



# ANNUAL REVIEW 2014

BANK OF JAPAN





BANK OF JAPAN

# ANNUAL REVIEW 2014

Year Ended March 31, 2014

OUR POLICY AND OPERATIONS





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## FOREWORD BY THE GOVERNOR



The Bank of Japan has two missions, to achieve price stability and ensure the stability of the financial system. On the price stability side, the Bank has been steadily pursuing quantitative and qualitative monetary easing to achieve the “price stability target” of 2 percent in terms of the year-on-year rate of change in the consumer price index. The Bank works to fulfill the two missions by conducting, besides monetary policy, business operations in a wide range of areas such as financial system and bank examination, payment and settlement systems, market infrastructure, international finance, banknotes, treasury funds and Japanese government securities (JGS) services, and public communications. The Bank pursues its various policies through the precise and deliberate execution of these central banking operations.

The *Annual Review* provides excerpts from the Japanese original *Gyoumu Gaikyo Sho* (Outline of Business Operations), which is prepared pursuant to Article 55 of the Bank of Japan Act. The *Gyoumu Gaikyo Sho* for fiscal 2013 and the *Annual Review 2014* have been drawn up and released to explain to readers the implementation of the Bank’s business operations during fiscal 2013. Throughout the year, the Bank continued to address various issues and move forward with a number of action plans, while ensuring the timely conduct of its business operations and organizational management in view of changes in circumstances. At the end of fiscal 2013, the Bank released “The Bank of Japan’s Strategic Priorities for Fiscal 2014–2018,” describing the basic principles for its business operations and organizational management during this five-year period. The Bank will proceed with its efforts as the country’s central bank to achieve the sustainable growth and development of Japan’s economy. I hope this year’s *Annual Review* will help readers to gain an overview of the Bank’s efforts.

A handwritten signature in black ink that reads "Haruhiko Kuroda". The signature is written in a cursive, flowing style.

**Haruhiko Kuroda**

*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).

**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.

**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 2014, 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.<sup>2</sup> Dividend payments as a proportion of paid-up capital are limited to 5 percent or below in each fiscal year.<sup>3</sup>

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	39,586	39.6
Financial institutions	2,209	2.2
Public organizations	171	0.2
Securities companies	76	0.1
Other firms	2,946	2.9
Total	100,000	100.0

Note: 1. Rounded down to the nearest 1,000 yen. As of the end of March 2014.

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 60, paragraph 2, and Supplementary Provisions Article 22, paragraph 2.

3. Stipulated by Article 53, paragraph 4.

### 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>4</sup> Of the above, the Governor, Deputy Governors, and Members of the Policy Board make up the Policy Board.<sup>5</sup>

The Governor, 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 Policy Board's recommendation.<sup>6</sup>

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>7</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>8</sup>

For duties and powers of the Bank's officers, see Table 3.<sup>9</sup>

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 Policy Board. At the same time, fulfills the duties of an independent Policy 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 Policy Board members.
Members of the Policy Board	Comprise the Policy Board, together with the Governor and 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 Act), or the Policy Board.
Executive Directors	In accordance with the decisions made by the Governor, administer the business of the Bank assisting the Governor and Deputy Governors, act for the Governor when the Governor and 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 Deputy Governors.
Counsellors	Give advice to the Policy Board when consulted on any important matter concerning the Bank's business operations. May also express their opinions to the Policy Board when they find it necessary.

4. 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.

5. Stipulated by Article 16, paragraph 2.

6. Stipulated by Article 23.

7. Stipulated by Article 24.

8. Stipulated by Article 25.

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



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



Standing from left to right: Takehiro Sato, Sayuri Shirai, Ryuzo Miyao, Yoshihisa Morimoto, Koji Ishida, and Takahide Kiuchi  
Seated from left to right: Kikuo Iwata, Haruhiko Kuroda, and Hiroshi Nakaso

## Haruhiko Kuroda

*Governor (the 31st) and Chairman of the Policy Board*

### Date of Birth

October 25, 1944

### Education

The University of Tokyo  
(1967, B.A. in Law)  
University of Oxford  
(1971, M.Phil. in Economics)

1967 Joined Japan's Ministry of Finance (MOF)  
1987 Director, International Organizations Division, International Finance Bureau  
1988 Secretary to the Minister of Finance  
1989 Director, International Tax Affairs Division, Tax Bureau  
1990 Director, Income Tax and Property Tax Policy Division, Tax Bureau  
1991 Director, Co-ordination Division, Tax Bureau  
1993 Regional Commissioner, Osaka Regional Taxation Bureau, National Tax Agency  
1994 Deputy Director-General, International Finance Bureau, MOF  
1996 President, Institute of Fiscal and Monetary Policy  
1997 Director-General, International Finance Bureau  
1998 Director-General, International Bureau  
1999 Vice Minister of Finance for International Affairs  
2003 Special Advisor to the Cabinet and Professor, Graduate School of Economics, Hitotsubashi University  
2005 President, Asian Development Bank  
2013 Present position

Note: 1. Members are as of August 15, 2014.

## Kikuo Iwata

*Deputy Governor*

**Date of Birth**  
October 3, 1942

**Education**  
The University of Tokyo  
(1966, B.A. in Economics; 1969, M.A. in Economics; and 1973, completed a Ph.D. Program in Economics)

1973 Lecturer, Sophia University

1976 Associate Professor, Sophia University

1983 Professor, Sophia University

1998 Professor, Gakushuin University

2013 Present position

## Ryuzo Miyao

**Date of Birth**  
July 3, 1964

**Education**  
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**  
January 2, 1963

**Education**  
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

## Takehiro Sato

**Date of Birth**  
August 2, 1961

**Education**  
Kyoto University  
(1985, B.A. in Economics)

1985 Joined The Sumitomo Bank, Ltd.

1999 Joined Morgan Stanley Japan, Ltd.

2006 Executive Director, Chief Economist for Japan, Morgan Stanley Japan Securities Co., Ltd. (MSJS)<sup>5</sup>

2010 Managing Director, Chief Economist for Japan, Head of Japan Interest Rate Strategy, MSJS

2012 Managing Director, Chief Economist for Japan, Head of Japan Fixed Income Research, Morgan Stanley MUFJ Securities Co., Ltd.<sup>6</sup>

Present position

## Hiroshi Nakaso

*Deputy Governor*

**Date of Birth**  
October 12, 1953

**Education**  
The University of Tokyo  
(1978, B.A. in Economics)

1978 Joined the Bank of Japan

1997 Director, Head of Financial System Division, Financial and Payment System Department

2000 Deputy Director-General, Financial and Payment System Department  
Transferred to the Bank for International Settlements

2001 Deputy Director-General, Financial Markets Department and International Department, Bank of Japan

2003 Director-General, Financial Markets Department

2008 Executive Director

2010 Assistant Governor

2013 Present position

## Yoshihisa Morimoto

**Date of Birth**  
June 25, 1944

**Education**  
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**  
June 22, 1947

**Education**  
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

## Takahide Kiuchi

**Date of Birth**  
November 29, 1963

**Education**  
Waseda University  
(1987, B.A. in Economics)

1987 Joined Nomura Research Institute, Ltd. (NRI)

2002 Head of Japanese Economic Research Unit and Senior Economist, NRI

2004 Joined Nomura Securities Co., Ltd. (NSC)  
Deputy Head of Economic Research Department and Head of Japanese Economic Research Section, Financial and Economic Research Center, NSC

2007 Managing Director, Head of Economic Research Department and Chief Economist, Financial and Economic Research Center, NSC

2012 Present position

Notes: 2. Established in 2001 through merger of The Sumitomo Bank, Ltd. and The Sakura Bank, Ltd.

