The Bank strengthened its links with the academic world, both at home and abroad, as well as with overseas authorities by holding an international conference entitled "Future of Central Banking under Globalization" in May 2010 and, in September, hosting the International Journal of Central Banking (IJCB) Conference on central bank policies. The Bank worked to raise the quality of its research activities by strengthening cooperation with other central banks and with the academic world, both at home and abroad, through participation in international conferences, workshops, seminars, and joint research.
- (4) In preparation for the enforcement of the act on the management of official documents, the Bank worked to enhance the operating arrangements for its Archives so as to improve both user convenience and administrative efficiency. Moreover, the Bank's Currency Museum, while continuing to raise efficiency by updating the databases listing its collections, worked to better serve its visitors' needs by, for example, holding feature exhibitions.

## B. Matters Relating to the Financial System

### 1. The Bank will promptly implement measures deemed necessary to maintain the stability of the financial system, including those as the lender of last resort.

- (1) During fiscal 2010, the Bank provided no loans pursuant to Articles 37 and 38 of the Bank of Japan Act. Following the failure of the Incubator Bank of Japan, the Bank appropriately provided loans to the Deposit Insurance Corporation of Japan.
- (2) The Bank, pursuant to the proviso of Article 43 of the Bank of Japan Act, implemented purchases of stocks held by financial institutions until the end of April, 2010.

### 2. In light of the recent global financial crisis, there has been increasingly lively international discussion focused on macroprudence, and progress has been made in establishing new rules regarding financial regulation and supervision that are consistent internationally. Given these developments, the Bank will conduct research and planning related to the financial system, giving due consideration to institutional factors unique to each country as well as Japan's past experiences. The Bank will make use of the findings to actively contribute to policy formulation both at home and abroad.

(1) The Bank played an active part in international discussions focused on macroprudence and in establishing new rules regarding financial regulation and supervision that are consistent internationally. In light of Japan's past experiences, the Bank explained its thinking at international conferences and other such occasions; it also provided information, for example through the release of working papers.

**3. As part of the above efforts, the Bank will actively participate in discussions at various forums, such as meetings of the Group of Seven (G-7) countries, the Group of Twenty (G-20) countries, the Financial Stability Board (FSB), and the Basel Committee on Banking Supervision (Basel Committee), on establishing a concrete framework for and implementing new financial regulations. The Bank will also actively exchange information with overseas authorities, including supervisory colleges. In this way, the Bank will contribute to improving and ensuring the stability of the global financial system.**

(1) The Bank actively participated in discussions at international conferences, such as meetings of the G-20 countries, the G-7 countries, the FSB, and the Basel Committee, on strengthening the robustness of the global financial system. The Bank's contributions included, for example, compiling the results of research on optimal levels of bank capital and liquidity.

(2) The Bank actively exchanged information with overseas authorities, including supervisory colleges. It also played an active part in discussions and information exchange within Asia, at various meetings such as EMEAP, the ACC, and ASEAN Plus Three, to promote the implementation of new

financial regulations as well as financial system stability in the region.

**4. The Bank will ensure that it maintains an accurate grasp of business conditions at financial institutions by strengthening the feedback between its on-site examinations and off-site monitoring as well as by conducting them efficiently and effectively. The Bank will also encourage financial institutions to step up efforts to improve their management of risks through activities organized by the Bank's Center for Advanced Financial Technology (CAFT).**

(1) Following the Great East Japan Earthquake, the Bank worked to maintain the financial intermediation function by grasping in detail the business continuity situation at financial institutions, mainly in disaster areas.

(2) The Bank worked to ensure that on-site examinations were conducted efficiently by utilizing targeted on-site examinations specially tailored to each institution's risk profile. The Bank also examined financial institutions' market risk management procedures for taking into account their increased holdings of bonds. With regard to off-site monitoring, the Bank compiled and released in a report its thinking on liquidity risk management. It then checked that financial institutions' liquidity risk management procedures were in line with the thinking outlined in this report.

(3) The CAFT continued to support financial institutions' efforts to improve their management of risks and business operations, hosting workshops on operational risk management, counterparty risk management, and the utilization of stress tests; it also exchanged views with experts and professional practitioners.

5. **The Bank will further refine its methods for macroprudential analysis and assessment of the financial system in Japan, as well as its microprudential on-site examinations and off-site monitoring of financial institutions, ensuring that each type of activity benefits fully from the findings of the other. The Bank will also communicate its findings to the public effectively.**

(1) The Bank established the Financial System Research Division in October 2010 and enhanced its framework for analyzing and assessing the financial system. The Bank researched tools for analyzing the financial system that would be valuable from a macroprudential perspective, such as early warning indicators.

6. **The Bank will make use of the findings of such analysis in developing financial system policies and implementing monetary policy.**

(1) The Bank made use of the findings of its analysis, for example those reported in the *Financial System Report*, in evaluating future risks to the financial environment.

### **C. Matters Relating to Payment and Settlement Systems and Market Infrastructure**

1. **With a view to ensuring the smooth operation of the BOJ-NET as well as linked payment and settlement systems, the Bank will execute business and system operations related to the BOJ-NET, including the implementation of business continuity arrangements, in an accurate and stable manner.**

(1) To ensure the smooth operation of the BOJ-NET and linked payment and settlement systems, the Bank

executed business and system operations related to the BOJ-NET in an accurate and stable manner. Smooth operation of all such systems was also successfully maintained following the Great East Japan Earthquake.

2. **The Bank will conduct research and planning to promote improvement in the safety and efficiency of Japan's payment and settlement systems, and implement measures as necessary to respond to the following: (1) structural changes, such as the diversification of financial instruments and transactions, globalization of financial markets, and advances in information processing technology, as well as the resultant calls from market participants for payment and settlement systems that accommodate these; and (2) discussions, taking place both at home and abroad in the wake of the recent financial crisis, on reviewing payment and settlement practices and reforming the framework of financial regulation and supervision.**

(1) The Bank, in cooperation and coordination with overseas central banks and supervisory authorities, contributed to the comprehensive review of international standards for payment and settlement systems following the global financial crisis of autumn 2008, as well as international initiatives to improve over-the-counter (OTC) derivatives transactions and their settlement.

(2) The Bank proceeded with research and planning related to measures to improve Japan's payment and settlement systems over the longer term, taking into account developments in settlement infrastructure in Asia, the United States, and Europe, as well as other matters such as the settlement needs of system users.



**3. The Bank, together with relevant parties, will proceed steadily with the arrangements necessary to implement in fiscal 2011, as scheduled, the second phase of the next-generation real-time gross settlement (RTGS-XG) project of the BOJ-NET Funds Transfer System (BOJ-NET FTS), which will enable large-value payments currently handled by the Zengin Data Telecommunication System (Zengin System) to be brought within the BOJ-NET FTS.**

(1) The Bank proceeded as scheduled with the system developments for changes to the BOJ-NET, and deliberated on matters regarding trial runs of the new system, in cooperation with concerned parties.

(2) The Bank analyzed payment patterns after the shift of large-value payments from the Zengin System to the BOJ-NET FTS, in order to support market participants' deliberations on whether changes to market guidelines and other practices would be necessary.

**4. The Bank, together with relevant parties, will proceed steadily with the establishment of the new BOJ-NET. The Bank will work toward implementing the first phase of the new BOJ-NET project—covering auction for money market operations and for Japanese government securities (JGS) issues, as well as the transfer of JGSs associated with money market operations—around fiscal 2013, and the second phase—including settlement of funds and that of JGSs—around fiscal 2015.**

(1) The Bank proceeded steadily with the system development process for the development of the new BOJ-NET. In addition, it invited comments from interested parties and conducted a detailed examination of the functions and system

specifications of the new BOJ-NET. The Bank held discussions at forums with interested parties concerning major changes in the new BOJ-NET, such as the link with other securities settlement infrastructures and the abolition of the lock-out period. Based on these discussions, concrete measures were compiled and published in a paper in February 2011 (available only in Japanese).

**5. The Bank will firmly monitor the safety and efficiency of payment and settlement systems from the standpoint of the central bank and encourage relevant parties to improve these systems, in accordance with a new set of basic oversight policies to be formulated in due course.**

(1) In response to the Great East Japan Earthquake, the Bank, in cooperation with relevant parties, worked to maintain the stable functioning of Japan's core payment systems.

(2) The Bank formulated its policies on the oversight of payment and settlement systems and released them as the "Policy on Oversight of Payment and Settlement Systems" and "Policy on Oversight of Offshore Yen Payment Systems." In accordance with these policies and in cooperation with relevant authorities, the Bank conducted research and called for improvement in the safety and efficiency of payment and settlement systems operated by the private sector at home and abroad. The Bank will continue to devote efforts to research and other activities to achieve these ends.

(3) The Bank continued to support market participants' deliberations on Japan's settlement infrastructure for OTC derivatives.

**6. With a view to further enhancing the stability and efficiency of financial markets and in consideration of international developments, the**

**Bank will carry out research and planning related to improving financial market structures and strengthening market infrastructure. It will work toward securing improvements in these areas, in discussion and cooperation with relevant parties at home and abroad.**

- (1) In response to requests from the Study Group for Activation of Short-term Money Markets, the Bank entrusted the Financial Law Board with summarizing the legal issues involved in the dematerialization of notes in call transactions; it also supported market participants' efforts to the same end. In addition, the Bank shared with market participants its understanding of the challenges to be met, conducting the *Tokyo Money Market Survey* and disseminating to market participants information on changes in flows of funds, the functioning of money markets, and progress on strengthening market infrastructure.

**7. As part of the above efforts, the Bank, based on experiences during the recent global financial crisis, will support market participants' efforts to reduce settlement risk and to enhance financial market functioning by, for example, shortening the Japanese government bond (JGB) settlement cycle, revising practices for dealing with settlement failures, and improving the functioning of corporate bond markets.**

- (1) The Bank supported market participants' initiatives toward achieving agreement on the shortening of the JGB settlement cycle to a T+2 cycle for outright transactions. The Bank also assisted market participants' deliberation and planning aimed at revising practices for dealing with settlement failure. By continuing to cooperate with market participants, the Bank supported their initiatives to improve the

functioning of corporate bond markets and securitization markets. In addition, the Bank worked to increase public awareness of the importance of such activities through releases in the *Bank of Japan Review Series* (a paper available only in Japanese) and the *Financial Markets Report*.

**8. The Bank, in cooperation with relevant parties, including ministries and government agencies as well as financial institutions, will steadily enhance business continuity arrangements, so as to be ready for emergency situations, such as pandemics, like the H5N1 avian influenza virus, and natural disasters.**

- (1) Following the Great East Japan Earthquake, the Bank set up a disaster management team at its Head Office headed by the Governor, and implemented various emergency measures promptly.
- (2) In August 2010, the Bank disbanded its response team dealing with the outbreak of the low pathogenic H1N1 influenza virus, reflecting the end of the pandemic and in line with the actions of the Japanese government.
- (3) As for measures to respond to an outbreak of a highly pathogenic strain of influenza, such as the H5N1 avian influenza, the Bank improved its business continuity arrangements, coordinating these with measures put in place by ministries and government agencies as well as financial institutions. The Bank also participated in an industry-wide business continuity exercise conducted under the leadership of the Japanese Bankers Association.
- (4) The Bank, in cooperation with relevant parties including financial institutions, examined the efficacy of business continuity arrangements and strengthened institutions' response capability by conducting exercises to test preparedness for a possible system

disruption. The Bank will address the practical business continuity issues based on the experience of the exercises conducted in fiscal 2010.

- (5) The Bank participated in joint business continuity exercises involving money markets, securities markets, and foreign exchange markets, while providing support for the conduct of these exercises.

**9. The Bank will contribute to the stability of the international currency system by, for example, promoting efforts to ensure the stability of the currency system in Asia, and strengthening cooperation with overseas authorities, especially central banks, through personnel exchange and technical assistance.**

- (1) The Bank took the following actions so as to promote efforts to ensure the stability of the currency system in Asia, and to strengthen cooperation with overseas authorities, especially central banks.

- (a) The Bank made efforts to ensure the stability of the currency system in Asia, chairing meetings of the EMEAP Working Group on Financial Markets and serving as Co-Chair of the EMEAP Working Group on Banking Supervision. The Bank also promoted the Asian Bond Fund 2 Initiative, which invests in bonds denominated in local currencies, to foster and develop efficient financial markets in Asian economies.

- (b) Following the appointment of the Governor of the Bank as Chair of the ACC in October 2010, the Bank, working in close cooperation with overseas central banks, conducted research and analysis on the currency system in Asia through governors' meetings and the ACC seminars.

- (c) Under the framework of ASEAN Plus Three, the Bank, together with the Ministry of Finance, further strengthened financial cooperation in Asia,

for example via the launch of the Chiang Mai Initiative Multilateralization (CMIM), as well as the development of regional corporate bond markets via the establishment of the Credit Guarantee and Investment Facility (CGIF) as a trust fund of the Asian Development Bank (ADB). The Bank also agreed with the People's Bank of China and the Bank of Korea to extend the duration of the bilateral yen-renminbi and yen-won swap arrangements, respectively.

- (d) The Bank was active in promoting the provision of technical assistance, the holding of seminars, and the exchanging of personnel with central banks and governments in Asia.

- (e) The Second Tripartite Governors' Meeting of the Bank, the People's Bank of China, and the Bank of Korea was held in Tokyo, Japan, in order to strengthen communication among them.

**10. The Bank will manage its foreign currency assets in a stable and efficient manner and promote the automated processing of its business procedures.**

- (1) The Bank proceeded broadly as scheduled with the automated processing of the accounting procedures accompanying transactions to manage its foreign currency assets.

- (2) The Bank managed its foreign currency assets in a stable and efficient manner, in accordance with the "Basic Guidelines for the Management of External Assets Held by Bank of Japan."