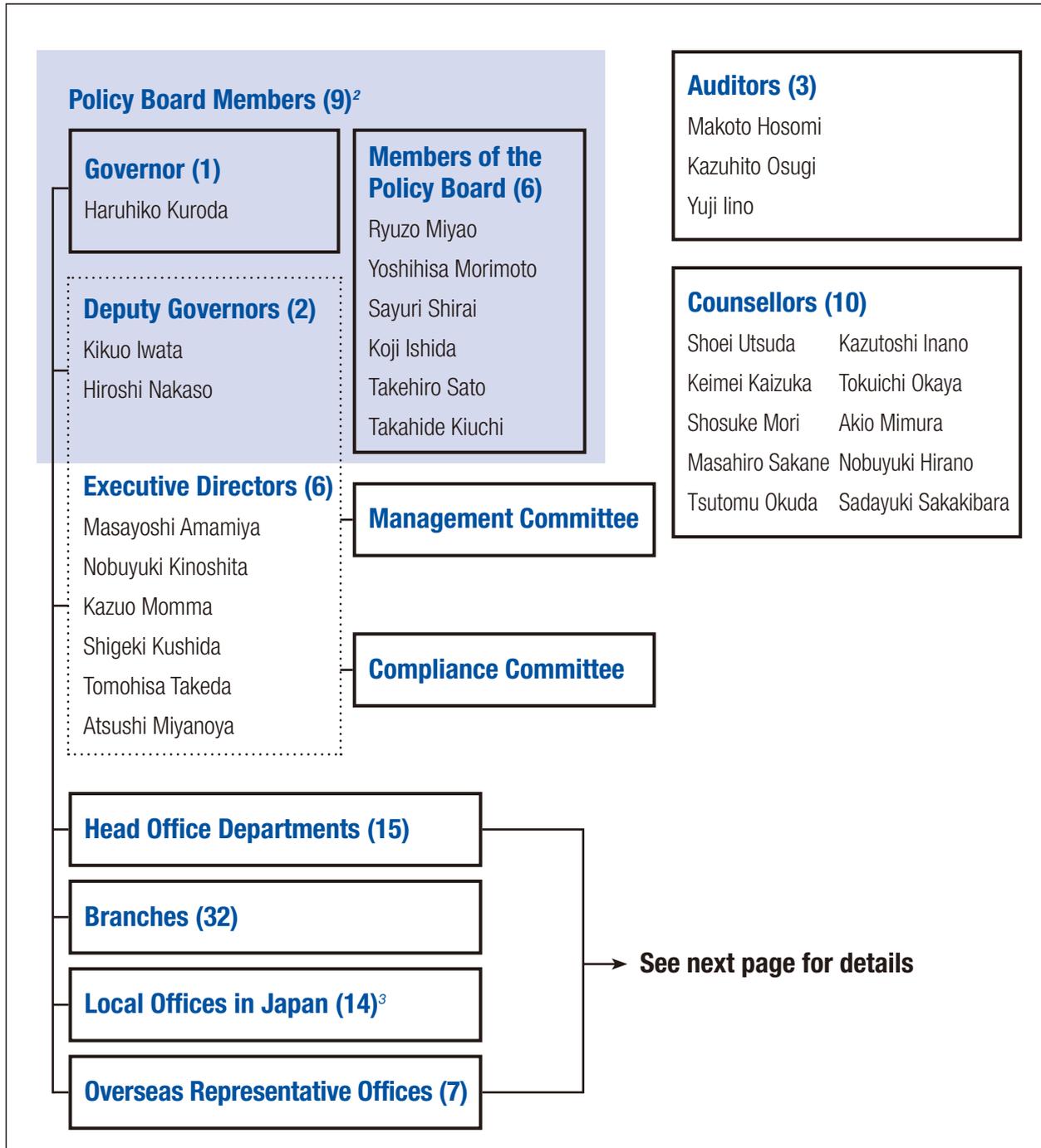
3. Established in 2002 as a holding company, and SMBC then became a wholly-owned subsidiary of SMFG.

4. Established in 2007 through merger of SMBC Leasing Company, Ltd. and Sumisho Lease Co., Ltd.

5. Established in 2006 through the transfer of business from Morgan Stanley Japan, Ltd.

6. Established in 2010 as Morgan Stanley's securities joint venture in Japan with Mitsubishi UFJ Financial Group, Inc. (MUFJ).

## IV. ORGANIZATION

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

Notes: 1. As of August 15, 2014.

2. As stipulated by Article 16, paragraph 2 of the Act, the Policy Board shall consist of the Governor, two Deputy Governors, and six Members of the Policy Board.

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	Nobuyasu Yoshioka (Director-General) Seiichi Shimizu (Director-General, Senior Secretary to the Governor) Yoji Onozawa (Director-General for Management Strategy, Budget, and Accounting)
Internal Auditors' Office	Tatsushi Kurihara (Director-General)
Monetary Affairs Department	Shinichi Uchida (Director-General)
Financial System and Bank Examination Department	Kimihiro Etoh (Director-General)
Payment and Settlement Systems Department	Ryuichi Shogan (Director-General)
Financial Markets Department	Hiromi Yamaoka (Director-General)
Research and Statistics Department	Eiji Maeda (Director-General)
International Department	Shigeto Nagai (Director-General)
Currency Issue Department	Ryota Yanagihara (Director-General)
Operations Department	Takeshi Nakamura (Director-General)
Information System Services Department	Yasuhiro Yamada (Director-General)
Public Relations Department	Yoshiki Tanji (Director-General)
Personnel and Corporate Affairs Department	Yasuhiro Hayasaki (Director-General)
Administration Department	Seikou Hattori (Director-General)
Institute for Monetary and Economic Studies	Kenichirou Watanabe (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	Tetsuya Sakamoto (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	Takeshi Mori (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	Ken Matsushita (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	Hiroshi Ota (Chief Representative in Paris)
Frankfurt	Bank of Japan Representative Office in Frankfurt Taunusanlage 21, 60325 Frankfurt am Main, Germany	+49-69-9714310	Takeshi Shirakami (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	Naoto Shimoda (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	Tomoyuki Fukumoto (Chief Representative in Beijing)

# Functions of Committees/Departments/Offices

## COMMITTEES AND HEAD OFFICE DEPARTMENTS

### 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 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 payment and settlement systems; (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.

## **BRANCHES AND 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**

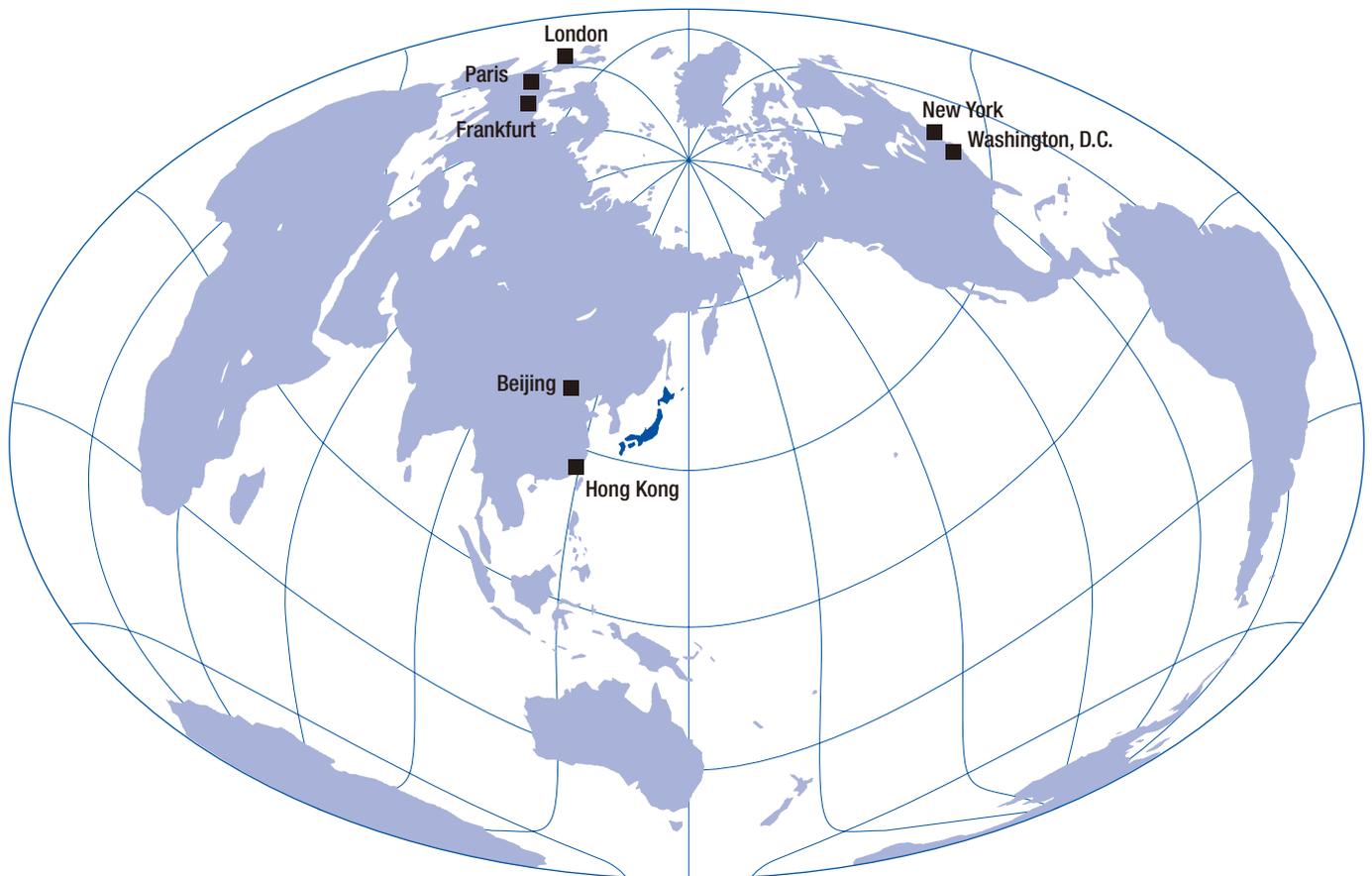
The computer center in Fuchu City, Tokyo, operates the Bank's systems. The banknote operations center in Toda City, Saitama Prefecture, receives, pays, and stores banknotes. The other twelve local offices handle some of the operations of the Head Office or branches.

### **Overseas Representative Offices**

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



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



Note: 1. For details, see page 15.



# 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 in accordance with the "price stability target" of 2 percent in terms of the year-on-year rate of change in the consumer price index (CPI), 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 14 MPMs in fiscal 2013.

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 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 April and October. In the Outlook Report, 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, 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), specifically in *Monetary and Economic Studies* and the *IMES Discussion Paper Series*.<sup>1</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 2013.<sup>2</sup>

1. 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>).

2. The summaries of these two issues in English are available on the Bank's web site; for excerpts from these summaries, see pages 30–36. The full texts are available in Japanese on the web site (<http://www.boj.or.jp/index.html>).

## 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 current accounts that financial institutions hold 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 conducts research and analysis assessing risks in the financial system as a whole, i.e., taking a macroprudential perspective, by making use of insights obtained through its on-site examinations and off-site monitoring and paying due attention to the interconnectedness of the real economy, financial markets, and the behavior of financial institutions. 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 2013<sup>1</sup>**

	Financial institutions that hold current accounts at 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	
	Of which: Financial institutions that have concluded on-site examination contracts with the Bank					
City and regional banks	126	(127)	126	(127)	126	(127)
Trust banks	15	(15)	15	(15)	10	(10)
Foreign banks	53	(55)	53	(55)	40	(42)
<i>Shinkin</i> banks	258	(261)	258	(261)	136	(136)
Financial instruments business operators	35	(36)	35	(36)	30	(30)
Bankers associations	33	(33)	0	(0)	0	(0)
Other institutions	19	(22)	10	(11)	9	(10)
<b>Total</b>	<b>539</b>	<b>(549)</b>	<b>497</b>	<b>(505)</b>	<b>325</b>	<b>(328)</b>

Note: 1. Figures in parentheses indicate the number of institutions as of the end of fiscal 2012.

Table 2

**Number of Financial Institutions Examined**

	Fiscal 2011	Fiscal 2012	Fiscal 2013
Domestically licensed banks <sup>1</sup>	26	31	29
<i>Shinkin</i> banks	29	47	55
Other institutions <sup>2</sup>	13	20	26
<b>Total</b>	<b>68</b>	<b>98</b>	<b>110</b>

Notes: 1. Established and licensed under Japanese legislation, excluding the Bank and government-related organizations.

2. 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).

In addition, in order to strengthen the functioning and improve the efficiency of markets as well as to support more robust risk management and innovation in

financial services and market transactions, the Bank takes initiatives to reinforce the infrastructures of financial and capital markets—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, while giving due consideration to developments internationally. As part of its initiatives, the Bank has continued to enhance its business continuity arrangements in preparation for times of disaster or other emergency, 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*.

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

With regard to Asia, the Bank engages in various activities including the following: the promotion of monetary cooperation mainly through participation in the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) and the Association of Southeast Asian Nations Plus Three (ASEAN Plus Three); the strengthening of technical cooperation and staff training with a view to ensuring financial and economic stability; and the conduct of research on the region.

#### **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 purchasing and selling of 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 officers; 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.



# The Bank's Review of Fiscal 2013

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## **I. Introduction**

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## **II. Review of Economic and Financial Developments and Monetary Policy Meetings**

- A. First Half of Fiscal 2013 (April–September 2013)
- B. Second Half of Fiscal 2013 (October 2013–March 2014)

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## **III. Progress in Addressing Issues and Implementing Action Plans**

- 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
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- E. Matters Relating to Banknotes, Treasury Funds, and JGS Services
- F. Matters Relating to Communication with the Public

## I. INTRODUCTION

In March 2013, the Bank of Japan formulated and released "The Bank of Japan's Strategic Priorities for Fiscal 2013–2015." The Bank conducted its daily business operations for fiscal 2013 in accordance with these Strategic Priorities, which comprise the set of issues to be addressed and concrete measures to be taken during this period.

This section provides a brief review of economic and financial developments and decisions made at monetary policy meetings (MPMs) in fiscal 2013, followed by a detailed evaluation of the Bank's progress made during the year.

In March 2014, the Bank formulated and released "The Bank of Japan's Strategic Priorities for Fiscal 2014–2018." From fiscal 2009, it formulated the Strategic Priorities within a framework covering a three-

year period and updated them every fiscal year. The Bank has decided to adopt a new five-year framework for the Strategic Priorities for fiscal 2014–2018, the content of which will be kept basically unchanged for the whole period, with a view to (1) clarifying the Bank's objectives to be achieved over the medium term and (2) evaluating its performance properly. The Bank plans to conduct an interim review during the five-year period in order to address any changes in its environment. It will revise the content flexibly in response to any significant changes in its environment.

The Bank will make public performance reviews of measures taken under the Strategic Priorities every fiscal year in the *Gyomu Gaikyo Sho* (Outline of Business Operations).<sup>1</sup>

## II. REVIEW OF ECONOMIC AND FINANCIAL DEVELOPMENTS AND MONETARY POLICY MEETINGS<sup>2</sup>

### A. First Half of Fiscal 2013 (April–September 2013)

#### 1. Economic developments

a. Looking back at the first half of fiscal 2013, Japan's economic activity returned to a moderate recovery path around mid-2013 as domestic demand remained resilient mainly due to the effects of monetary easing as well as various economic measures and as overseas economies gradually headed toward a pick-up.

Exports had generally been picking up on the back of the aforementioned development in overseas economies. As for domestic demand,

public investment continued to increase and the pick-up in housing investment had become evident. Private consumption remained resilient as consumer sentiment turned favorable, with some improvement also observed in the employment and income situation. Business fixed investment, which had continued to show some weakness until the first half of fiscal 2013, picked up gradually as corporate profits improved. Reflecting these developments in demand both at home and abroad, industrial production returned to a moderate increasing trend.

b. The year-on-year rate of change in the domestic

1. For the text of "The Bank of Japan's Strategic Priorities for Fiscal 2014–2018," see Appendix 2 on pages 86–91.

2. The review provided here comprises excerpts from the summaries of the latest two issues of the *Semiannual Report on Currency and Monetary Control* submitted to the Diet in December 2013 and June 2014. The full texts of both issues in Japanese and summaries in English are available on the Bank's web site.

corporate goods price index (CGPI) turned positive at the beginning of fiscal 2013 and moderately picked up its pace of increase thereafter, on the back of developments in international commodity prices and foreign exchange markets. The year-on-year rate of change in the consumer price index (CPI, all items less fresh food) turned positive around mid-2013, and its pace of increase accelerated thereafter. Inflation expectations appeared to be rising on the whole.

## 2. Financial developments

- a. Money market rates, including longer-term ones, remained stable at low levels.

Long-term interest rates rose toward late May mainly against the background of rises in U.S. long-term interest rates and Japanese stock prices. Thereafter, they declined moderately, even in a situation where U.S. and European long-term interest rates increased, as the Bank of Japan progressed with its Japanese government bond (JGB) purchases under quantitative and qualitative monetary easing, and were in the range of 0.6–0.7 percent at end-September.