**11. The Bank will obtain information on global financial markets via, for example, the monitoring of market developments involved when managing its foreign currency assets; the information will be utilized in conducting monetary policy.**

(1) The Bank obtained information on global financial markets via, for example, the monitoring of market developments involved when managing its foreign currency assets; the information was utilized in research and analysis to facilitate the conduct of monetary policy.

**12. The Bank will, with precision and deliberation, carry out international operations on behalf of the government and assist overseas central banks in their investment in yen assets.**

(1) The number of international operations carried out by the Bank on behalf of the government increased, and these operations were consistently executed with precision and deliberation. The Bank also offered appropriate assistance to overseas central banks, providing services including acceptance of yen deposits to facilitate their investment in yen assets.

**D. Matters Relating to the Regional Economic and Financial Environment**

**1. The Bank will maintain a sound grasp of regional economic and financial conditions, keeping up a close dialogue with local financial and business communities. The Bank will make use of its findings in its conduct of monetary policy and other actions.**

(1) The Bank maintained a sound grasp of regional economic and financial conditions via interviews carried out at its Head Office and branches, and produced up-to-date reports summarizing related information. The Bank made use of its findings in its conduct of monetary policy and other actions.

(2) The Bank supported financial institutions' efforts to stimulate regional economies by implementing the fund-provisioning measure to support strengthening the foundations for economic growth.

**2. The Bank will continue its efforts to strengthen relations with local communities by sharing the results of research and analysis on regional economic and financial developments through, for example, the regular release of the *Regional Economic Report* and by carrying out public relations activities at its branches and offices.**

(1) Findings from the Bank's research and analysis on developments in regional economies were compiled and published each quarter in the *Regional Economic Report*.

(2) The Bank continued to work to disseminate the results of its research and analysis on regional economic and financial developments and to strengthen relations with local communities by, for example, organizing events such as speeches that provided opportunities to explain its policies and business operations.

**3. The Bank will strengthen its grasp of business conditions at regional financial institutions—including their performance as financial intermediaries—through its on-site examinations and off-site monitoring, and will carry out more in-depth discussions with regional financial institutions on issues relating to business conditions.**

(1) The Bank gained a sound grasp of business conditions at regional financial institutions through robust on-site examinations and off-site monitoring. In the course of these, the Bank strengthened its dialogue with top management at regional financial institutions.

**4. The Bank will support regional financial institutions' efforts to improve their management of risks through, for example, local seminars organized by the Bank's CAFT.**

(1) The CAFT hosted local seminars focusing on risk management based on lessons learned from past financial crises. In addition, the Bank hosted seminars for top management at regional financial institutions, as well as workshops. The Bank also organized workshops for regional financial institutions on the theme of managing computer system risks.

**5. The Bank will continue to ensure the smooth and high-quality implementation of central banking operations in each region by executing all related business with precision and deliberation, thereby contributing to regional economic and financial development.**

(1) The Bank contributed to regional economic and financial activities by ensuring that all operations at its offices were executed with precision and deliberation.

**E. Matters Relating to Banknotes, Treasury Funds, and JGS Services**

**1. Matters Relating to Banknotes**

**a. The Bank will continue to work toward securing confidence in banknotes and coins by executing with precision and deliberation all related business, for example, maintaining the cleanliness of banknotes in circulation and promoting the smooth supply of cash.**

(1) The Bank maintained the cleanliness of banknotes in circulation by ensuring the smooth supply of clean banknotes at the windows of its Head Office and branches and by examining the banknotes it received. It conducted a quarterly survey on damaged banknotes, putting the results to use in its examination of banknotes.

(2) In order to strengthen the emergency response

capability of its cash handling services, the Bank continued its efforts to ensure it had the necessary quantity of banknotes at its Head Office and branches for maintaining circulation.

(3) Following the Great East Japan Earthquake, the Bank provided a smooth supply of cash to financial institutions and exchanged damaged banknotes and coins; these operations were conducted mainly at its branches in disaster areas on weekends and holidays as well as weekdays.

**b. As part of the above efforts, the Bank will conduct further research on anti-counterfeiting technologies and enhance the counterfeit detection features of cash processing machines. The Bank will also work to prevent counterfeiting by enhancing communication and cooperation with relevant parties, including ministries and government agencies at home as well as other central banks, and by improving public relations activities aimed at achieving better public understanding of anti-counterfeiting measures.**

(1) The Bank steadily replaced its cash processing machines, such as automatic banknote examination machines, with those with a flexible counterfeit detection feature.

(2) With a view to preventing counterfeiting, the Bank enhanced communication and cooperation with relevant parties and other central banks. It also conducted research and development toward updating the counterfeit detection technology used in automatic banknote examination machines. Meanwhile, the Bank worked on public relations activities to achieve better public understanding of anti-counterfeiting measures.

**c. In light of more widespread outsourcing of financial institutions' cash handling operations,**



the Bank will move forward with measures aimed at extending the range of entities to which financial institutions can outsource the deposit/withdrawal of banknotes and coins with/from the Bank. The Bank will also extend to its branches a new method for financial institutions to withdraw cash from their current accounts; this method has already been implemented at the Bank's Head Office, and will replace the presentation of BOJ checks.

- (1) From January 2011, the Bank included private security and transportation companies among the entities to which financial institutions can outsource the deposit/withdrawal of banknotes and coins with/from the Bank's branches and custody banks (specific offices of financial institutions designated to act as custodians of unissued banknotes). The Head Office had already accepted the outsourcing of this business to such companies.
- (2) From February 2011, the Bank began to extend to its branches a new method for financial institutions to withdraw cash from their current accounts. The new method replaces the presentation of BOJ checks, and has already been implemented at the Bank's Head Office.

**d-1. The Bank will work to improve the efficiency of its channels for supplying cash, including coins.**

**d-2. With regard to banknote examination, the Bank will examine the likely changes in the future workload at its Head Office and branches in view of recent changes in the delivery routes of banknotes between financial institutions and the Bank. The Bank will then consider changes in the division of roles between its Head Office and branches, as well as among**

**branches; it will also consider changes in its operational framework for examining banknotes. Through these efforts, the Bank will seek to make its operational framework in this area even more stable and efficient.**

- (1) The Bank worked to maintain a firm grasp of trends in cash circulation, through close dialogue with financial institutions and cash service providers. Based on information gathered, the Bank reviewed the methods for transporting cash between its Head Office and branches, as well as among branches, with a view to improving efficiency; it also strengthened support arrangements among cash handling locations.
- (2) With regard to banknote examination, the Bank considered changes in the division of roles between its Head Office and branches, as well as among branches, in addition to its operational framework for examining banknotes.

## **2. Matters Relating to Treasury Funds and JGS Services**

**a. The Bank will ensure the appropriate provision of treasury funds and JGS services by executing all related business with precision and deliberation.**

- (1) The Bank executed the provision of treasury funds and JGS services with precision and deliberation. It also proceeded further with computerizing related business processes.
- (2) Following the Great East Japan Earthquake, the Bank made efforts to ensure the smooth provision of treasury funds and JGS services by, for example, conducting related business operations on behalf of its agents in disaster areas at its Head Office and some of its branches.

**b. The Bank, responding steadily to the various**

institutional changes surrounding treasury funds and JGS services, will contribute to efforts to improve the convenience of services for the public and to reform the JGS market.

(1) Regarding treasury funds services, the Bank responded to the government's consolidation policy by abolishing some of the special accounts; it also smoothly executed the payment transactions required to comply with government policy measures.

(2) As regards JGS services, the Bank provided services related to the new type of JGS, the 3-year fixed-rate JGBs issued for retail investors (individuals).

**c. With regard to the online processing of treasury funds, the Bank will conduct a comprehensive interim assessment of all measures to date, followed by a systematic review of related future initiatives, taking into account the effects of the expansion of direct electronic payment of taxes, tariffs, and fees to the government, as well as the state of the debate on the centralized online payment of salaries for government employees.**

(1) In order to put into effect the centralized online payment of salaries for government employees, the Bank deliberated the issue with ministries and government agencies as well as financial institutions, and prepared for the phased implementation of the payment method from fiscal 2011.

(2) The Bank proceeded with the interim assessment of the online processing of treasury fund services, taking into account the effects of the expansion of the direct electronic payment by the public of taxes, tariffs, and fees to the government.

**d. With regard to treasury funds services, the Bank will examine the likely changes in the future workload at its Head Office and branches in view of recent institutional changes affecting**

the services. The Bank will then consider changes in the division of roles between its Head Office and branches, as well as among branches; it will also consider changes in its operational framework for providing treasury funds services. Through these efforts, the Bank will seek to make its operational framework in this area even more stable and efficient.

(1) The Bank conducted a detailed feasibility study of services making use of optical character readers (OCR) for sorting and calculating revenue items as well as services related to subsidy bonds.

## **F. Matters Relating to Communication with the Public**

**1. The Bank will work to improve the effectiveness of its communication with the public so as to ensure the transparency of its policies and overall business operations. As part of this effort, the Bank will enhance its dissemination of English-language materials and the reports and research papers it releases.**

(1) The Bank worked to enhance its communication with the public, for example, providing a clear explanation of its thinking on the most recent conduct of monetary policy at the regular press conferences by the Governor held after every Monetary Policy Meeting (MPM), as well as on other occasions involving the Bank's officials, such as speeches and meetings both at home and abroad, and interviews including those with overseas media.

(2) In accordance with the Bank of Japan Act, the Bank submitted two issues of the *Semiannual Report on Currency and Monetary Control* to the Diet in fiscal 2010, in June and December. The Bank's officials, including the Governor, appeared before committees

of both houses of the Diet when requested to answer questions. Appearances took place on a total of 30 days in fiscal 2010.

- (3) The Bank hosted various public relations events at its Head Office in Tokyo: "Children's Week," a five-day program of in-house tours for families with children during school holiday seasons in summer, including hands-on opportunities to get a feel for the size of money (banknotes and coins) and to learn about anti-counterfeiting technologies; and public lectures as well as an exhibition about the history of the Japanese currency, the Bank, and the Old Building—designated as an important cultural property—in October and November 2010. The Bank also held lectures for students, at nine locations, on the functions and operations of the Bank. Meanwhile, the number of visitors to the Head Office rose to around 45,000 in fiscal 2010, an increase of 10.3 percent from the previous year.
- (4) The Bank released a steady stream of up-to-date information in both English and Japanese on its web site. The number of page views on its web site rose to around 114 million, an increase of 10.3 percent from the previous fiscal year; of these page views, around 17 million were made to its English-language web site, an increase of 31.3 percent.
- (5) The Bank continued to enhance its dissemination of English-language materials, particularly by increasing simultaneous releases of Japanese and English texts, for example for speeches, and by giving English-language lectures following significant events such as a policy change.
- (6) The Bank conducted a full revision of a publication in Japanese offering a comprehensive explanation of its functions and operations.<sup>3</sup>

2. **The Bank will conduct a thorough revision of its web site by around the end of fiscal 2010 to better respond to users' diverse needs and to further enhance the effectiveness of its communication with the public. It will also work to enhance the quality and range of contents available on its web site, with a view to promoting better understanding of central banking operations.**

- (1) In January 2011, the Bank conducted a thorough revision of its web site in order to improve user-friendliness by, for example, reviewing the existing information categories and making changes to the navigation menus. The Bank worked to enhance the quality and range of contents available on its web site; this included providing a new introductory video, "Welcome to the Bank of Japan," which offers an overview of the Bank's policies and business operations as well as hints on web site navigation, in addition to enhancing navigation tools on the top page of each information category.
3. **The Bank will take the opportunity of internal operational reviews to canvass and exchange opinions with financial institutions and a wide range of other involved parties and to gain a clear understanding of outside parties' needs regarding the Bank's operations. The Bank will take due note of these in its subsequent conduct of business operations.**
- (1) In fiscal 2010, the Bank received 12,900 inquiries and comments (excluding letters or e-mails motivated by business purposes and those where the writing or intent was unclear) on a wide range of matters including the conduct of monetary policy; this represented an increase of 11.1 percent from the

3. The English version is forthcoming.

previous year. The Bank also received requests, particularly for information disclosure.

- (2) The Bank made efforts to gain an appropriate grasp of outside parties' needs with respect to its daily operations, holding regular meetings about treasury services with financial institutions designated as agents permitted to offer such services in their branches and offices, as well as working-level meetings for BOJ-NET users linked to the Head Office, also on a regular basis; both types of meeting were established in fiscal 2010 as channels for exchanging views on the Bank's operations.

**4. The Bank will make appropriate refinements of the statistics it compiles, in line with the principles of the revised Statistics Act (Act No. 53 of 2007) and in dialogue with international organizations, with the aim of improving user-friendliness.**

- (1) The Bank took part in the following international initiatives.
- (a) The Bank contributed to deliberations held at the Irving Fisher Committee on Central Bank Statistics on enhancing the quality of statistics related to the maintenance of financial stability.
  - (b) The Bank worked on enhancing the quality of OTC derivatives statistics released by the BIS, in cooperation with related parties.
  - (c) The Bank commenced improvements on the method for estimating households' outstanding financial assets, and began reporting data on government sector financial assets and liabilities to the International Monetary Fund (IMF).
  - (d) With regard to the balance of payments, the Bank pushed forward with discussions related to the conversion and reporting of statistics based on the revised format defined in the sixth edition of

the *Balance of Payments and International Investment Position Manual* by the IMF, while exchanging views with countries involved.

- (2) The Bank implemented the following measures as part of refining its statistics to improve their user-friendliness.
- (a) The Bank enhanced the graphing functions of the BOJ Time-Series Data Search, its search engine for statistical data.
  - (b) The Bank revised the base year for the Input-Output Price Index of the Manufacturing Industry by Sector (IOPI) from 2000 to 2005. It included the figures for services in the input price index, thereby significantly improving the accuracy of the index.
  - (c) The Bank commenced arrangements for revising the base year for the Corporate Goods Price Index (CGPI) from 2005 to 2010. It will also make further efforts to improve the user-friendliness of various statistics; for example, it will work to improve the accuracy of the CGPI by reviewing the price adjustment method, as well as helping to improve the accuracy of the GDP statistics and indices of industrial production by providing core information to those responsible for compiling them.
- (3) The Bank worked toward improving the quality of statistics in Japan, as follows.
- (a) The Bank, in cooperation with the Cabinet Office, participated in discussions on revisions to the Financial Intermediation Services Indirectly Measured (FISIM) in the System of National Accounts (SNA) statistics, and contributed to improving the accuracy of the deflator.
- (4) The Bank will move forward with revisions to the *Tankan* (Short-Term Economic Survey of Enterprises

in Japan), taking into account the results of the scheduled Economic Census for Business Activity.

**5. The Bank will further streamline statistics compilation by discontinuing publication of statistics that have become less useful and by outsourcing.**

(1) The Bank implemented the following measures to further streamline statistics compilation.

(a) Upon revision of the base year for the IOPI from 2000 to 2005, the Bank discontinued the releases of macros and indices for which there was reduced demand, such as the output/input price ratio index, index for sectors, and the net-weight based index.

(b) As for the *Tankan*, the Bank introduced a system that accepted online responses if requested by participating enterprises, starting from the March 2011 survey. It also streamlined statistics compilation at the Bank's Head Office and branches, moving ahead with the electronic processing of all compiled data.

**6. In support of the activities of the Central Council for Financial Services Information (CCFSI) and local committees, the Bank will continue to contribute to financial literacy education and raise public awareness and understanding of financial and economic issues. To this end, the Bank will thoroughly evaluate the efficacy of the various approaches employed to date, and**

**concentrate future efforts on those that have proved the most effective and efficient.**

(1) As the secretariat of the CCFSI, the Bank engaged actively in the promotion of financial literacy education; for example, it organized Festivals for Promoting Financial Literacy Education at seven locations as well as lessons at 20 schools.

(2) The Bank worked toward raising awareness and understanding of financial and economic issues among the public, including the elderly and individuals living alone. Its activities in this regard included the following: the renewal of its web site; the revision of publications such as "A Guide to Financial Instruments" as well as the continued publication of a quarterly magazine, "First Steps toward Financial Literacy for Everyday Life" (both available only in Japanese); and public lectures on financial and economic issues organized by local committees all across Japan under the Bank's aegis.

(3) The Bank conducted, for the first time in five years, a survey on money and children's lives.

(4) With a view to enhancing the effectiveness and efficiency of financial literacy education, the Bank discontinued the broadcast of television commercials on the CCFSI's activities, instead focusing its energies on providing financial advisers and strengthening cooperation with ministries, government agencies, and other concerned organizations.







# The Bank's Organizational Management in Fiscal 2010

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**I. Settlement of Accounts and Budget for Expenses**

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**II. IT Investment**

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**III. Human Resources**

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**IV. Organizational Management Measures Implemented in  
Fiscal 2010**

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**V. Internal Audits**

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## I. SETTLEMENT OF ACCOUNTS AND BUDGET FOR EXPENSES

As for the Bank of Japan's expenses for fiscal 2010, the Bank improved efficiency in overall expenditure, while making, in line with the budget, the disbursements necessary to cover "The Bank of Japan's Strategic Priorities for Fiscal 2010–2012" (the 2010–12 Strategic Priorities). The settlement of accounts for expenses for fiscal 2010 decreased from the previous fiscal year by 0.8 percent (1.5 billion yen) to 181.3

billion yen. Regarding the Bank's budget for expenses for fiscal 2011, the Bank has carefully examined overall expenditure to achieve a more streamlined budget while appropriating a significant portion to cover "The Bank of Japan's Strategic Priorities for Fiscal 2011–2013,"<sup>1</sup> including the construction of a new Bank of Japan Financial Network System (BOJ-NET).

## II. IT INVESTMENT

The Bank steadily carried out the system development projects necessary to achieve the goals set out in the 2010–12 Strategic Priorities, while working to raise the efficiency and streamline the development of such projects. Specifically, construction of the new BOJ-NET proceeded as scheduled, as did the implementation of

the second phase of the next-generation real-time gross settlement (RTGS-XG) project of the BOJ-NET Funds Transfer System (BOJ-NET FTS). The scale of system development for fiscal 2010 was 11,733 person-months<sup>2</sup> (including outsourced man-hours of 9,027 person-months).

## III. HUMAN RESOURCES

The Bank maintained the number of employees necessary to achieve the goals set out in the 2010–12 Strategic Priorities without breaking the ceiling on the number of full-time employees for fiscal 2010, which was set at 4,980. The number of full-time employees was 4,688 at the end of March 2011, down 116 from the previous fiscal year (Table 1).

The Bank worked to realize a net reduction of 5 percent or more in the number of its full-time employees during the five-year period from fiscal 2006

to 2010, in line with the Administrative Reform Promotion Act (Act No. 47 of 2006) and the Important Policy of Administrative Reform decided by the Cabinet on December 24, 2005. The result of these efforts was a 5.5 percent reduction in the number of full-time employees (counted, as stipulated in the above Act, as the number of full-time executives and staff) between the end of March 2006 and the end of March 2011.

Regarding remuneration, the Bank decreased the annual remuneration for its officers in fiscal 2010 by

1. For the text of the Strategic Priorities for fiscal 2011–2013, see Appendix 2 on pages 84–90.

2. In system development, one person-month is the workload equivalent of one person working for one month.

1.5 percent from the previous fiscal year. As for its employees, the Bank kept the levels of salaries unchanged in fiscal 2010 for the 15th consecutive year,

while reducing total bonuses for May and November 2010 by 9.9 percent from the previous year.

Table 1

**Number of Full-Time Employees as of the End of March 2011**

number of people; figures in parentheses are as of the end of March 2010

<b>Total</b>	<b>4,688 (4,804)</b>
Head Office <sup>1</sup>	2,700 (2,740)
Branches	1,914 (1,991)
Local offices <sup>1</sup>	50 (50)
Overseas representative offices	24 (23)

Note: 1. Full-time employees of the computer center and the banknote operations center, two of the 14 local offices, are included in the number of full-time employees at the Head Office.

## IV. ORGANIZATIONAL MANAGEMENT MEASURES IMPLEMENTED IN FISCAL 2010

With a view to implementing emergency measures following the Great East Japan Earthquake as well as addressing the issues and moving forward with the action plans stated in the 2010–12 Strategic Priorities, the Bank implemented the following measures with respect to organizational management.

### A. Stable and Efficient Business Operations

The Bank continued to ensure that all operations were executed with precision and deliberation. In particular, it ensured that the necessary operational procedures were put in place in a swift and appropriate manner to implement policy measures effectively. Meanwhile, the Bank implemented emergency measures promptly and flexibly following the Great East Japan Earthquake (see "Implementation of the Bank's Strategic Priorities: Progress Made during Fiscal 2010" on pages 31–51).

With a view to the stable execution of its business operations, the Bank assessed its business processes so as to identify where operational risks, including those associated with information security, existed and how such risks were being controlled. It then worked toward

further improving the appropriateness of its risk management by revising its business processes as necessary.

With a view to the efficient execution of its business operations, the Bank, based on the Plan-Do-Check-Act (PDCA) cycle, part of which involved operational restructuring and the assessment of its business processes, made efforts to raise the efficiency with which it used management resources as well as the efficiency and productivity of its business operations. These efforts included the following: keeping low priority business operations to a minimum, or where possible abolishing them completely; streamlining business processes by, for example, making greater use of outsourcing; and achieving a more flexible allocation of human resources. Specifically, the Bank worked to achieve wide-ranging efficiency gains across areas that included the construction of the new BOJ-NET, the provision of services relating to banknotes, treasury funds, and Japanese Government Securities (JGSs), and the compilation of statistics. The Bank also worked to

improve the efficiency of its system development through streamlining development processes, employing new technology, and promoting outsourcing.

In order to ensure the fairness of its business operations and organizational management, the Bank maintained thorough compliance with all requisite laws and regulations.

Meanwhile, the Bank implemented organizational reform of its Head Office starting from July 2010, with a new layer of divisions established within departments, incorporating existing groups. The reform aimed to strengthen coordination and cooperation within the Bank as well as to enhance employee training, with a view to raising competency in the execution of business operations and organizational management.

### **B. Human Resource Development**

The Bank improved job rotation and career development programs, and vigorously promoted personnel exchanges with outside institutions, with a view to developing human resources.

With the aim of promoting working arrangements that take into account employees' work-life balance, the Bank

proceeded to improve the employment and working conditions of its employees based on the second phase of the action plans set out in "Measures to Support the Development of the Next Generation." Specifically, it introduced a system that allows employees to take paid leave on an hourly basis, as well as modifying its system for rehiring employees who have previously resigned for reasons such as childbirth and childcare.

### **C. Performance Reviews**

With regard to progress made in the improvement of business operations and organizational management described in the Strategic Priorities, the Bank, in addition to regular and comprehensive reviews, will conduct performance reviews of major projects some time after their completion. The Bank will examine, for example, whether the projects have achieved the desired results and whether unanticipated risks have arisen. The results of such reviews will be made available to the public. In this connection, the Bank conducted a performance review on its progress to date toward achieving more streamlined online processing for treasury funds services.

## **V. INTERNAL AUDITS**

The Internal Auditors' Office at the Bank conducts internal audits of the Bank's business operations at its Head Office, branches, local offices, and overseas representative offices in order to examine the appropriateness of its business operations and the adequacy of its operational risk management as well as the fairness with which its business operations are executed. The results of audits are reported to the Policy Board.

In fiscal 2010, the Internal Auditors' Office audited 5 departments at its Head Office (the Secretariat of the

Policy Board, the Monetary Affairs Department, the Financial System and Bank Examination Department, the Operations Department, and the Administration Department), 11 branches (Aomori, Kanazawa, Kofu, Matsumoto, Osaka, Takamatsu, Kitakyushu, Fukuoka, Oita, Nagasaki, and Kumamoto), and 5 local offices (Toyama, Fukui, Nagano, Tokushima, and Saga). In addition, the Bank carried out a target inspection on progress made in developing the new BOJ-NET, which continued into fiscal 2011.



# The Bank's Accounts

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## **I. Settlement of Accounts for Fiscal 2010**

- A. Assets and Liabilities, Profits and Losses, and Capital Adequacy Ratio
- B. Financial Statements
- C. Schedule for the Financial Statements for Fiscal 2010

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## **II. Settlement of Accounts for Expenses for Fiscal 2010**

- A. Annual Report on Settlement of Accounts
- B. Expenses by Area of Business Operation



## I. SETTLEMENT OF ACCOUNTS FOR FISCAL 2010

On May 27, 2011, the Bank of Japan released the "Financial Statements for the 126th Fiscal Year" (in Japanese only), which contains the Bank's financial statements (the inventory of property, balance sheet, and statement of income) for the 126th fiscal year, i.e., fiscal 2010 (April 1, 2010–March 31, 2011), and the schedule for the financial statements for fiscal 2010.

The Bank submitted the financial statements, together with the Auditors' opinion, to the Minister of Finance, and received the Minister's approval. The schedule for the financial statements was audited by the Auditors, whose opinion was that it duly complemented the financial statements.

The overview of the settlement of accounts for fiscal 2010 is as below.

### A. Assets and Liabilities, Profits and Losses, and Capital Adequacy Ratio

The balance sheet of the Bank at the end of fiscal 2010 shows that total assets increased by 16.9 percent (20,538.9 billion yen) from the previous fiscal year-end to 142,363.1 billion yen, mainly due to an increase in loans and bills discounted and Japanese government securities (JGSs).<sup>1</sup> Total liabilities also increased by 17.5 percent (20,835.6 billion yen) from the previous fiscal year-end to 139,632.5 billion yen, mainly due to an increase in current deposits and banknotes (Table 1).

Detailed developments in the Bank's balance sheet in fiscal 2010 are as follows.

Looking at assets at the fiscal year-end (the end of March 2011), holdings of JGSs increased by 5.8 percent from the previous fiscal year-end to 77,299.2 billion yen, reflecting the fact that the amount of JGSs purchased and underwritten by the Bank exceeded the amount of those redeemed and sold. Loans and bills discounted increased by 56.9 percent from the previous fiscal year-end to 56,136.0 billion yen, mainly due to the following: an increase in the amount of loans provided through the fixed-rate funds-supplying operation against pooled collateral; the introduction of the fund-provisioning measure to support strengthening the foundations for economic growth; and an increase in the amount of loans provided through the variable-rate funds-supplying operation against pooled collateral aimed at ensuring financial market stability following the Great East Japan Earthquake. On the other hand, receivables under resale agreements decreased by 87.4 percent from the previous fiscal year-end to 628.5 billion yen, due to a decrease in fund provisioning via the funds-supplying

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1. JGSs comprise Japanese government bonds (JGBs) and treasury discount bills (T-bills).

operation through purchases of JGSs and commercial paper (CP)<sup>2</sup> under repurchase agreements. Meanwhile, the amount outstanding of assets purchased and loans provided through the Asset Purchase Program (hereafter the Program)<sup>3</sup> was 31,760.6 billion yen.

Turning to liabilities, current deposits increased by 73.8 percent from the previous fiscal year-end to 40,755.6 billion yen mainly due to the provision of ample funds aimed at ensuring financial market stability following the Great East Japan Earthquake. The year-on-year rate of change in the amount outstanding of banknotes issued (banknotes in circulation) was 4.6 percent, with the amount outstanding registering 80,923.0 billion yen at the fiscal year-end due to a rapid increase in demand for banknotes since the middle of March 2011.

With regard to the Bank's statement of income for fiscal 2010, operating profits decreased by 312.3 billion yen to 54.2 billion yen. This was mainly due to larger net foreign exchange-related losses<sup>4</sup> arising from the appreciation of the yen (Table 2).