The Nikkei 225 Stock Average continued to go up toward mid-May mainly in response to the rise in U.S. stock prices and the depreciation of the yen, but declined thereafter mainly on the back of profit-taking sales by investors. After mid-June, it fluctuated mainly on the back of movements in U.S. stock prices and was around 14,500 yen at end-September.

In the foreign exchange market, the yen depreciated against the U.S. dollar toward mid-May mainly due to the release of U.S. economic indicators that were stronger than market expectations and speculation about the direction

of U.S. and Japanese monetary policy, but thereafter the yen appreciated in view of the decline in Japanese stock prices. After mid-June, the yen fluctuated mainly reflecting speculation about the direction of U.S. monetary policy and developments in Japanese stock prices, and at end-September it traded at the 97–98 yen level against the U.S. dollar. The yen depreciated against the euro toward mid-May but fluctuated thereafter, and at end-September it traded at the 132–133 yen level against the euro.

- b. As for corporate finance, in terms of credit supply, financial institutions' lending attitudes as perceived by firms continued to be on an improving trend. In the CP market, issuing conditions remained favorable. Likewise, issuing conditions generally continued to be favorable in the corporate bond market.

Firms' credit demand had increased moderately, mainly for working capital and funds related to mergers and acquisitions. With regard to firms' funding, the year-on-year rate of increase in the amount outstanding of lending by domestic commercial banks had risen somewhat, and was in the range of 2.0–2.5 percent in September. The year-on-year rate of change in the amount outstanding of corporate bonds had been positive. Meanwhile, the year-on-year rate of change in that of CP had been negative.

- c. The monetary base (currency in circulation plus current account balances at the Bank) had increased significantly as asset purchases by the Bank had progressed, and the year-on-year rate of growth was at around 45 percent in September. The year-on-year rate of growth in the money stock (M2) had risen somewhat and was in the

range of 3.5–4.0 percent in September.

### 3. MPMs

- a. Seven MPMs were held in the first half of fiscal 2013.

At the MPMs held on April 3 and 4 and on April 26, the Policy Board judged that Japan's economy had stopped weakening and had shown some signs of picking up. At the MPM held in May, it judged that the economy had started picking up. At the June MPM, it judged that the economy had been picking up. At the MPMs held in July and August, it judged that the economy was starting to recover moderately. At the September MPM, it judged that the economy was recovering moderately.

- b. In its conduct of monetary policy, the Policy Board decided at the MPM held on April 3 and 4 to introduce quantitative and qualitative monetary easing as follows.

Namely, the Bank will achieve the price stability target of 2 percent in terms of the year-on-year rate of change in the CPI at the earliest possible time, with a time horizon of about two years. In order to do so, it will enter a new phase of monetary easing both in terms of quantity and quality. Upon changing the main operating target for money market operations from the uncollateralized overnight call rate to the monetary base, the Bank will double the monetary base and the amounts outstanding of JGBs as well as exchange-traded funds (ETFs) in two years, and more than double the average remaining maturity of JGB purchases. The specifics of quantitative and qualitative monetary easing are as follows.

- (1) The adoption of the "monetary base control"

With a view to pursuing quantitative monetary

easing, the main operating target for money market operations was changed from the uncollateralized overnight call rate to the monetary base. The guideline for money market operations was set as follows: "The Bank of Japan will conduct money market operations so that the monetary base will increase at an annual pace of about 60–70 trillion yen."

- (2) An increase in JGB purchases and their maturity extension

With a view to encouraging a further decline in interest rates across the yield curve, the Bank will purchase JGBs so that their amount outstanding increases at an annual pace of about 50 trillion yen. In addition, JGBs with all maturities including 40-year bonds will be made eligible for purchase, and the average remaining maturity of the Bank's JGB purchases will be extended from slightly less than three years to about seven years—equivalent to the average maturity of the amount outstanding of JGBs issued.

- (3) An increase in ETF and J-REIT purchases

With a view to lowering risk premia of asset prices, the Bank will purchase ETFs and Japan real estate investment trusts (J-REITs) so that their amounts outstanding increase at an annual pace of about 1 trillion yen and about 30 billion yen, respectively.

- (4) The continuation of quantitative and qualitative monetary easing

The Bank will continue with quantitative and qualitative monetary easing, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will examine both upside

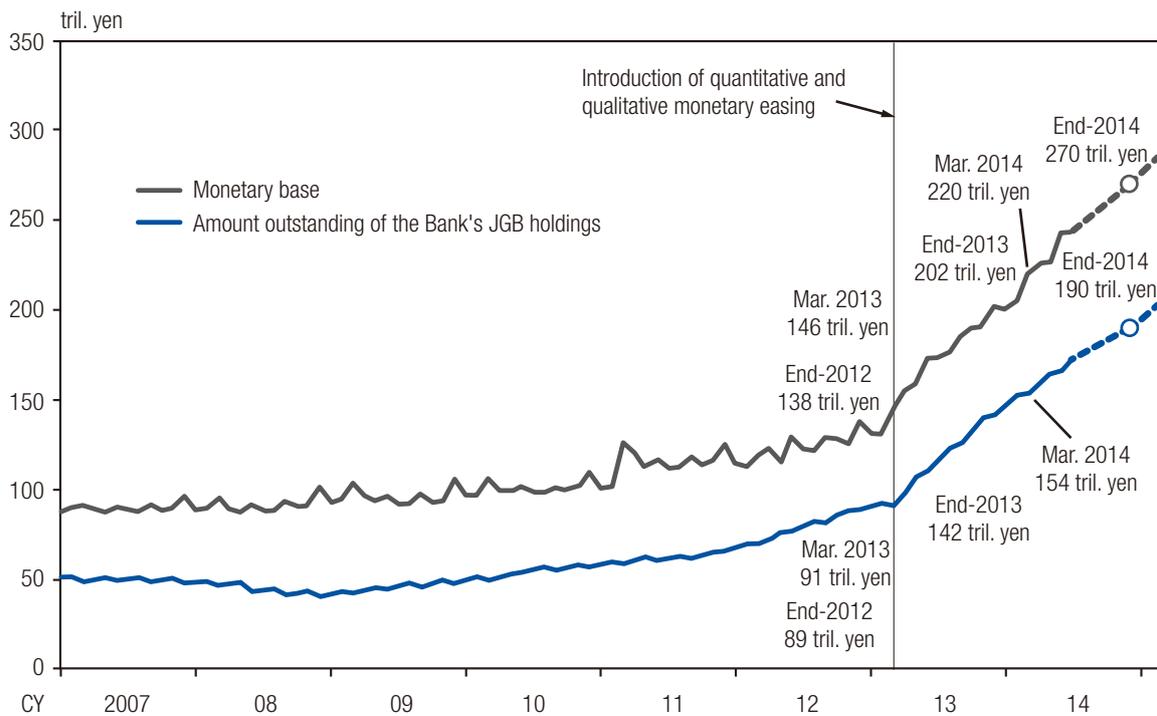
and downside risks to economic activity and prices, and make adjustments as appropriate.

In addition, with the introduction of quantitative and qualitative monetary easing, the Policy Board decided on the following: (i) the termination of the Asset Purchase Program; (ii) the temporary suspension of the "banknote principle"; and (iii) in order to facilitate the massive JGB purchases and significantly large-scale provision of the monetary base, the Bank will set forums for enhanced dialogue with market participants in order to exchange views pertaining to money market operations and market transactions more generally.

As for the funds-supplying operation to support financial institutions in disaster areas, the Policy Board decided to extend by one year the periods for which both (i) the funds-supplying operation to support financial institutions in disaster areas and (ii) the amendment to temporary rules regarding the eligibility standards for debt of companies in disaster areas remain effective.

At all the subsequent MPMs, the Policy Board decided to maintain the aforementioned guideline for money market operations, specified as (1), and continued its purchasing policies based on (2) and (3) under quantitative and qualitative monetary

### EXPANSION IN THE MONETARY BASE AND JGB HOLDINGS<sup>1</sup>



Note: 1. Figures are rounded to the nearest trillion yen.  
Source: Bank of Japan.

easing. It also confirmed the continuation of quantitative and qualitative monetary easing, specified as (4).

## B. Second Half of Fiscal 2013 (October 2013–March 2014)

### 1. Economic developments

- a. Looking back at the second half of fiscal 2013, Japan's economic activity continued to recover moderately in association with a virtuous cycle among production, income, and spending, mainly due to the effects of monetary easing as well as various economic measures. A front-loaded increase in demand prior to the consumption tax hike was observed toward the end of the fiscal year.