Net income for the term—after subtracting corporate income tax and inhabitants and enterprise taxes—decreased by 314.9 billion yen from the previous fiscal year to 52.1 billion yen. After transferring 7.8 billion yen to the legal reserve (15 percent of net income for the fiscal year) and paying dividends totaling 5 million yen (5 percent of the face value of shares), the Bank paid the remainder of its net income to the government (44.3 billion yen). Of the amount transferred to the legal reserve, 5.2 billion yen was in excess of the legal requirement; this amount was transferred in order to secure the Bank's financial soundness, upon authorization from the Minister of Finance pursuant to Article 53, paragraph 2 of the Bank of Japan Act.

The capital adequacy ratio, after the appropriation of net income, declined from its previous fiscal year-end level of 7.47 percent to 7.36 percent at the end of fiscal 2010 (Table 3).

2. CP here comprises the following types: (1) CP issued by domestic corporations, in dematerialized or physical form; (2) dematerialized CP issued by foreign corporations with guarantees; (3) government-guaranteed dematerialized CP; (4) dematerialized asset-backed CP; and (5) dematerialized CP issued by real estate investment corporations.

3. The Bank aims through this program to further enhance monetary easing via purchases of various financial assets and fixed-rate funds-supplying operations against pooled collateral that encourage a decline in longer-term market interest rates and a reduction in risk premiums.

4. Losses on foreign currency assets resulting from fluctuations in foreign exchange rates and arising from revaluation.

Table 1

**Principal Assets and Liabilities<sup>1</sup>**

bil. yen

Item	End of fiscal 2009 (March 31, 2010)	End of fiscal 2010 (March 31, 2011)
<b>Total Assets</b>	121,824.1 (-1.7) <-2,064.4>	142,363.1 (+16.9) <+20,538.9>
Of which:		
Receivables under resale agreements	4,983.3 (-58.3) <-6,968.7>	628.5 (-87.4) <-4,354.7>
Japanese government securities	73,066.1 (+13.7) <+8,800.5>	77,299.2 (+5.8) <+4,233.0>
Commercial paper	... (...) <-1,556.9>	274.2 (...) <+274.2>
Corporate bonds	172.2 (4.0 times) <+128.7>	203.5 (+18.2) <+31.3>
Pecuniary trusts (stocks held as trust property)	1,425.5 (+23.5) <+271.5>	1,495.3 (+4.9) <+69.7>
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	...	185.1 (...) <+185.1>
Pecuniary trusts (Japan real estate investment trusts held as trust property)	...	17.8 (...) <+17.8>
Loans and bills discounted	35,783.9 (+9.3) <+3,052.4>	56,136.0 (+56.9) <+20,352.1>
Foreign currency assets	5,022.7 (-53.8) <-5,841.9>	4,690.2 (-6.6) <-332.5>
<b>Total Liabilities</b>	118,796.9 (-1.8) <-2,176.2>	139,632.5 (+17.5) <+20,835.6>
Of which:		
Banknotes	77,352.7 (+0.6) <+454.9>	80,923.0 (+4.6) <+3,570.2>
Deposits (excluding those of the government)	23,498.5 (-15.8) <-4,424.2>	40,790.0 (+73.6) <+17,291.5>
Deposits of the government	3,018.6 (+27.1) <+644.0>	2,355.3 (-22.0) <-663.2>
Payables under repurchase agreements	11,651.5 (+12.3) <+1,280.1>	12,298.6 (+5.6) <+647.1>

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

[Reference to Table 1]

**Assets Purchased and Loans Provided through the Asset Purchase Program<sup>1,2</sup>**

bil. yen

Item	End of fiscal 2009 (March 31, 2010)	End of fiscal 2010 (March 31, 2011)
<b>Total Amount Outstanding</b>	...	31,760.6
Japanese government securities	...	2,250.6
Commercial paper	...	274.2
Corporate bonds	...	203.5
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	...	185.1
Pecuniary trusts (Japan real estate investment trusts held as trust property)	...	17.8
Loans by funds-supplying operations against pooled collateral	...	28,829.2

Notes: 1. "..." indicates that figures are not applicable. Figures do not add up to the total due to rounding.

2. For the details of the Program, see note 3 on page 59.

Table 2

**Principal Profits and Losses<sup>1</sup>**

bil. yen

Item	Fiscal 2009 (April 1, 2009–March 31, 2010)	Fiscal 2010 (April 1, 2010–March 31, 2011)
<b>Operating profits/losses</b>	366.5 (–16.5) <–72.5>	54.2 (–85.2) <–312.3>
Of which:		
"Core" operating income <sup>2</sup>	813.3 <–258.1>	781.0 <–32.2>
Net government bond-related gains/losses <sup>3</sup>	...	...
Net foreign exchange-related gains/losses <sup>4</sup>	–218.5 <+198.0>	–481.0 <–262.4>
Net gains/losses on pecuniary trusts (stocks held as trust property)	26.6 <+44.5>	11.6 <–14.9>
<b>Special profits/losses</b>	0.6 <+0.7>	1.5 <+0.9>
Of which:		
Net transfer to/from provision for possible losses on bonds transactions	...	...
Net transfer to/from provision for possible losses on foreign exchange transactions	...	...
Net transfer to/from provision for unrealized losses on index-linked exchange-traded funds <sup>5</sup>	...	–2.1 <–2.1>
Net transfer to/from provision for unrealized losses on Japan real estate investment trusts <sup>5</sup>	...	–0.1 <–0.1>
Net income before taxes	367.1 (–16.4) <–71.7>	55.8 (–84.8) <–311.3>
Provision for corporate income tax, inhabitants taxes, and enterprise taxes	0.0 <–138.5>	3.6 <+3.6>
Net income	367.1 (+22.3) <+66.8>	52.1 (–85.8) <–314.9>

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.

2. The total of interest on loans and discounts, interest on receivables under resale agreements, interest and discounts on JGSs, interest on CP, interest and discounts on corporate bonds, interest and discounts on foreign currency securities, lending fees on foreign currency securities, and interest on foreign currency deposits and loans.

3. Net gains/losses on sale of JGBs.

4. Net gains/losses on foreign currency assets resulting from fluctuations in foreign exchange rates during the fiscal year and arising from revaluation at the end of the fiscal year.

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



Table 3

**The Bank's Capital Base and Capital Adequacy Ratio<sup>1</sup>**

bil. yen, except where otherwise noted

Item	End of fiscal 2008 (March 31, 2009)	End of fiscal 2009 (March 31, 2010)	End of fiscal 2010 (March 31, 2011)	Changes from a year earlier	[Reference] End of the first half of fiscal 2010 (September 30, 2010)
<b>Capital accounts (A)</b>	<b>2,660.1</b>	<b>2,678.4</b>	<b>2,686.2</b>	<b>+7.8</b>	<b>2,678.4</b>
Capital	0.1	0.1	0.1	...	0.1
Legal reserve and others <sup>2</sup>	2,660.0	2,678.3	2,686.1	+7.8	2,678.3
<b>Provisions (B)</b>	<b>3,037.8</b>	<b>3,037.8</b>	<b>3,037.8</b>	<b>...</b>	<b>3,037.8</b>
Provision for possible loan losses (excluding special provision for possible loan losses)	...	...	...	...	...
Provision for possible losses on bonds transactions	2,243.3	2,243.3	2,243.3	...	2,243.3
Provision for possible losses on foreign exchange transactions	794.5	794.5	794.5	...	794.5
<b>Capital base<sup>3</sup> (A) + (B) = (C)</b>	<b>5,697.9</b>	<b>5,716.3</b>	<b>5,724.1</b>	<b>+7.8</b>	<b>5,716.3</b>
<b>Annual average of banknotes issued (D)</b>	<b>76,180.5</b>	<b>76,488.8</b>	<b>77,681.6</b>	<b>+1,192.8</b>	<b>76,888.9</b>
<b>Capital adequacy ratio (C)/(D) × 100 (percent)</b>	<b>7.47</b>	<b>7.47</b>	<b>7.36</b>	<b>-0.11</b>	<b>7.43</b>

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.

## B. Financial Statements

### 1. Inventory of property as at March 31, 2011

Item	Value in yen	Unit (except where otherwise noted)
<b>ASSETS</b>		
Gold	441,253,409,037	
Cash	396,384,964,711	
Receivables under resale agreements	628,576,844,424	12
Japanese government securities	77,299,238,610,531	Face value at 76,503,101,800,000 yen
Commercial paper	274,284,916,549	Face value at 274,300,000,000 yen
Corporate bonds	203,520,447,472	Face value at 200,100,000,000 yen
Pecuniary trusts (stocks held as trust property)	1,495,361,637,857	
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	185,124,542,019	
Pecuniary trusts (Japan real estate investment trusts held as trust property)	17,842,044,774	
Loans and bills discounted	56,136,010,000,000	
Loans on deeds	20,000,000,000	1
Electronic loans	56,116,010,000,000	1,335
Foreign currency assets	4,690,254,535,525	
Foreign currency deposits	160,070,724,844	
Foreign currency securities	4,363,039,530,620	
Foreign currency mutual funds	37,075,252,296	
Foreign currency pecuniary trusts	130,069,027,765	
Deposits with agents	17,422,382,852	Deposits with 92 agents
Other assets	365,313,650,180	
Bills and checks in process of collection	117,578,105	8
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	15,278,374,364	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	59,722,449,486	6
Refund on accrued tax	426,959,100	
Accrued interest receivable	145,811,600,135	
Others	23,731,688,990	
Tangible fixed assets	212,411,411,943	
Buildings	107,239,745,656	644,091.90 square meters
Land	82,882,078,902	675,646.03 square meters
Lease assets	6,923,888,970	Number of lease property: 22,558
Construction in progress	1,267,061,671	
Other tangible fixed assets	14,098,636,744	Number of movable property: 10,901
Intangible fixed assets	159,121,719	
Utility rights	159,121,719	
Total assets	142,363,158,519,593	
<b>LIABILITIES</b>		
Banknotes	80,923,031,080,006	
Deposits (excluding those of the government)	40,790,089,920,000	
Current deposits	40,755,630,259,393	1,183
Other deposits	34,459,660,607	129
Deposits of the government	2,355,376,115,233	
Treasury deposit	150,001,081,406	
Domestic designated deposit	1,748,997,626,741	
Other government deposits	456,377,407,086	
Payables under repurchase agreements	12,298,663,762,233	56
Other liabilities	28,946,842,127	
Remittances payable	12,521,435,090	
Unearned interest and discounts	164,382	
Taxes payable	1,122,000,000	
Lease liabilities	7,260,491,051	
Others	8,042,751,604	
Provision for retirement benefits	196,335,632,537	
Provision for possible losses on bonds transactions	2,243,348,993,013	
Provision for possible losses on foreign exchange transactions	794,500,000,000	
Provision for unrealized losses on index-linked exchange-traded fund holdings	2,158,071,673	
Provision for unrealized losses on Japan real estate investment trust holdings	105,203,418	
Total liabilities	139,632,555,620,240	
<b>NET ASSETS</b>		
Capital	100,000,000	
Legal reserve	2,678,349,399,816	
Special reserve	13,196,452	
Net income	52,140,303,085	
Total net assets	2,730,602,899,353	
Total liabilities and net assets	142,363,158,519,593	

## 2. Balance sheet as at March 31, 2011

yen

ASSETS	
Gold	441,253,409,037
Cash	396,384,964,711
Receivables under resale agreements	628,576,844,424
Japanese government securities	77,299,238,610,531
Commercial paper	274,284,916,549
Corporate bonds	203,520,447,472
Pecuniary trusts (stocks held as trust property)	1,495,361,637,857
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	185,124,542,019
Pecuniary trusts (Japan real estate investment trusts held as trust property)	17,842,044,774
Loans and bills discounted	56,136,010,000,000
Loans on deeds	20,000,000,000
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Foreign currency deposits	160,070,724,844
Foreign currency securities	4,363,039,530,620
Foreign currency mutual funds	37,075,252,296
Foreign currency pecuniary trusts	130,069,027,765
Deposits with agents	17,422,382,852
Other assets	365,313,650,180
Bills and checks in process of collection	117,578,105
Capital subscription to the Deposit Insurance Corporation, and the Agricultural and Fishery Cooperative Savings Insurance Corporation	225,000,000
Capital subscription to an international financial institution	15,278,374,364
Provision of funds to the Deposit Insurance Corporation's "Jusen account"	100,000,000,000
Provision of funds to the New Financial Stabilization Fund	20,000,000,000
Withdrawn cash to be returned to the government	59,722,449,486
Refund on accrued tax	426,959,100
Accrued interest receivable	145,811,600,135
Others	23,731,688,990
Tangible fixed assets	212,411,411,943
Buildings	107,239,745,656
Land	82,882,078,902
Lease assets	6,923,888,970
Construction in progress	1,267,061,671
Other tangible fixed assets	14,098,636,744
Intangible fixed assets	159,121,719
Utility rights	159,121,719
Total assets	142,363,158,519,593
LIABILITIES	
Banknotes	80,923,031,080,006
Deposits (excluding those of the government)	40,790,089,920,000
Current deposits	40,755,630,259,393
Other deposits	34,459,660,607
Deposits of the government	2,355,376,115,233
Treasury deposit	150,001,081,406
Domestic designated deposit	1,748,997,626,741
Other government deposits	456,377,407,086
Payables under repurchase agreements	12,298,663,762,233
Other liabilities	28,946,842,127
Remittances payable	12,521,435,090
Unearned interest and discounts	164,382
Taxes payable	1,122,000,000
Lease liabilities	7,260,491,051
Others	8,042,751,604
Provision for retirement benefits	196,335,632,537
Provision for possible losses on bonds transactions	2,243,348,993,013
Provision for possible losses on foreign exchange transactions	794,500,000,000
Provision for unrealized losses on index-linked exchange-traded fund holdings	2,158,071,673
Provision for unrealized losses on Japan real estate investment trust holdings	105,203,418
Total liabilities	139,632,555,620,240
NET ASSETS	
Capital	100,000,000
Legal reserve	2,678,349,399,816
Special reserve	13,196,452
Net income	52,140,303,085
Total net assets	2,730,602,899,353
Total liabilities and net assets	142,363,158,519,593

### 3. Statement of income for fiscal 2010 (April 1, 2010–March 31, 2011 )

yen

<b>Operating income</b>	<b>774,059,936,899</b>
Interest on loans and discounts	38,837,019,829
Interest on loans	38,837,019,829
Interest on receivables under resale agreements	1,126,738,955
Interest and discounts on Japanese government securities	622,483,837,033
Interest on commercial paper	82,828,622
Interest and discounts on corporate bonds	138,332,751
Gains on sale of Japanese government securities	840,000,000
Gains on foreign currency assets	72,665,525,821
Gains on foreign currency securities	64,817,227,763
Gains on foreign currency mutual funds	1,472,416,542
Gains on foreign currency pecuniary trusts	6,206,745,335
Interest on foreign currency deposits and loans	169,136,181
<b>Other operating income</b>	<b>37,885,653,888</b>
Gains on pecuniary trusts (stocks held as trust property)	11,698,080,550
Gains on pecuniary trusts (index-linked exchange-traded funds held as trust property)	423,514
Gains on pecuniary trusts (Japan real estate investment trusts held as trust property)	120,447,449
Dividends	1,550,566,745
Fees and commissions	10,502,968,364
Other income	14,013,167,266
<b>Operating expenses</b>	<b>719,849,157,217</b>
Interest on payables under repurchase agreements	19,273,928,687
<b>Losses on foreign currency assets</b>	<b>481,351,246,922</b>
Foreign exchange losses	481,028,465,997
Losses on foreign currency pecuniary trusts	322,780,925
<b>General and administrative expenses and costs</b>	<b>194,732,639,186</b>
Cost of production of banknotes	50,160,002,000
Administrative expenses for treasury business and Japanese government securities	18,216,000,079
Personnel expenses	49,258,973,812
Expenses for transportation and communications	4,671,139,636
Expenses for maintenance and repairs	1,785,773,416
Other general and administrative expenses and costs	48,094,273,561
Taxes excluding corporate income tax, inhabitants taxes, and enterprise taxes	4,023,408,821
Depreciation and amortization	18,523,067,861
<b>Other general and administrative expenses</b>	<b>24,491,342,422</b>
Fees and commissions paid	172,704,113
Other expenses	24,318,638,309
<b>Operating profits</b>	<b>54,210,779,682</b>
<b>Special profits</b>	<b>4,483,316,137</b>
Gains on disposal of fixed assets	4,483,316,137
<b>Special losses</b>	<b>2,884,631,242</b>
Losses on disposal of fixed assets	621,356,151
Transfer to provision for unrealized losses on index-linked exchange-traded funds	2,158,071,673
Transfer to provision for unrealized losses on Japan real estate investment trusts	105,203,418
<b>Net income before taxes</b>	<b>55,809,464,577</b>
<b>Provision for corporate income tax, inhabitants taxes, and enterprise taxes</b>	<b>3,669,161,492</b>
<b>Net income</b>	<b>52,140,303,085</b>

#### 4. Summary of significant accounting policies

##### a. Securities

Yen-denominated bonds and CP<sup>5</sup> 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.

Stocks, beneficial interests in index-linked exchange-traded funds, and investment equities issued by real estate investment corporations are valued at cost determined by the moving-average method.

Impairment procedures will be applied for CP, corporate bonds,<sup>6</sup> stocks, beneficiary interests in index-linked exchange-traded funds, and investment equities issued by real estate investment corporations whose market values have fallen considerably.

Securities held as trust property in pecuniary trusts<sup>7</sup> are valued in accordance with the procedures prescribed above according to the type of securities.

##### b. Tangible and intangible fixed assets

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 on or after April 1, 1998, at a rate based on the Corporation Tax Act.

###### (2) Accessory equipment in the Bank's buildings and movable property

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

###### (3) Lease assets arising from finance lease transactions that transfer ownership

Depreciation is computed based on the same depreciation method as is applied to fixed assets owned by the Bank.

###### (4) Lease assets arising from finance lease transactions that do not transfer ownership

Depreciation is computed using the straight-line method based on the assumption that the useful life equals the lease term and the residual value equals zero.

###### (5) Others

Depreciation is computed in accordance with the Corporation Tax Act.

5. CP here comprises the following types, in dematerialized or physical form: (1) CP issued by domestic corporations; (2) CP issued by foreign corporations with guarantees (dematerialized only); (3) asset-backed CP; and (4) CP issued by real estate investment corporations.

6. Includes bonds issued by real estate investment corporations.

7. Includes (1) "money trusts," where the beneficiaries entrust money to be held 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 to be held as trust property, and at the end of the term receive securities or other forms of property in which the money has been invested.



### 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. Assets and liabilities deriving from the Bank's U.S. dollar funds-supplying operations against pooled collateral are translated into yen at foreign exchange rates used in swap transactions with the Federal Reserve Bank of New York. Assets deriving from swap transactions with the European Central Bank (ECB) are translated into yen at foreign exchange rates used in these swap transactions.

### 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.

#### (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 fiscal year following the one in which the difference arises; this is done using the straight-line method, which fixes the amount of the amortization and applies it over a certain number of years—within the average remaining service period of employees at the time (the amortization is applied over ten years).

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

Provisions for possible losses on bonds 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 Act Enforcement Order; Articles 9, 10, and 11 of the Ordinance for Enforcement of the Bank of Japan Act; and Article 18 of the Bank's Accounting Rules.

#### (4) Provisions for unrealized losses on stockholdings, index-linked exchange-traded fund holdings, and Japan real estate investment trust holdings

Provisions for unrealized losses on stockholdings, index-linked exchange-traded fund holdings, and Japan real estate investment trust holdings shall be registered for the difference between the market value and the book value for each, at the ends of the first half of the fiscal year and of the full fiscal year.

### Explanatory Notes to Lease Transactions

#### 1. Finance lease transactions

Finance lease transactions that do not transfer ownership

##### a. Details of lease assets

Tangible fixed assets, mainly electronic data processing systems such as the Bank's host computers.

##### b. Methods used in calculating the depreciation of lease assets

Depreciation is computed in accordance with the Bank's significant accounting policies on methods used in calculating the depreciation of tangible fixed assets and intangible fixed assets.

#### 2. Operating lease transactions

Future minimum lease payments for non-cancelable operating lease transactions

##### a. Lessee

	mil. yen
Within one year	95
More than one year	91
Total	187

##### b. Lessor

	mil. yen
Within one year	1
More than one year	49
Total	50

### Explanatory Notes to Accounting for Retirement Benefits<sup>1</sup>

<b>1. Projected benefit obligation</b>		yen
Projected benefit obligation	(A)	-200,324,283,000
Fair value of plan assets	(B)	...
Unfunded projected benefit obligation	(C) = (A) + (B)	-200,324,283,000
Unrecognized actuarial differences	(D)	3,988,650,463
Unrecognized prior service cost	(E)	...
Net amount recorded on the balance sheet	(F) = (C) + (D) + (E)	-196,335,632,537
Prepaid pension cost	(G)	...
Provision for retirement benefits	(F) - (G)	-196,335,632,537
<b>2. Pension expenses</b>		yen
Service costs		4,783,848,000
Interest costs		4,030,742,000
Expected return on plan assets		...
Amortization of actuarial differences		3,450,101,846
Amortization of prior service cost		...
Others (such as extra retirement benefits)		...
Pension expenses		12,264,691,846
<b>3. Assumptions</b>		
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		...

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

**5. Auditors' opinion<sup>8</sup>**

May 2, 2011

**Auditors' Opinion on the Bank of Japan's Financial Statements  
for Fiscal 2010**

Pursuant to Article 52, paragraph 1 of the Bank of Japan Act (Act No. 89, 1997), we have audited the financial statements of the Bank of Japan for fiscal 2010 indicated below. In our opinion, the financial statements present fairly the state of property and the results of operations for fiscal 2010.

The financial statements comprise the following:

Inventory of property as at March 31, 2011;  
Balance sheet as at March 31, 2011; and  
Statement of income for fiscal 2010.

Toshiharu Murayama  
Makoto Hosomi  
Michio Masukawa

Auditors, Bank of Japan

**6. Appropriation of net income for fiscal 2010**

yen

<b>Net income</b>	<b>52,140,303,085</b>
Appropriations:	
Transfer to legal reserve	7,821,045,463
Dividends, 5 percent of share face value	5,000,000
Payment to the government	44,314,257,622
<b>Total</b>	<b>52,140,303,085</b>

<sup>8</sup> This presents a translation, for convenience only, of the original report issued in Japanese.

## C. Schedule for the Financial Statements for Fiscal 2010

## 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
<b>1. Gold</b>	<b>441,253,409,037</b>	<b>441,253,409,037</b>	<b>0</b>
<b>2. Cash<sup>1</sup></b>	<b>330,129,147,031</b>	<b>396,384,964,711</b>	<b>66,255,817,680</b>
<b>3. Receivables under resale agreements<sup>2</sup></b>	<b>4,983,319,260,656</b>	<b>628,576,844,424</b>	<b>-4,354,742,416,232</b>
Purchases of Japanese government securities under repurchase agreements	2,996,979,539,258	59,713,729,340	-2,937,265,809,918
Purchases of commercial paper under repurchase agreements	1,986,339,721,398	568,863,115,084	-1,417,476,606,314
<b>4. Japanese government securities<sup>3</sup></b>	<b>73,066,192,637,553</b>	<b>77,299,238,610,531</b>	<b>4,233,045,972,978</b>
Treasury discount bills	22,853,230,711,380	18,176,277,522,044	-4,676,953,189,336
Japanese government bonds	50,212,961,926,173	59,122,961,088,487	8,909,999,162,314
2-year Japanese government bonds	2,195,539,857,238	5,933,576,958,981	3,738,037,101,743
5-year Japanese government bonds	9,277,374,144,329	10,568,070,162,399	1,290,696,018,070
10-year Japanese government bonds	23,242,692,492,346	25,305,862,896,744	2,063,170,404,398
20-year Japanese government bonds	13,739,592,861,045	14,406,541,546,503	666,948,685,458
Floating-rate Japanese government bonds	827,965,489,700	1,548,209,008,815	720,243,519,115
Others	929,797,081,515	1,360,700,515,045	430,903,433,530
<b>5. Commercial paper<sup>4</sup></b>	<b>0</b>	<b>274,284,916,549</b>	<b>274,284,916,549</b>
Dematerialized commercial paper	0	274,284,916,549	274,284,916,549
<b>6. Corporate bonds<sup>5</sup></b>	<b>172,201,477,854</b>	<b>203,520,447,472</b>	<b>31,318,969,618</b>
<b>7. Pecuniary trusts (stocks held as trust property)<sup>6</sup></b>	<b>1,425,577,815,810</b>	<b>1,495,361,637,857</b>	<b>69,783,822,047</b>
Stocks	1,410,257,008,710	1,477,598,204,957	67,341,196,247
Dividends receivable and others	15,320,807,100	17,763,432,900	2,442,625,800
<b>8. Pecuniary trusts (index-linked exchange-traded funds held as trust property)<sup>7</sup></b>	<b>0</b>	<b>185,124,542,019</b>	<b>185,124,542,019</b>
Index-linked exchange-traded funds	0	185,124,542,019	185,124,542,019
<b>9. Pecuniary trusts (Japan real estate investment trusts held as trust property)<sup>8</sup></b>	<b>0</b>	<b>17,842,044,774</b>	<b>17,842,044,774</b>
Japan real estate investment trusts	0	17,738,077,118	17,738,077,118
Distributions receivable	0	103,967,656	103,967,656
<b>10. Loans and bills discounted</b>	<b>35,783,900,000,000</b>	<b>56,136,010,000,000</b>	<b>20,352,110,000,000</b>
Loans on deeds	20,000,000,000	20,000,000,000	0
Of which: loans pursuant to "Principal Terms and Conditions for Provision of Subordinated Loans"	20,000,000,000	20,000,000,000	0
Electronic loans	35,763,900,000,000	56,116,010,000,000	20,352,110,000,000
Loans by complementary lending facility	4,800,000,000	20,000,000,000	15,200,000,000
Loans by funds-supplying operations against pooled collateral <sup>9</sup>	35,759,100,000,000	56,096,010,000,000	20,336,910,000,000
<b>11. Foreign currency assets</b>	<b>5,022,773,968,595</b>	<b>4,690,254,535,525</b>	<b>-332,519,433,070</b>
Foreign currency deposits <sup>10</sup>	89,157,169,726	160,070,724,844	70,913,555,118
Foreign currency securities <sup>11,12</sup>	4,754,601,245,295	4,363,039,530,620	-391,561,714,675
Foreign currency mutual funds	38,752,375,410	37,075,252,296	-1,677,123,114
Foreign currency pecuniary trusts	140,263,178,164	130,069,027,765	-10,194,150,399
<b>12. Deposits with agents<sup>13</sup></b>	<b>19,318,752,590</b>	<b>17,422,382,852</b>	<b>-1,896,369,738</b>

Notes: 1. Coins reserved for circulation.

2. Monetary obligations arising from the purchase of JGSs and CP under repurchase agreements.

3. The amount outstanding at the fiscal year-end includes that of JGSs purchased through the Program.

4. Purchased through the Program and comprises the following types in dematerialized or physical form: (1) CP issued by domestic corporations; (2) CP issued by foreign corporations with guarantees (dematerialized only); (3) asset-backed CP; and (4) CP issued by real estate investment corporations.

5. The amount outstanding at the beginning of the fiscal year is corporate bonds purchased to facilitate corporate financing following the global financial crisis of autumn 2008. The amount outstanding at the fiscal year-end is corporate bonds purchased through the Program that include those issued by real estate investment corporations.

6. Comprises stocks purchased from financial institutions through a trust bank, and dividends receivable and others.

7. Comprises beneficial interests in index-linked exchange-traded funds purchased through a trust bank through the Program and distributions receivable.

8. Comprises investment equities issued by real estate investment corporations purchased through a trust bank through the Program and distributions receivable.