Exports had generally picked up on the back of developments in overseas economies until around end-2013, but leveled off more or less thereafter mainly due to temporary downside factors. As for domestic demand, private consumption and housing investment remained resilient with improvement in the employment and income situation. In these segments of the economy, the front-loaded increase in demand prior to the consumption tax hike was also observed. Public investment continued to increase, and the pick-up in business fixed investment became increasingly evident as corporate profits improved, turning to a moderate increase. Reflecting these developments in demand both at home and abroad, industrial production followed a moderate increasing trend and, after the beginning of 2014, increased at a somewhat accelerated pace.

- b. The year-on-year rate of change in the CGPI remained positive at around 2 percent, on the back of developments in international commodity

prices and foreign exchange markets. The year-on-year rate of change in the CPI (all items less fresh food), after turning positive around mid-2013, accelerated its pace of increase toward around end-2013 and was around 1¼ percent thereafter. Inflation expectations appeared to be rising on the whole.

### 2. Financial developments

- a. Money market rates, including longer-term ones, remained stable at low levels.

Long-term interest rates were generally stable in the range of 0.55–0.75 percent, as the Bank of Japan progressed with its JGB purchases under quantitative and qualitative monetary easing. More concretely, long-term interest rates climbed somewhat toward end-December, on the back of rises in U.S. long-term interest rates and Japanese stock prices, but declined after the beginning of January. After early February, they were more or less flat—partly because U.S. long-term interest rates were generally unchanged—and were in the range of 0.6–0.7 percent at end-March.

The Nikkei 225 Stock Average increased toward end-December with the depreciation of the yen, while U.S. stock prices continued to rise, marking their highest levels. After the beginning of January, the Nikkei average declined with the appreciation of the yen, at a time when U.S. and European stock prices fell; thereafter, it fluctuated mainly reflecting the situation in Ukraine and was in the range of 14,500–15,000 yen at end-March.

In the foreign exchange market, the yen depreciated against the U.S. dollar toward end-December mainly on the back of the release of U.S. economic indicators that were stronger

than market expectations and the change in U.S. monetary policy, coupled with the rise in Japanese stock prices. After the beginning of January, the yen appreciated, as Japanese stock prices declined in a situation where investors' risk aversion was observed; thereafter, the yen generally leveled off and at end-March it traded at the 102–103 yen level against the U.S. dollar. The yen depreciated against the euro toward end-December mainly due to the release of European economic indicators that were stronger than market expectations. After the beginning of January, the yen temporarily appreciated but depreciated thereafter. At end-March, it traded at the 141–142 yen level against the euro.

- b. As for corporate finance, in terms of credit supply, financial institutions' lending attitudes as perceived by firms continued to be on an improving trend. Issuing conditions for CP and corporate bonds continued to be favorable.

Firms' credit demand had increased moderately, mainly for working capital and funds related to mergers and acquisitions. With regard to firms' funding, the year-on-year rate of increase in the amount outstanding of lending by domestic commercial banks was in the range of 2.0–3.0 percent. The year-on-year rate of change in the amount outstanding of corporate bonds had been positive. Meanwhile, the year-on-year rate of change in that of CP had been negative.

- c. The monetary base had increased significantly as asset purchases by the Bank had progressed, and the year-on-year rate of growth was at around 55 percent in March. The year-on-year rate of change in the M2 continued to register relatively high growth of around 4.0 percent.

### 3. MPMs

- a. Seven MPMs were held in the second half of fiscal 2013.

At the MPMs held in October through December, the Policy Board judged that Japan's economy was recovering moderately. At the MPMs held in January through March, it judged that the economy had continued to recover moderately, and a front-loaded increase in demand prior to the consumption tax hike had recently been observed.

- b. In its conduct of monetary policy, the Policy Board decided at all the MPMs held in the second half of fiscal 2013 to continue with the following guidelines with regard to money market operations and asset purchases that were determined when quantitative and qualitative monetary easing was introduced in April 2013.

#### Guideline for Money Market Operations

The Bank of Japan will conduct money market operations so that the monetary base will increase at an annual pace of about 60–70 trillion yen.

#### Guidelines for Asset Purchases

- (1) The Bank will purchase JGBs so that their amount outstanding will increase at an annual pace of about 50 trillion yen, and the average remaining maturity of the Bank's JGB purchases will be about seven years.
- (2) The Bank will purchase ETFs and J-REITs so that their amounts outstanding will increase at an annual pace of about 1 trillion yen and about 30 billion yen, respectively.
- (3) As for CP and corporate bonds, the Bank will continue with those asset purchases until their amounts outstanding reach about 2.2 trillion yen and about 3.2 trillion yen, respectively, by end-2013; thereafter, it will maintain those

amounts outstanding.

With regard to the future conduct of monetary policy, the Policy Board confirmed at all the MPMs held in the second half of fiscal 2013 the following: "The Bank will continue with quantitative and qualitative monetary easing, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate."

At the February MPM, the Policy Board decided on the extension and enhancement of the fund-provisioning measure to stimulate bank lending (hereafter the Stimulating Bank Lending Facility) as well as the fund-provisioning measure to support strengthening the foundations for economic growth (hereafter the Growth-Supporting Funding Facility), which were due to expire shortly. Specifically, the Policy Board shared the recognition that it was

appropriate for the Bank to make the following enhancements and released an outline: (i) the deadlines for new applications under these facilities shall be extended by one year; (ii) the maximum amounts of the Bank's fund-provisioning under these facilities shall be doubled; and (iii) the duration of its fund-provisioning at a fixed rate of 0.1 percent per annum shall be extended from 1–3 years to 4 years. Based on the outline, at the March MPM the Policy Board approved the amendment to principal terms and conditions for the Loan Support Program.

In addition, at the February MPM, the Policy Board decided to extend the funds-supplying operation to support financial institutions in disaster areas affected by the Great East Japan Earthquake and the temporary rules regarding the eligibility standards for debt of companies in disaster areas by one year, respectively.

## ENHANCEMENT OF THE LOAN SUPPORT PROGRAM<sup>1</sup>

### (1) Stimulating Bank Lending Facility

The Bank provides long-term funds at a low interest rate to financial institutions at their request, with a view to promoting their lending activity and helping stimulate credit demand from firms and households.

●Outline of the new program (starting from June 2014)

- There is no pre-set amount for the total loans provided by the Bank and for loans extended to each counterparty under this facility.
- The maximum amount of loans to each counterparty is set at twice the net increase in lending.
- The duration of loans is 4 years. Each year, counterparties have an option to make a prepayment.
- The interest rate on loans is fixed at 0.1 percent per annum for 4 years.

		Outstanding balance of loans	Number of borrowers
Total		13,347.2 billion yen	114
	Major Banks	9,496.2 billion yen	7
	Regional Banks, etc.	3,851.0 billion yen	107

### (2) Growth-Supporting Funding Facility

The Bank provides long-term funds at a low interest rate to private financial institutions in accordance with their efforts in terms of lending and investment toward strengthening the foundations for economic growth.

●Outline of the new program (starting from June 2014)

- The maximum amount of the Bank's fund-provisioning under the main rules shall be doubled from 3.5 trillion yen to 7 trillion yen. The maximum amount of its fund-provisioning to each financial institution shall be increased from 150 billion yen to 1 trillion yen.
- The interest rate applied to the facility under the main rules and special rules for equity investments and asset-based lending, and small-lot investments and loans shall be fixed at 0.1 percent per annum for 4 years. Each year, financial institutions have an option to make a prepayment.

	Main rules	Special rules for equity investments and asset-based lending (ABL)	Special rules for small-lot investments and loans	Special rules for the U.S. dollar lending arrangement
Time of establishment	June 2010	June 2011	March 2012	April 2012
Total amount of loans	7 trillion yen	0.5 trillion yen	0.5 trillion yen	12 billion U.S. dollars
Outstanding balance of loans	3,318.89 billion yen	109.06 billion yen	9.302 billion yen	10,619.9 million U.S. dollars
Number of borrowers	120	28	31	43
Eligible investments and loans	Those with a size of 10 million yen or more	Equity investments and ABL with a size of 1 million yen or more	Those with a size of 1 million yen or more but less than 10 million yen	Those denominated in foreign currencies with a size equivalent to 100 thousand U.S. dollars or more

Note: 1. Figures for "Outstanding balance of loans" and "Number of borrowers" in the tables are those after the disbursements in June 2014.  
Source: Bank of Japan.