9. The amount outstanding at the beginning of the fiscal year includes that of loans arising from the special funds-supplying operation to facilitate corporate financing. The amount outstanding at the fiscal year-end includes that of loans by the fund-provisioning measure to support strengthening the foundations for economic growth and of loans by funds-supplying operations against pooled collateral conducted through the Program. The amount outstanding for both balances includes that from the fixed-rate funds-supplying operation against pooled collateral.

10. Deposits held at foreign central banks and the Bank for International Settlements (BIS).

11. Includes securities issued by foreign governments.

12. 596,038,653,677 yen of the amount outstanding of the foreign currency securities at the fiscal year-end comprises loans due to lending/borrowing of securities.

13. Deposits held at agents that conduct operations relating to treasury funds and JGSs 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
<b>13. Other assets</b>	<b>357,862,697,787</b>	<b>365,313,650,180</b>	<b>7,450,952,393</b>
Bills and checks in process of collection <sup>14</sup>	246,803,844	117,578,105	-129,225,739
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 <sup>15</sup>	15,278,374,364	15,278,374,364	0
Provision of funds to the Deposit Insurance Corporation's "Jusen account" <sup>16</sup>	100,000,000,000	100,000,000,000	0
Provision of funds to the New Financial Stabilization Fund <sup>17</sup>	20,000,000,000	20,000,000,000	0
Withdrawn cash to be returned to the government <sup>18</sup>	62,157,776,198	59,722,449,486	-2,435,326,712
Refund on accrued tax	2,655,481,088	426,959,100	-2,228,521,988
Accrued interest receivable	139,476,150,437	145,811,600,135	6,335,449,698
Others	17,823,111,856	23,731,688,990	5,908,577,134

Notes: 14. Checks and bills received as cash and in process of collection.

15. A subscription to the BIS.

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

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

18. 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		
<b>14. Tangible fixed assets<sup>19</sup></b>	<b>221,470,620,182</b>	<b>15,536,442,154</b>	<b>24,595,650,393</b>	<b>17,917,888,920</b>	<b>212,411,411,943</b>	<b>312,801,154,130</b>
Buildings <sup>20,21</sup>	111,788,458,289 (653,681.11)	5,170,058,950 (0.00)	9,718,771,583 (9,589.21)	9,124,649,747 (...)	107,239,745,656 (644,091.90)	282,875,768,029 (...)
Land <sup>20</sup>	83,261,748,607 (698,091.51)	0 (0.00)	379,669,705 (22,445.48)	... (...)	82,882,078,902 (675,646.03)	... (...)
Lease assets <sup>22,23</sup>	8,909,276,361 (23,580)	1,653,951,070 (5,903)	3,639,338,461 (6,925)	3,548,238,524 (...)	6,923,888,970 (22,558)	5,720,716,502 (...)
Construction in progress <sup>24</sup>	517,411,230	6,178,170,044	5,428,519,603	...	1,267,061,671	...
Other tangible fixed assets <sup>25,26</sup>	16,993,725,695 (11,096)	2,534,262,090 (230)	5,429,351,041 (425)	5,245,000,649 (...)	14,098,636,744 (10,901)	24,204,669,599 (...)

Notes: 19. "..." indicates that figures are not applicable.

20. Figures in parentheses for "buildings" and "land" indicate area in square meters.

21. Main factors behind the increase in "buildings" were the repairs to buildings for the Bank's business operations.

22. Figures in parentheses for "lease assets" describe the number of items of lease property.

23. Acquisition of lease contracts on new electronic data processing systems were the main factor behind the increase in "lease assets."

24. The increase in "construction in progress" was mainly due to the renovation of and repairs to buildings for the Bank's business operations.

25. Figures in parentheses for "other tangible fixed assets" describe the number of items of movable property.

26. Purchase of new automatic banknote examination machines was the main factor behind the increase in "other tangible fixed assets."

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		
<b>15. Intangible fixed assets</b>	<b>173,681,156</b>	<b>2,298,934</b>	<b>16,858,371</b>	<b>16,858,371</b>	<b>159,121,719</b>	<b>781,292,516</b>
Utility rights	173,681,156	2,298,934	16,858,371	16,858,371	159,121,719	781,292,516

## Appendix: Details of assets purchased and loans provided through the Asset Purchase Program

yen

Item	Balance at the beginning of the fiscal year	Balance at the end of the fiscal year	Changes during the fiscal year
<b>Total Amount Outstanding</b>	<b>0</b>	<b>31,760,648,261,394</b>	<b>31,760,648,261,394</b>
Treasury discount bills	0	1,349,944,574,326	1,349,944,574,326
Japanese government bonds	0	900,731,736,254	900,731,736,254
2-year Japanese government bonds	0	775,267,202,960	775,267,202,960
5-year Japanese government bonds	0	45,319,750,074	45,319,750,074
10-year Japanese government bonds	0	80,144,783,220	80,144,783,220
Commercial paper	0	274,284,916,549	274,284,916,549
Dematerialized commercial paper	0	274,284,916,549	274,284,916,549
Corporate bonds	0	203,520,447,472	203,520,447,472
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	0	185,124,542,019	185,124,542,019
Pecuniary trusts (Japan real estate investment trusts held as trust property)	0	17,842,044,774	17,842,044,774
Loans by funds-supplying operations against pooled collateral	0	28,829,200,000,000	28,829,200,000,000

## 2. Details of liabilities and net assets

yen

Item	Balance at the beginning of the fiscal year	Balance at the end of the fiscal year	Changes during the fiscal year
<b>1. Banknotes</b>	<b>77,352,766,465,158</b>	<b>80,923,031,080,006</b>	<b>3,570,264,614,848</b>
10,000 yen notes	70,704,677,085,000	74,106,346,750,000	3,401,669,665,000
5,000 yen notes	2,682,622,575,000	2,762,411,017,500	79,788,442,500
2,000 yen notes	226,236,563,000	214,223,106,000	-12,013,457,000
1,000 yen notes	3,582,377,408,000	3,684,625,819,000	102,248,411,000
Other banknotes <sup>1</sup>	156,852,834,158	155,424,387,506	-1,428,446,652
<b>2. Deposits (excluding those of the government)</b>	<b>23,498,581,056,190</b>	<b>40,790,089,920,000</b>	<b>17,291,508,863,810</b>
Current deposits	23,455,332,683,433	40,755,630,259,393	17,300,297,575,960
Current deposits of financial institutions <sup>2</sup>	22,128,242,280,851	36,667,105,843,680	14,538,863,562,829
Other current deposits of nonfinancial institutions <sup>3</sup>	1,327,090,402,582	4,088,524,415,713	2,761,434,013,131
Other deposits <sup>4</sup>	43,248,372,757	34,459,660,607	-8,788,712,150
<b>3. Deposits of the government</b>	<b>3,018,603,167,693</b>	<b>2,355,376,115,233</b>	<b>-663,227,052,460</b>
Treasury deposit	149,999,678,360	150,001,081,406	1,403,046
Domestic designated deposit <sup>5</sup>	2,475,917,347,476	1,748,997,626,741	-726,919,720,735
Other government deposits <sup>6</sup>	392,686,141,857	456,377,407,086	63,691,265,229
<b>4. Payables under repurchase agreements<sup>7</sup></b>	<b>11,651,519,708,442</b>	<b>12,298,663,762,233</b>	<b>647,144,053,791</b>
Sales of Japanese government bonds under repurchase agreements to the government	9,679,316,315,156	10,199,920,220,270	520,603,905,114
Sales of treasury discount bills under repurchase agreements to foreign central banks and other foreign entities	1,972,203,393,286	2,098,743,541,963	126,540,148,677
<b>5. Other liabilities</b>	<b>44,358,852,514</b>	<b>28,946,842,127</b>	<b>-15,412,010,387</b>
Remittances payable	9,976,724,947	12,521,435,090	2,544,710,143
Unearned interest and discounts	39,452	164,382	124,930
Taxes payable	5,000,000	1,122,000,000	1,117,000,000
Lease liabilities	9,209,037,209	7,260,491,051	-1,948,546,158
Others	25,168,050,906	8,042,751,604	-17,125,299,302

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 (money market brokers) and securities finance companies.

3. Deposits held by institutions, for example, financial instruments firms.

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 JGSs 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
<b>6. Provisions<sup>8</sup></b>	<b>3,231,122,514,834</b>	<b>14,527,966,937</b>	<b>9,202,581,130</b>	<b>3,236,447,900,641</b>
Provision for retirement benefits	193,273,521,821	12,264,691,846	9,202,581,130	196,335,632,537
Provision for possible losses on bonds transactions	2,243,348,993,013	0	0	2,243,348,993,013
Provision for possible losses on foreign exchange transactions	794,500,000,000	0	0	794,500,000,000
Provision for unrealized losses on index-linked exchange-traded fund holdings	0	2,158,071,673	0	2,158,071,673
Provision for unrealized losses on Japan real estate investment trust holdings	0	105,203,418	0	105,203,418
<b>7. Net assets</b>	<b>2,660,106,853,786</b>	<b>18,355,742,482</b>	<b>0</b>	<b>2,678,462,596,268</b>
Capital	100,000,000	0	0	100,000,000
Legal reserve <sup>9</sup>	2,659,993,657,334	18,355,742,482	0	2,678,349,399,816
Special reserve <sup>10</sup>	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 Act.

10. To ease the reconstruction of financial institutions after World War II, 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 from the Minister of Finance. The unpaid dividends were set aside as a special reserve pursuant to the Supplementary Provisions of the Act for Partial Revision of the Bank of Japan Act (Act No. 46 of 1947).

### 3. Details of revenues and expenses

#### a. Operating income

<b>Interest on loans and discounts</b>	
Interest on loans	38,319,223,894 yen from electronic loans; 511,726,894 yen from loans on deeds; and 6,069,041 yen from loans to the Deposit Insurance Corporation.
<b>Interest on receivables under resale agreements</b>	1,034,354,232 yen from interest income on purchase of Japanese government securities under resale agreements and 92,384,723 yen from interest income on purchase of commercial paper under resale agreements.
<b>Interest and discounts on Japanese government securities</b>	622,483,837,033 yen from interest income on Japanese government securities after adjustment.
<b>Interest on commercial paper</b>	82,828,622 yen from interest income on commercial paper after adjustment.
<b>Interest and discounts on corporate bonds</b>	138,332,751 yen from interest income on corporate bonds after adjustment.
<b>Gains on sale of Japanese government securities</b>	840,000,000 yen from gains on sales of treasury discount bills.
<b>Gains on foreign currency assets</b>	
Gains on foreign currency securities	Total of 117,803,833,467 yen from interest and discounts on foreign currency securities and 445,657,238 yen from lending fees on them; and 53,432,262,942 yen of losses arising from sale, redemption, and revaluation at end-March 2011 of foreign currency securities.
Gains on foreign currency mutual funds	1,472,416,542 yen
Gains on foreign currency pecuniary trusts	6,206,745,335 yen
Interest on foreign currency deposits and loans	169,136,181 yen
<b>Other operating income</b>	
Gains on pecuniary trusts (stocks held as trust property)	11,698,080,550 yen mainly from dividends.
Gains on pecuniary trusts (index-linked exchange-traded funds held as trust property)	423,514 yen mainly from distributions.
Gains on pecuniary trusts (Japan real estate investment trusts held as trust property)	120,447,449 yen mainly from distributions.
Dividends	1,550,566,745 yen for dividends from shares of the Bank for International Settlements held by the Bank.
Fees and commissions	10,502,968,364 yen for fees and commissions for operations regarding Japanese government securities, the BOJ-NET, foreign exchange transactions, and other operations.
Other income	14,013,167,266 yen from transfer from provision for retirement benefits and other miscellaneous income.

**b. Operating expenses**

<b>Interest on payables under repurchase agreements</b>	19,273,928,687 yen for interest payment on sale of Japanese government securities under repurchase agreements.
<b>Losses on foreign currency assets</b>	
Foreign exchange losses	481,028,465,997 yen from losses on foreign currency assets resulting from fluctuations in foreign exchange rates during the fiscal year and arising from revaluation at the end of the fiscal year.
Losses on foreign currency pecuniary trusts	322,780,925 yen
<b>General and administrative expenses and costs</b>	
Cost of production of banknotes	50,160,002,000 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 Japanese government securities	18,216,000,079 yen from fees and commissions paid to agents of the Bank for administration of treasury business and Japanese government securities.
Personnel expenses	409,184,100 yen for remuneration of the officers; 39,570,946,482 yen for remuneration of the employees; and 9,278,843,230 yen for retirement allowances.
Expenses for transportation and communications	1,798,797,564 yen for expenses for transportation and 2,872,342,072 yen for expenses for communications.
Expenses for maintenance and repairs	1,785,773,416 yen on offices and other premises.
Other general and administrative expenses and costs	1,207,748,786 yen for the cost of expendable supplies; 1,914,417,422 yen for expenses for electricity and water supply; 10,469,598,611 yen for leasing fees for buildings and equipment; 9,182,901,844 yen for expenses for maintenance of buildings and equipment; and 25,319,606,898 yen for miscellaneous expenses.
Taxes, excluding corporate income tax, inhabitants taxes, and enterprise taxes	4,023,408,821 yen for taxes and public charges (including fixed-asset tax and urban development tax).
Depreciation and amortization	18,523,067,861 yen on buildings and lease assets.
<b>Other general and administrative expenses</b>	
Fees and commissions paid	172,704,113 yen
Other expenses	24,318,638,309 yen for interest on domestic designated deposit; interest on excess reserve balances under the Complementary Deposit Facility; transfers to provision for retirement benefits; and other expenses.

**c. Special profits**

<b>Gains on disposal of fixed assets</b>	4,483,316,137 yen for gains on sale of the Bank's welfare facilities and other properties.
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**d. Special losses**

<b>Losses on disposal of fixed assets</b>	621,356,151 yen for losses on disposals of banknote examination machines and other properties.
<b>Transfer to provision for unrealized losses on index-linked exchange-traded funds</b>	2,158,071,673 yen
<b>Transfer to provision for unrealized losses on Japan real estate investment trusts</b>	105,203,418 yen

**e. Net income**

<b>Net income before taxes</b>	55,809,464,577 yen
<b>Provision for corporate income tax, inhabitants taxes, and enterprise taxes</b>	3,669,161,492 yen
<b>Net income</b>	52,140,303,085 yen



## II. SETTLEMENT OF ACCOUNTS FOR EXPENSES FOR FISCAL 2010

The Bank's settlement of accounts for expenses for fiscal 2010 (the 126th fiscal year) decreased by 0.8 percent (1.5 billion yen) to 181.3 billion yen compared to the previous fiscal year. This was mainly due to the following. Although "other general and administrative expenses and costs" increased owing to the establishment of the new Bank of Japan Financial Network System (BOJ-NET), the "cost of fixed-asset purchases" decreased significantly due to the decrease in the number of automatic banknote examination machines that were updated, and the "cost of production of banknotes" decreased due to a cost reduction by the National Printing Bureau.

## A. Annual Report on Settlement of Accounts

## 1. Settlement of accounts for fiscal 2010

yen

Item	Initial budget	Use of contingency funds	Diversion of funds	Adjusted budget <sup>1</sup>	Settlement of accounts	Surpluses	Changes from the previous year's settlement of accounts
Cost of production of banknotes	50,945,064,000	0	0	50,945,064,000	50,160,002,000	785,062,000	-724,108,000
Administrative expenses for treasury business and Japanese government securities	19,525,768,000	0	0	19,525,768,000	18,216,000,079	1,309,767,921	-116,510,769
Personnel expenses	50,701,300,000	0	0	50,701,300,000	49,258,973,812	1,442,326,188	-835,659,478
Remuneration of the officers	427,252,000	0	0	427,252,000	409,184,100	18,067,900	18,654,900
Remuneration of the employees	40,385,783,000	0	0	40,385,783,000	39,570,946,482	814,836,518	-623,446,051
Retirement allowances	9,888,265,000	0	0	9,888,265,000	9,278,843,230	609,421,770	-230,868,327
Expenses for transportation and communications	5,373,769,000	0	0	5,373,769,000	4,671,139,636	702,629,364	-17,437,681
Expenses for transportation	2,189,708,000	0	0	2,189,708,000	1,798,797,564	390,910,436	-21,059,088
Expenses for communications	3,184,061,000	0	0	3,184,061,000	2,872,342,072	311,718,928	3,621,407
Expenses for maintenance and repairs	2,095,695,000	0	0	2,095,695,000	1,785,773,416	309,921,584	-148,884,239
Other general and administrative expenses and costs	52,631,051,000	0	0	52,631,051,000	48,094,273,561	4,536,777,439	3,665,863,213
Cost of expendable supplies	1,592,087,000	0	0	1,592,087,000	1,207,748,786	384,338,214	-34,489,212
Expenses for electricity and water supply	2,190,095,000	0	0	2,190,095,000	1,914,417,422	275,677,578	33,688,763
Leasing fees for buildings and equipment	11,642,087,000	0	0	11,642,087,000	10,469,598,611	1,172,488,389	1,536,750,295
Expenses for maintenance of buildings and equipment	9,937,843,000	0	0	9,937,843,000	9,182,901,844	754,941,156	25,939,778
Miscellaneous expenses	27,268,939,000	0	0	27,268,939,000	25,319,606,898	1,949,332,102	2,103,973,589
<b>Subtotal</b>	<b>181,272,647,000</b>	<b>0</b>	<b>0</b>	<b>181,272,647,000</b>	<b>172,186,162,504</b>	<b>9,086,484,496</b>	<b>1,823,263,046</b>
Cost of fixed-asset purchases	11,014,691,000	0	0	11,014,691,000	9,133,677,625	1,881,013,375	-3,316,574,786
Of which: Subject to the approval of the Minister of Finance <sup>2</sup>	3,578,910,000	0	0	3,578,910,000	3,117,605,012	461,304,988	-4,640,602,434
Contingency funds	1,000,000,000	0	0	1,000,000,000	0	1,000,000,000	0
<b>Total</b>	<b>193,287,338,000</b>	<b>0</b>	<b>0</b>	<b>193,287,338,000</b>	<b>181,319,840,129</b>	<b>11,967,497,871</b>	<b>-1,493,311,740</b>
Of which: Subject to the approval of the Minister of Finance <sup>2</sup>	185,851,557,000	0	0	185,851,557,000	175,303,767,516	10,547,789,484	-2,817,339,388

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. The annual report on the settlement of accounts for each fiscal year is compiled and submitted, together with the Auditors' opinion, to the Minister of Finance. The cost of purchasing fixed assets used for the Bank's business operations is not subject to the Minister's authorization, but it was also audited by the Auditors, who approved it as fairly presenting the expenses for such purchases.

## B. Expenses by Area of Business Operation

### 1. Expenses by area of business operation for fiscal 2010<sup>1</sup>

mil. yen

Area of business operation	Expenses	Changes from a year earlier	Share of total (percent)
Issuance of banknotes	83,227	−460	42.7
Monetary policy	22,031	+205	11.3
Financial system policy	19,092	−221	9.8
Payment and settlement systems	28,953	+3,974	14.9
Services relating to the government <sup>2</sup>	41,429	−1,001	21.3
<b>Total</b>	<b>194,733</b>	<b>+2,496</b>	<b>100.0</b>

Notes: 1. Calculated based on "general and administrative expenses and costs" (194.7 billion yen) in the statement of income for fiscal 2010 (the 126th fiscal year). Figures are rounded to the nearest million yen.

Expenses for the Bank's various business and organizational divisions (international finance, research and statistics, external relations activities, and organizational management), 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.







# Appendixes

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■ **Appendix 1: Overview of Audits of the Bank of Japan**

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■ **Appendix 2: The Bank of Japan's Strategic Priorities for Fiscal 2011–2013**



**APPENDIX 1: OVERVIEW OF AUDITS OF THE BANK OF JAPAN**

Pursuant to the provisions of the Bank of Japan Act and in accordance with the Bank's internal rules, the following audits were conducted by the Auditors of the Bank in fiscal 2010 and at the beginning of fiscal 2011.

**I. Audits of the Bank's Financial Statements and Other Documents<sup>1</sup>****A. Financial statements and other documents for fiscal 2009**

From April through to early May 2010, the Auditors audited the Bank's financial statements and other documents, specifically, the inventory of property, the balance sheet, the statement of income, the annual report on the settlement of accounts, the appropriation of net income, and the schedule for the financial statements for fiscal 2009 (the 125th fiscal year) as well as the statement of income for the second half of fiscal 2009.

The Auditors submitted to the Governor their written opinions indicating that the financial statements and other documents presented fairly the state of property, the results of operations, and the expenses for fiscal 2009 as well as the results of operations for the second half of fiscal 2009.

**B. Financial statements and other documents for the first half of fiscal 2010**

From October through to early November 2010, the Auditors audited the Bank's financial statements and other documents, specifically, the inventory of property, the balance sheet, the statement of income, and the

schedule for the financial statements for the first half of fiscal 2010 (the 126th fiscal year).

The Auditors submitted to the Governor their written opinions indicating that the financial statements and other documents presented fairly the state of property and the results of operations for the first half of fiscal 2010.

**C. Financial statements and other documents for fiscal 2010**

From April through to early May 2011, the Auditors audited the Bank's financial statements and other documents, specifically, the inventory of property, the balance sheet, the statement of income, the annual report on the settlement of accounts, the appropriation of net income, and the schedule for the financial statements for fiscal 2010 as well as the statement of income for the second half of fiscal 2010.

The Auditors submitted to the Governor their written opinions indicating that the financial statements and other documents presented fairly the state of property, the results of operations, and the expenses for fiscal 2010 as well as the results of operations for the second half of fiscal 2010.

**II. Field Audits of Banknotes, Securities, and Books**

In fiscal 2010, the Auditors conducted a total of 54 field audits of banknotes and securities in the custody of as well as books kept by 7 departments of the Bank's Head Office and 29 branches.

1. The first half of the fiscal year runs from April 1 through September 30, and the second half from October 1 through March 31.

### III. Audits of the Bank's Business Operations

In fiscal 2010, the Auditors conducted field audits of the Bank's business operations at 29 branches, 12 local offices in Japan, and 2 overseas representative offices, in addition to field audits of operations relating to expenses and contracts at 2 Head Office departments. They also conducted a total of 185 meetings, at which

they reviewed the execution of the Bank's business operations, receiving explanatory overviews from each of the Head Office departments as well as reports from relevant departments concerning other high-priority issues. In addition, they conducted 376 examinations of key documents and 1 special on-site visit to the Bank's premises.

**APPENDIX 2: THE BANK OF JAPAN'S STRATEGIC PRIORITIES FOR FISCAL 2011–2013<sup>1</sup>****I. Introduction**

"The Bank of Japan's Strategic Priorities for Fiscal 2011–2013" describes the basic principles for its business operations and organizational management during the three-year period.

The Strategic Priorities have a rolling three-year horizon. At the end of every fiscal year, the Bank conducts a performance review and then updates the Strategic Priorities accordingly, resetting the horizon to cover the next three years. Under the framework, the Bank keeps a medium-term perspective and responds flexibly to any changes in circumstances, so as to ensure that its business operations and organizational management are conducted in a timely manner.

**II. Background**

Structural changes have been taking place in Japan's economic and financial environment, including globalization, the growing significance of emerging economies—especially those in Asia—to the world economy, the diversification of financial transaction needs, and the innovations in financial engineering and information processing technology accompanying these changes. While these structural changes may well contribute to global economic growth, the accompanying economic and financial developments have been marked by complexity and volatility. This may cause imbalances to accumulate in the economy, triggering large-scale economic adjustments. The current global economic adjustment apparent particularly in the advanced economies is a case in point.

Japan's economic conditions are likely to continue

recovering moderately over the longer term, and the year-on-year pace of decline in consumer prices is expected to slow gradually. However, the outlook continues to be attended by a significant level of uncertainty caused by factors such as the effects of the recent earthquake off the Pacific Coast of the Tohoku region (hereafter the Tohoku-Pacific Ocean Earthquake),<sup>2</sup> which could impact Japan's society and economy in numerous ways. In this situation, in order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, it is necessary that the Bank maintain accommodative financial conditions and ensure financial market stability, as well as provide support to strengthen the foundations for economic growth. Regional differences in economic structure as well as consequent disparities in profitability and financial strength among regional financial institutions are likely to remain.

Meanwhile, following the global financial crisis of autumn 2008, there have been increasingly lively international discussions with regard to maintaining the stability of the financial system. There has been progress toward establishing new rules for financial regulation and supervision that are consistent on an international basis, and also in the relevant efforts being made by individual countries and regions. At the same time, the significance of emerging economies is growing in discussions of international policy across a wide range of issues.

The Bank needs to respond flexibly to these changes in its environment; at the same time, in order to provide a stable foundation for financial and economic activity, it

1. This document was released on March 18, 2011.

2. There were various names given to the earthquake in its immediate aftermath; but it was officially termed "The Great East Japan Earthquake" by the government on April 1, 2011.

also needs to continue conducting its central banking operations properly.

The Bank must maintain the stability and efficiency of its central banking operations, while ensuring that working arrangements offer sufficient diversity for employees to improve their work-life balance<sup>3</sup> in response to changes in Japan's social structure. As a public organization, the Bank is also required by the public to constantly maintain the fairness and efficiency with which it runs its business.

### III. Management Principles

Based on the above understanding, in order that the Bank's full resources may be deployed smoothly and in an integrated fashion to fulfill its mission, the following three management principles have been set out under the Strategic Priorities: stability and efficiency in all business operations; learning in action; and enhancement of communication channels.

#### A. Stability and Efficiency in All Business Operations

The Bank's mission—to ensure price stability and financial system stability—is achieved primarily through its banking operations. It is therefore important for the Bank to ensure the stable conduct of all its banking operations, thereby raising public confidence. This is vital not only for banking operations but also for other activities, such as the compilation of statistics, research and analysis activities, and organizational management. At the same time, the Bank must continue to step up its efforts to conduct these operations efficiently.

#### B. Learning in Action

The Bank should continue to enhance its research activities on a wide range of economic and financial issues, since conducting high-quality research is a

significant precondition for successfully achieving its mission. In its conduct of central banking operations, the Bank must take into account the surrounding circumstances, innovations in financial and information technology, and changes in public needs. Continued research and planning is needed to achieve further improvements in central banking services and thereby respond effectively to any changes in circumstances. It is also important for the Bank to conduct performance reviews and make revisions as appropriate. It is vital for the Bank to continue to foster an organizational culture, shared with other central banks, that encourages continuous "learning" in this broad sense.

#### C. Enhancement of Communication Channels

In order to maintain its independence and to conduct its policies and business operations appropriately, the Bank must be accountable for its activities and willing to disseminate related information widely. Moreover, ensuring that reviews of the Bank's policies and services are based on a firm grasp of any changes in circumstances or public needs requires the Bank to listen to outside opinions and properly understand the thinking behind them. Furthermore, to acquire and train the employees needed for its business operations and organizational management, the Bank needs to promote personnel exchanges with outside institutions. From this perspective, the Bank will look for further ways to consolidate external relationships and enhance communication channels.

### IV. Issues and Action Plans

In accordance with the three management principles described in Section III above, the Bank has continued to address a wide range of issues and has moved

3. This refers to the achievement of a balance between work and personal life: employees should feel motivated and fulfilled by their duties and responsibilities at work; at the same time, depending on their stage of life, as parents or otherwise, they should have a wide range of choices and opportunities for personal fulfillment at home and in their communities.

forward with a number of action plans. In fiscal 2010, the Bank generally achieved the anticipated level of progress in addressing and implementing the issues and action plans outlined for fiscal 2010–2012.<sup>4</sup>

In the wake of the recent Tohoku-Pacific Ocean Earthquake, the Bank has faced new challenges in a wide range of business areas including the financial system, payment and settlement systems, services relating to treasury funds and Japanese government securities (JGSs), and communication with the public. The Bank will respond appropriately to these challenges by fully executing its functions as a central bank. Given the above assessment, as well as the recent developments in Japan's economic and financial environment described in Section II, the Bank will address new issues, including the above challenges, and implement appropriate new action plans during fiscal 2011–2013. The following is an overview of these.