### III. PROGRESS IN ADDRESSING ISSUES AND IMPLEMENTING ACTION PLANS

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

1. The Bank will pursue aggressive monetary easing, aiming to achieve at the earliest possible time the "price stability target" introduced in January 2013. More specifically, the Bank will continue with its virtually zero interest rate policy and purchases of financial assets, as long as it judges it appropriate to do so. In addition, the Bank will provide support for financial institutions' efforts to strengthen the foundations for economic growth and to increase their lending. Taking into consideration that it will take considerable time before the effects of monetary policy permeate the economy, the Bank will ascertain whether there is any significant risk to the sustainability of economic growth, including from the accumulation of financial imbalances. In support of such monetary policy conduct, the Bank will continue to enhance the quality of its research and analysis regarding developments in economic activity, prices, and the financial environment both at home and abroad. To this end, the Bank will strengthen its analysis of the effects of monetary policy and their transmission through the economy, as well as the medium- to long-term analysis that it carries out taking account of structural changes at home and abroad. Taking a macroprudential perspective, the Bank will further strengthen its analysis of the effects of developments in global financial markets on Japan's financial and economic activity, as well as its analysis of movements in other risk factors such as the

accumulation of financial imbalances. It will also examine measures for money market operations.

- (1) The Bank introduced quantitative and qualitative monetary easing in April 2013 to achieve the price stability target of 2 percent in terms of the year-on-year rate of change in the CPI at the earliest possible time, with a time horizon of about two years. Under quantitative and qualitative monetary easing, the Bank has been pursuing unprecedented monetary easing both in terms of quantity and quality. It will double the monetary base and the amounts outstanding of its holdings of JGBs as well as ETFs in two years, and more than double the average remaining maturity of JGB purchases.
- (2) The Bank decided in February 2014 to double the scale of the Stimulating Bank Lending Facility and the Growth-Supporting Funding Facility, and to extend the application period for these facilities by one year.
- (3) To support these policy operations, the Bank conducted further research and analysis regarding developments in economic activity, prices, and the financial environment both at home and abroad, including its analysis of the effects of monetary policy. Taking a macroprudential perspective, the Bank analyzed various risk factors such as the accumulation of financial imbalances, making use of indicators of financial imbalances and macro stress testing among its analytical tools.
- (4) Meanwhile, the Bank devised measures for money market operations to ensure the smooth functioning and stability of financial markets. The following are the major measures taken by the Bank.
  - (a) Relaxation of the terms and conditions of the securities lending facility.

- (b) Acceptance of electronically recorded monetary claims as eligible collateral for the Bank's provision of credit.
  - (c) Introduction of standing liquidity swap arrangements with the Bank of Canada, the Bank of England, the European Central Bank, the Federal Reserve, and the Swiss National Bank.
- (5) The Bank extended the deadline for new applications for loans under the funds-supplying operation to support financial institutions in disaster areas and the application period for the relaxation of the collateral eligibility standards for the debt of companies in disaster areas.

**2. In support of the above research and analysis, the Bank will maintain closer contact with overseas authorities and will conduct more frequent exchanges of information regarding overseas economic and financial conditions at occasions such as international forums. The Bank will also deepen research and analysis not only with regard to advanced economies but also with regard to emerging economies.**

- (1) The Bank, at international meetings, including those organized by the Bank for International Settlements (BIS) and the Organisation for Economic Co-operation and Development (OECD), exchanged information with overseas authorities with a view to better grasping overseas economic and financial conditions as well as developments in global financial markets. In addition, it obtained swift access to a wide range of information by making use of central bank networks particularly across Europe, North America, and Asia.
- (2) The Bank maintained close contact and frequent exchanges of information with other central banks and international organizations in Asia regarding economic and financial conditions in the region 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 of Japan, 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 participated in meetings held by the Financial Stability Board (FSB) on addressing shadow banking risks in securities lending and repo transactions and on financial benchmarks, playing an active part in the compilation of related reports and policy recommendations.

**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 increased the monetary base and the amounts outstanding of its holdings of JGBs under quantitative and qualitative monetary easing, while enhancing its dialogue with market participants.
- (2) The Bank smoothly conducted the Growth-Supporting Funding Facility, the Stimulating Bank Lending Facility, and the funds-supplying operation to support financial institutions in disaster areas.
- (3) The Bank ensured that transactions with the government were conducted properly, in accordance with the relevant laws and regulations.

**4-1. As part of the above process, the Bank will deepen its theoretical and empirical analysis of the conduct of monetary policy and further consider strategies for disseminating**

**information on monetary policy and for communicating with market participants, taking into account related academic discussion and research developments at home and abroad.**

**4-2. The Bank will explain to the public effectively its thinking on the conduct of monetary policy and the findings of the research and analysis underpinning its policy decisions.**

- (1) The Bank, taking into account academic research developments both at home and abroad, deepened its theoretical and empirical analysis of the conduct and effects of monetary policy, both its own and that of other central banks.
- (2) In order to achieve better understanding of updates to its monetary policy conduct, the Bank made available a web page entitled "'Price Stability Target' of 2 Percent and 'Quantitative and Qualitative Monetary Easing,'" in which it provided concise summaries and explanations of its policy schemes. It also released and regularly updated the results of funds-supplying operations.
- (3) With a view to deepening the understanding of its policy decisions, the Bank held a number of seminars for economists, in addition to forums for market participants aimed at enhancing dialogue and exchanging views.
- (4) In the April and October 2013 issues of the *Outlook for Economic Activity and Prices*, the Bank provided a detailed explanation of the recent domestic demand-led economic recovery as well as the background to the accompanying improvement in the employment and income situation and the rise in prices, as being crucial to its projections for economic activity and prices.
- (5) The Bank also made public the findings of its

research and analysis through, for example, the releases of the *Bank of Japan Review Series*, the *Bank of Japan Working Paper Series*, as well as various reports and research papers.

**5. The Bank will engage in discussions on the structural problems faced by Japan's economy as well as on various systemic reforms related to monetary policy by, for example, participating in the relevant government advisory councils.**

- (1) The Bank explained the monetary policy conduct for overcoming deflation at various governmental meetings including the Council on Economic and Fiscal Policy. The Bank also participated in, for example, the Financial System Council Working Group on the Provision of Risk Money to Emerging and Growing Companies.

**6. The Bank will enhance its fundamental research within fields such as economics and finance, and across other fields related to the infrastructure of the financial system, such as law, accounting, and information security, as well as its research into financial history. 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 efficiently manage the activities of the Archives and the Currency Museum and to offer services well tailored to users' needs.**

- (1) In light of the global financial crisis of autumn 2008 as well as the issues faced by central banks around the world, the Bank conducted fundamental research on the macroeconomy and monetary policy from both theoretical and empirical perspectives as well

as on finance. Steady progress was also made in finance-related research, including research into legal and accounting systems, information security, and financial history.

- (2) The Bank hosted an international conference on the theme of financial crises and the global financial system in May 2013, and co-hosted a conference with the University of Tokyo in November on the theme of globalization and the resilience of Japan's economy. These conferences facilitated fruitful discussions between the Bank and distinguished academics, both domestic and foreign, as well as overseas authorities.
- (3) The Bank worked to improve both the user friendliness and administrative efficiency of its Archives, which have the status of "the National Archives of Japan, etc." as stipulated in the Public Records and Archives Management Act. Moreover, the Bank's Currency Museum implemented measures to enhance its services for visitors by, for example, extending its opening days and hours and holding themed exhibitions, as well as beginning work to renovate the facilities that display its collections.

## **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 2013, the Bank provided no loans pursuant to Articles 37 and 38 of the Bank of Japan Act (hereafter the Act).
- (2) The Bank decided to postpone for two years starting sales of stocks purchased from financial institutions under authorization pursuant to the proviso of Article 43 of the Act; it had previously decided to hold on to

these stocks until the end of March 2014.