#### **A. Matters Relating to the Conduct of Monetary Policy**

The Bank has clearly stated that, in order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, the Bank will continue to consistently make contributions as the central bank through the three-pronged approach of pursuing powerful monetary easing via comprehensive monetary easing, ensuring financial market stability, and providing support to strengthen the foundations for economic growth. The Bank will enhance the quality of its research and analysis regarding developments in economic activity, prices, and the financial environment at home and abroad, so as to make appropriate policy decisions. The Bank will carefully examine the effects of the recent Tohoku-Pacific Ocean Earthquake with regard

to both the economic and financial sides of Japan's economy. In addition, the Bank will devise better methods of monitoring the financial environment and further strengthen analysis related to the relationship between financial and economic activity, and to policy interaction by individual countries amid the ongoing globalization in the economy and financial markets. To this end, the Bank recognizes the importance of assessing risks in the financial system as a whole—i.e., taking a macroprudential perspective—in light of Japan's past experiences as well as the global financial crisis of autumn 2008 and subsequent policy responses by authorities worldwide.

The Bank will study the frameworks for money market operations so as to ensure that appropriate policy decisions are made.

At the same time, the Bank will communicate its research findings regarding the conduct of monetary policy to the public effectively.

#### **B. Matters Relating to the Financial System**

In light of the global financial crisis of autumn 2008, there have been increasingly lively international discussions on macroprudence and other issues relevant to maintaining the stability of the financial system. There has been progress toward establishing new international rules regarding financial regulation and supervision, and also in the relevant efforts being made by individual countries and regions around the world. Furthermore, the scope of international discussions has widened to include issues such as the international monetary system and the resolution frameworks for financial institutions. Given these developments, the Bank will conduct research and planning related to the financial system, giving due

4. For the Bank's evaluation of the progress made during fiscal 2010 toward achieving its Strategic Priorities for fiscal 2010–2012, see "Implementation of the Bank's Strategic Priorities: Progress Made during Fiscal 2010" on pages 31–51.



consideration to institutional factors unique to each country as well as Japan's past experiences. The Bank will make use of the findings to actively contribute to policy formulation both at home and abroad. At the same time, the Bank will further refine its methods for macroprudential analysis and assessment of the financial system in Japan and effectively communicate its findings to the public.

The business environment surrounding financial institutions is undergoing significant changes, and there remain disparities among institutions in terms of their profitability and financial strength. Under these circumstances, the Bank will ensure that it accurately grasps the business conditions at financial institutions by continuing to conduct its on-site examinations and off-site monitoring efficiently and effectively, while strengthening the feedback between them. The Bank will also encourage financial institutions to step up efforts to improve their management of risks through activities organized by the Bank's Center for Advanced Financial Technology (CAFT).

The Bank will make use of the findings of its macroprudential analysis as well as on-site examinations and off-site monitoring in developing financial system policies and implementing monetary policy.

### **C. Matters Relating to Payment and Settlement Systems and Market Infrastructure**

The Bank will conduct research and planning to promote improvement in the safety and efficiency of Japan's payment and settlement systems, and implement measures as necessary to respond to the following: (1) structural changes, such as the diversification of financial instruments and transactions, globalization of financial markets, and advances in information processing technology, as well as the resultant calls from market participants for payment and settlement systems

that accommodate these changes; and (2) discussions, taking place both at home and abroad in the wake of the global financial crisis of autumn 2008, on reviewing payment and settlement practices and reforming the framework of financial regulation and supervision.

As part of these measures, the Bank, together with relevant parties, will proceed steadily with the establishment of a new Bank of Japan Financial Network System (BOJ-NET).

At the same time, the Bank, taking due account of the comprehensive review of international standards for payment and settlement systems, will firmly monitor the safety and efficiency of these systems both at home and abroad and encourage relevant parties to make improvements, in accordance with the new set of basic oversight policies.

With a view to further enhancing the stability and efficiency of financial markets and in consideration of international developments, the Bank will carry out research and planning related to improving financial market structures and adjusting market infrastructure. It will work toward securing improvements in these areas, in discussion and cooperation with relevant parties at home and abroad.

In response to the Tohoku-Pacific Ocean Earthquake, the Bank will take all possible measures to ensure business continuity arrangements for maintaining financial intermediary function and securing smooth fund settlements. It will also step up efforts to ensure the effective and efficient implementation of the business continuity arrangements put in place to respond to emergency situations such as natural disasters and pandemics, cooperating with relevant parties, including ministries and government agencies as well as financial institutions.

In addition to the above efforts, on the international

financial front, the Bank will contribute to the stability of the international currency system by, for example, promoting efforts to ensure the stability of the currency system in Asia and strengthening cooperation with overseas authorities, especially central banks, through personnel exchange and technical assistance.

#### **D. Matters Relating to the Regional Economic and Financial Environment**

In response to the Tohoku-Pacific Ocean Earthquake, the Bank will make an attentive assessment of economic and financial developments in various regions, particularly in the disaster-stricken areas, and stand ready to respond and act as necessary.

In the course of implementing policy measures such as the fund-provisioning measure to support strengthening the foundations for economic growth, the Bank will maintain a sound grasp of economic and financial conditions in each region through close and frequent communication with local financial and business communities. The Bank will make use of its findings in its conduct of monetary policy and other actions.

The Bank will strengthen its grasp of business conditions at regional financial institutions—including their performance as financial intermediaries—through its on-site examinations and off-site monitoring, and will carry out more in-depth discussions with regional financial institutions on issues relating to business conditions. The Bank will also support regional financial institutions' efforts to improve their management of risks through, for example, local seminars organized by the CAFT. By means of these activities, the Bank will contribute to efforts to improve the functioning of the financial system in regional economies.

#### **E. Matters Relating to Banknotes, Treasury Funds, and JGS Services**

The Bank will continue to work toward securing

confidence in banknotes and coins, and will conduct further research on anti-counterfeiting technologies as part of this effort.

With regard to banknote examination and services relating to treasury funds and JGSs, the Bank will examine the likely changes in the workload at its Head Office and branches in view of recent changes in the delivery routes of banknotes between financial institutions and the Bank, as well as the progress being made in the online processing of treasury funds. The Bank will then proceed with its reappraisal of the division of roles between its Head Office and branches, as well as among branches, in addition to its operational frameworks for banknote examination and services related to treasury funds and JGSs. Through these efforts, the Bank will seek to make its operational frameworks in these areas even more stable and efficient.

#### **F. Matters Relating to Communication with the Public**

In the course of implementing measures in a number of areas, the Bank will work to improve the effectiveness of its communication with the public, so as to gain broad public understanding of its policies and overall business operations. As part of this effort, the Bank will continue to enhance its dissemination of English-language materials and the reports and research papers it releases.

### **V. Organizational Management**

With a view to addressing the issues and moving forward with the action plans stated in Section IV above, the Bank will implement the following measures with respect to organizational management.

#### **A. Stable and Efficient Business Operations**

The Bank will continue to ensure that all operations are backed by accurate practical knowledge and executed with precision and deliberation. In particular, it will ensure

that the necessary operational procedures are put in place in a swift and appropriate manner to implement policy measures effectively. The Bank will assess its business processes in order to identify where operational risks—including those associated with information security—exist, and how such risks are controlled. It will then revise its business processes as necessary and work toward further strengthening its risk management.

Moreover, the Bank will raise the efficiency with which it uses management resources by implementing operational restructuring and improving its business processes in light of changes in the business environment, as well as by further promoting computerization and the use of outsourcing. The Bank plans to achieve wide-ranging efficiency gains across areas that include the establishment of a new BOJ-NET, the provision of services relating to banknotes, treasury funds, and JGSs, as well as the compilation of statistics. The Bank will also work to improve the efficiency of its system development through streamlining development processes, employing new technology, and promoting outsourcing.

At the same time, the Bank will continue to ensure the fairness of its business operations and organizational management by means of thorough compliance with all requisite laws and regulations.

## **B. Human Resources**

From fiscal 2011 to 2013, the Bank will apply itself to further increasing the overall efficiency of its business operations, while securing the staff needed to enhance its capabilities in both policy formulation and the system development necessary for successful policy implementation. In addition, the Bank will continue to promote working arrangements that take into account employees' work-life balance, while holding down total personnel expenses.

With these precepts guiding its human resource

management, the Bank has set the ceiling on the number of full-time employees for fiscal 2011 at 4,900, a decrease of 80 employees from fiscal 2010.

The Bank will continue to acquire and train employees, while further raising employee motivation. To this end, job rotation and human resource development programs will be improved. The Bank will also be more active in sending/receiving employees to/from outside institutions, with a view to enhancing communication channels and strengthening its capacity to respond smoothly to changes in circumstances at home and abroad.

## **C. Budget for Expenses**

The Bank will keep any increase in expenses to a minimum by thoroughly examining each item of expenditure and achieving a more streamlined overall budget; at the same time, it will appropriate a portion of the budget to deal with the issues and implement the action plans outlined in the Strategic Priorities.

In keeping with these principles, the Bank has set its budget for expenses for fiscal 2011 (the 127th fiscal year) as shown in the Attachment.

## **D. Performance Reviews**

The Bank will evaluate the progress made in the improvement of business operations and organizational management described in the Strategic Priorities at the end of every fiscal year. It will release the results of this evaluation in the *Gyōmu Gaikō Shō* (Outline of Business Operations), which is translated into English as the *Annual Review*.

In addition to these regular and comprehensive reviews, the Bank will conduct performance reviews of major projects some time after their completion. The Bank will examine, for example, whether the projects have achieved the desired results and whether unanticipated risks have arisen. The results of such reviews will be made available to the public.

**BUDGET FOR EXPENSES FOR FISCAL 2011**

The Bank of Japan's budget for expenses for fiscal 2011 (the 127th fiscal year) is as follows (Table 1).<sup>1</sup> While appropriating a significant portion of the budget to deal with the issues and implement the action plans outlined in the Strategic Priorities, the Bank has also thoroughly examined each item of expenditure to achieve a more streamlined overall budget. As a result, the Bank has set its budget for expenses for fiscal 2011 at a total of 193.2 billion yen, which is less than the amount for the previous fiscal year.

Specifically, the overall decrease in the budget from the previous fiscal year was due to reductions in the following range of items: 2.0 percent in the cost of production of banknotes; 1.0 percent in administrative expenses for treasury business and Japanese government securities; 0.0 percent in personnel expenses; 4.0 percent in expenses for transportation and communications; 2.5 percent in expenses for maintenance and repairs; and 8.6 percent in the cost of fixed-asset purchases. "Other general and administrative expenses and costs" increased by 4.4 percent mainly in accordance with efforts to establish a new BOJ-NET.

1. The Bank prepares a budget for expenses every fiscal year. Its budget for core operations, excluding the cost of purchasing fixed assets used for the Bank's business operations, is subject to the approval of the Minister of Finance under Article 51, paragraph 1 of the Bank of Japan Act before the beginning of each fiscal year. For fiscal 2011, the Bank sought approval on March 18, 2011 and will implement the budget upon authorization from the Minister of Finance. All figures, including those in Table 1, are rounded off to the nearest whole number.

Table 1

**Budget for Expenses for Fiscal 2011 (The 127th Fiscal Year)**

Item	Initial budget (thous. yen)	Change from the previous year (percent)
<b>Cost of production of banknotes</b>	<b>49,951,295</b>	<b>-2.0</b>
<b>Administrative expenses for treasury business and Japanese government securities</b>	<b>19,336,182</b>	<b>-1.0</b>
<b>Personnel expenses</b>	<b>50,691,916</b>	<b>-0.0</b>
Remuneration of the officers	420,555	-1.6
Remuneration of the employees	40,580,024	0.5
Retirement allowances	9,691,337	-2.0
<b>Expenses for transportation and communications</b>	<b>5,158,733</b>	<b>-4.0</b>
Expenses for transportation	2,135,163	-2.5
Expenses for communications	3,023,570	-5.0
<b>Expenses for maintenance and repairs</b>	<b>2,043,867</b>	<b>-2.5</b>
<b>Other general and administrative expenses and costs</b>	<b>54,949,984</b>	<b>4.4</b>
Cost of expendable supplies	1,412,604	-11.3
Expenses for electricity and water supply	2,077,535	-5.1
Leasing fees for buildings and equipment	10,739,615	-7.8
Expenses for maintenance of buildings and equipment	9,828,059	-1.1
Miscellaneous expenses	30,892,171	13.3
<b>Subtotal</b>	<b>182,131,977</b>	<b>0.5</b>
<b>Cost of fixed-asset purchases</b>	<b>10,064,812</b>	<b>-8.6</b>
Of which: Subject to the approval of the Minister of Finance <sup>1</sup>	2,995,277	-16.3
<b>Contingency funds</b>	<b>1,000,000</b>	<b>0.0</b>
<b>Total<sup>2</sup></b>	<b>193,196,789</b>	<b>-0.0</b>
Of which: Subject to the approval of the Minister of Finance <sup>1</sup>	186,127,254	0.1

Notes: 1. Excludes the cost of purchasing fixed assets used for the Bank's business operations.

2. Of the budget for expenses, those related to computerization amounted to 34,354,992 thousand yen, a 9.7 percent increase from the previous year, and are included in expenses for communications, leasing fees for buildings and equipment, expenses for maintenance of buildings and equipment, and miscellaneous expenses.

Budget estimates of computerization expenses assume required outsourcing man-hours of approximately 10,232 person-months (one person-month describes the workload equivalent to one person working for one month in system development), and total man-hours of approximately 13,123 person-months if the workload of the Bank's employees is included.

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