### **2. With international discussion on maintaining financial system stability deepening, it is important for Japan to involve itself appropriately in establishing new international rules regarding financial regulation and supervision in view of their impact on, for example, the financial intermediation function. In addition, it is essential for individual countries and regions around the world to achieve steady progress in their respective efforts to attain financial system stability. Meanwhile, the scope of discussion at international forums has widened to include 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 consideration to institutional factors unique to each country as well as Japan's experience. The Bank will make use of the findings to actively contribute to policy formulation both at home and abroad.**

- (1) At international conferences and other such occasions where macroprudential matters and the concrete framing and implementation of new financial regulations were discussed, the Bank explained its view mainly in light of Japan's past financial system-related experiences and the expected impact of these regulations on the financial intermediation function. It was also active in providing information in these areas, for example, through the release of the *Financial System Report*.
- (2) The Bank actively participated in discussions and information exchange within Asia, through its activities at the EMEAP Working Group on Banking Supervision as well as at various meetings such as

the ACC and ASEAN Plus Three, with a view to establishing a concrete framework for and implementing new financial regulations. In this way, the Bank contributed to the expansion of Asia's presence in international discussions, playing a significant part in (1) promoting information sharing in the region, and (2) analyzing the effects of the extraterritorial application of U.S. and European financial regulations as well as expressing joint views on this matter.

**3. As part of the above efforts, the Bank will actively participate in discussions at various forums, such as meetings of the Group of Twenty (G-20), the Group of Seven (G-7), the FSB, and the Basel Committee on Banking Supervision (Basel Committee). The Bank will also actively exchange information with overseas authorities, including supervisory colleges. In this way, the Bank will engage positively in policy making processes to improve and ensure the stability of the global financial system. It will also play an active role in the domestic application of the conclusions of such international discussions, as well as in their practical implementation. Furthermore, the Bank will ensure it has an accurate grasp of how Japanese financial institutions are responding to changes in financial regulations.**

(1) The Bank actively participated in discussions on strengthening the robustness of the global financial system at various international conferences, such as meetings of the G-20, the G-7, the FSB, and the Basel Committee. These included discussions on (1) the revision of the Basel regulatory framework, specifically, the review of trading book capital requirements, the securitization framework for

regulatory capital requirements, and the liquidity standard, as well as the introduction of a framework for controlling large exposures; (2) the establishment of a concrete framework for regulating systemically important financial institutions; (3) the development of cross-border resolution frameworks for financial institutions; (4) the compilation and expansion of data that contribute to financial system stability; (5) the assessment of the effects of over-the-counter (OTC) derivatives regulation; and (6) the regulation of repo transactions and financial benchmarks.

(2) At meetings including those of the G-20 and the FSB, the Bank made use of Japanese expertise in areas such as the interconnectedness of the financial system and the real economy to engage constructively in the drafting of well-balanced reforms aimed at maintaining the stability of the global financial system.

(3) The Bank actively exchanged information with overseas authorities on developments in the global financial system and business conditions at systemically important financial institutions, mainly through supervisory colleges. While strengthening ties with supervisory authorities at home and abroad and enhancing dialogue with financial institutions, the Bank played an active role in (1) working out the domestic application of and preparing for the practical implementation of new financial regulations such as those governing bank capital and liquidity, and (2) preparing the legislation for the establishment of an orderly resolution regime for securities companies and other such financial institutions under the amended Deposit Insurance Act.

**4. Some financial institutions, mainly major banks, have actively expanded their global business and have been susceptible to developments in**

overseas economies and global financial markets. Furthermore, the new capital requirements are being phased in from 2013. 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).

- (1) The Bank worked to ensure that on-site examinations were conducted effectively and efficiently in line with its "On-Site Examination Policy for Fiscal 2013," by making use of information obtained through its off-site monitoring as well as selecting institutions to be examined based on their risk profiles and capital strength. The number of financial institutions examined in fiscal 2013 was 110.
- (2) With regard to off-site monitoring, the Bank kept abreast of developments in financial intermediation, taking into account the following: (1) the introduction of quantitative and qualitative monetary easing; (2) economic and financial developments both at home and abroad; (3) moves to introduce new financial regulations in other countries; and (4) active business expansion into Asia by financial institutions, particularly major banks. The Bank also worked to gain a better grasp of financial institutions' business conditions and risk profiles by, for example, analyzing the effects of the domestic application of new financial regulations such as capital adequacy ratio requirements. With a view to dealing with systemic risks more effectively, the Bank will work to ensure a

firm grasp of business conditions at systemically important financial institutions.

- (3) Making use of the feedback between its on-site examinations and off-site monitoring, the Bank facilitated necessary improvements in management procedures at individual financial institutions regarding their business activities and risks.
- (4) With a view mainly to enhancing the functioning of small business finance, the CAFT hosted seminars on supporting small firms expanding their businesses abroad as well as on utilizing electronically recorded monetary claims; it also organized workshops on commercial finance.

**5. The Bank will continue to refine its methods for analysis and assessment of Japan's financial system in line with "The Bank of Japan's Initiatives on the Macroprudential Front," released in October 2011, and will communicate its findings to the public effectively.**

- (1) In the *Financial System Report*, the Bank refined its methods for the comprehensive assessment and analysis of the stability of Japan's financial system from a macroprudential perspective, as described in "The Bank of Japan's Initiatives on the Macroprudential Front." Specifically, it expanded its analytical tools, for example, for macro stress testing, while also enhancing its analysis particularly of developments in financial intermediation after the introduction of quantitative and qualitative monetary easing.
- (2) The Bank enhanced its communication with the public by holding more seminars and meetings at home and abroad to explain the content of and exchange opinions on the *Financial System Report*. By releasing papers on business conditions at financial institutions, the Bank also facilitated communication with concerned parties regarding the maintenance of

financial system stability and the challenges facing Japan's financial institutions.

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

- (1) The findings from the Bank's off-site monitoring and on-site examinations regarding the state of business operations and risk-taking at financial institutions, such as changes in the behavior and risk profiles of financial institutions after the introduction of quantitative and qualitative monetary easing, were reported to the Policy Board. This information was then utilized in implementing monetary policy. In the *Financial System Report*, the Bank assessed the stability of the financial system and examined the behavior of financial intermediaries, aiming to enhance the analysis used in its policy conduct.
- (2) The Bank supported financial institutions' efforts by (1) appropriately managing the Growth-Supporting Funding Facility and the Stimulating Bank Lending Facility and (2) putting effort into, for example, holding seminars on the utilization of electronically recorded monetary claims and disseminating related information.

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

**1. With a view to ensuring the smooth operation of the Bank of Japan Financial Network System (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.
- 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 changes; and (2) discussions, taking place both at home and abroad in the wake of the global financial crisis following the Lehman shock, on reviewing payment and settlement practices and reforming the framework for financial regulation and supervision.**
  - (1) With regard to the review of international standards for payment and settlement systems, the Bank contributed to efforts by the Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO) toward implementation of the "Principles for Financial Market Infrastructures." The efforts included monitoring how the principles were implemented in regulatory frameworks for financial market infrastructures in jurisdictions around the world and providing guidance on the recovery of financial market infrastructures as well as public quantitative disclosure standards. As part of international

initiatives to reform OTC derivatives markets, the Bank took part in forums and working groups made up of central banks and supervisory authorities, exchanging views on regulatory frameworks and specific measures carried out in each country.

- (2) The Bank continued with research and analysis related to measures to improve the functioning of Japan's payment and settlement systems from a medium- to long-term perspective.

**3. 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 auctions for money market operations and for the issuance of Japanese government securities (JGSs), as well as the transfer of JGSs associated with money market operations—around fiscal 2013, and the second phase—including settlement of funds and of JGSs—around fiscal 2015.**

- (1) With regard to the establishment of the new BOJ-NET, the Bank proceeded steadily with the system development process while managing the overall project properly.
- (2) The Bank implemented the first phase of the new BOJ-NET project in January 2014, and it has since been operating the system smoothly and reliably.
- (3) With regard to the second phase of the new BOJ-NET project, the Bank made available to financial institutions and other interested parties the details of the functions and system specifications. The Bank also proceeded with the planning of running tests, and made available an outline of the proposed tests.
- (4) The Bank continued deliberations on the operating hours and business operations of the new BOJ-NET after implementing the second phase of the project.

Specifically, the Bank established a "Forum Towards Making Effective Use of the New BOJ-NET," comprising private financial institutions and other relevant parties. There, discussions were held on (1) effective use of the new BOJ-NET and, to that end, (2) the possible extension of the system's operating hours, as well as the length and timing of such an extension. The Bank then released details of its plans for public consultation based on the fruits of these discussions.

**4. In accordance with its oversight policy, the Bank will firmly monitor the safety and efficiency of payment and settlement systems both at home and abroad as well as encourage relevant parties to make improvements, using the "Principles for Financial Market Infrastructures," the international standards for payment systems, central securities depositories, securities settlement systems, central counterparties, and trade repositories.**

- (1) In accordance with its oversight policy, the Bank continued with its oversight of payment and settlement systems both at home and abroad in cooperation with relevant authorities. Specifically, the Bank promoted efforts toward the domestic implementation of the "Principles for Financial Market Infrastructures," while monitoring the systems and operations of the domestic financial market infrastructure and encouraging individual financial institutions to make improvements where necessary. In addition, the Bank established a new framework for cooperative oversight of overseas financial market infrastructures and actively participated in the new cooperative oversight arrangements as well as in the existing ones.

**5-1. 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 reinforcing market infrastructure. It will work toward securing improvements in these areas, in discussion and cooperation with relevant parties at home and abroad and by making use of the new BOJ-NET, scheduled to be phased in during fiscal 2013–2015.

5-2. The Bank will support market participants' efforts to reduce settlement risk and to enhance financial market functioning by, for example, preparing for the move to a T+1 JGB settlement cycle and enhancing the functioning of corporate bond markets and securitization markets.

- (1) The Bank, in discussion and cooperation with relevant parties at home and abroad, took the following initiatives to improve the financial market structures in Japan.
  - (a) With a view to reducing settlement risk in financial markets as a whole, the Bank supported market participants' efforts to move to a T+1 JGB settlement cycle for outright transactions.
  - (b) The Bank participated in meetings of the Working Group on Market Infrastructure for Corporate Bonds hosted by the Japan Securities Dealers Association (JSDA), and supported market participants' efforts to enhance the functioning of corporate bond markets.
  - (c) The Bank participated in discussions with market participants and other relevant parties on the management and regulation of financial benchmarks, thereby supporting their efforts to enhance and maintain the credibility of such benchmarks.

- (d) The Bank conducted the *Tokyo Money Market Survey*, working to disseminate to market participants information on developments in the Japanese money markets after the introduction of quantitative and qualitative monetary easing, and to share with them its understanding of the challenges to be met.

6. Based on its experience following the Great East Japan Earthquake and the government's reappraisal of potential damage scenarios such as those for large-scale earthquakes directly under Tokyo, the Bank will assess the current business continuity framework and improve contingency arrangements as necessary. It will also step up efforts to ensure the effective and efficient implementation of such arrangements, in cooperation with relevant parties, including ministries and government agencies as well as financial institutions.

- (1) The Bank assessed its business continuity framework in light of lessons learned in responding to the Great East Japan Earthquake and the government's reappraisal of potential damage scenarios such as those for large-scale earthquakes directly under Tokyo, and considered what the Bank could do to improve its contingency arrangements.
- (2) In cooperation with financial institutions and other relevant parties, the Bank implemented street-wide exercises for the Japanese financial industry, and a joint exercise testing market-wide business continuity arrangements among the money market, the securities market, and the foreign exchange market, under the scenario of a large-scale earthquake.
- (3) With the aim of examining the efficacy of its business continuity arrangements and strengthening its contingency measures, the Bank continued to

conduct practical exercises under various disaster scenarios as well as exercises addressing system disruptions.

(4) The Bank held seminars based on the results of a survey regarding financial institutions' backup computer centers, thereby encouraging the strengthening of their business continuity arrangements.

(5) In response to the enactment of the Act on Special Measures for Pandemic Influenza and New Infectious Diseases Preparedness and Response, the Bank, as a designated public institution, formulated and released its operational plans for dealing with pandemic influenza and new infectious diseases.

**7. 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 agreed on the establishment of cross-border collateral arrangements—i.e., arrangements whereby central banks in partner countries provide liquidity in their domestic currencies utilizing JGSs held at the Bank as collateral—with the Monetary Authority of Singapore and Bank Indonesia, respectively. The Bank also proceeded with its consideration of and efforts to coordinate an expansion in the number of Asian partners participating in such arrangements.

(b) The Bank, through participating in EMEAP and the ACC, made efforts to ensure the stability of the currency system in Asia.

(c) Under the framework of ASEAN Plus Three, the Bank, together with the Ministry of Finance, worked to further strengthen the regional financial safety net through various initiatives including the Chiang Mai Initiative Multilateralization (CMIM), and continued to contribute to the doubling of the total size of the CMIM as well as the introduction of a crisis prevention facility.

(d) The Bank continued to actively promote the provision of technical assistance, the holding of seminars, and the exchanging of personnel with central banks and governments in Asia.

**8. The Bank will work to appropriately manage risks associated with its foreign currency assets with an emphasis on a high degree of safety and liquidity. It will also obtain information on global financial markets via, for example, the monitoring of market developments involved in managing its foreign currency assets; the information will be utilized in conducting monetary policy.**

(1) The Bank managed its foreign currency assets appropriately, in accordance with the "Principal Terms and Conditions for the Management of Foreign Currency Assets."

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

**9. 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 Bank consistently executed with precision and deliberation international operations on behalf of the government. It also offered appropriate assistance to overseas central banks, providing services relating to 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 economic and financial conditions in each region, including the progress of rebuilding following the disaster caused by the Great East Japan Earthquake, through close and frequent communication with local businesses and financial institutions. The Bank will make use of its findings in its conduct of monetary policy and other actions. In addition, the Bank will take advantage of such occasions to communicate with local business communities and to provide a clear and accessible explanation of its view of economic and financial conditions both at home and abroad, as well as its thinking on the conduct of monetary policy.**

- (1) The Bank worked to gain a more accurate grasp of economic conditions in each region by assigning responsibility for research and analysis for each prefecture within a given jurisdiction to designated staff not only in branches and local offices but also at the Head Office, and by increasing the frequency of meetings to exchange opinions with local businesses and chambers of commerce and industry.
- (2) With regard to rebuilding following the disaster caused by the Great East Japan Earthquake, the

Bank continued to work to keep a detailed grasp of, for example, how government rebuilding measures and shifts in credit demand have affected business conditions at financial institutions in the disaster-stricken areas, making use of its network of branches and offices in the disaster-stricken areas, such as in Sendai City and Fukushima City.

**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 Head Office, branches, and local offices.**

- (1) The Bank compiled and released each quarter its findings from research and analysis on regional economic developments in the *Regional Economic Report*.
- (2) The Bank continued to work to strengthen relations with local communities as follows. It disseminated the results of its research and analysis on regional economic and financial developments, for example, by organizing events such as speeches. It also undertook other public relations activities that provided opportunities to explain its policies and business operations as well as to gather more information on regional economic developments.

**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) With regard to business conditions at regional financial institutions, the Bank, at its Head Office and branches, gained a detailed grasp of changes in the behavior and risk profiles of financial institutions after the introduction of quantitative and qualitative monetary easing. The Bank actively held dialogue with top management at regional financial institutions on issues relating to business conditions such as the downtrend in core profitability and introduction of the new regulatory requirements for domestic banks' capital adequacy ratios. Moreover, the Bank kept suitably abreast of the situation with regard to regional financial institutions' management of the risks accompanying system development projects including the transition to a shared computer system, and urged improvement when necessary. It also released the results of a survey on computer system risk management.

**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 seminars in Tokyo and four other cities across Japan on themes such as the development of backup computer centers and management of information security. It also hosted seminars for regional financial institutions in Tokyo and seven other cities, which included presentations by the relevant divisions of selected financial institutions introducing their own risk management and internal auditing practices.

**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, including those in the areas stricken by the Great East Japan Earthquake, by ensuring that all operations at its Head Office, branches, and local offices, including operational procedures necessary for implementing policy measures effectively, 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 regular surveys of 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, given recent experiences responding to events such as an outbreak of the H5N1 avian influenza and the Great East Japan Earthquake, the Bank continued its efforts to ensure it had the necessary quantity of banknotes at its Head Office and branches for maintaining circulation.

**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 possessing a flexible counterfeit detection feature.

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

**c-2. With regard to banknote examination, the Bank will examine the likely impact on the workload at its Head Office and branches from recent changes in the delivery routes of banknotes between financial institutions and the Bank. Based on this examination, and taking account of lessons learned in responding to the earthquake disaster, the Bank will proceed with its reappraisal of the following: the division of roles among its operating locations, such as the Head Office and branches; and the Bank's 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 closer dialogue with private security and transportation companies—which have come to play an important role in cash

circulation—as well as with financial institutions. Based on information gathered, the Bank continued its review of the methods for transporting cash between its Head Office and branches, as well as among branches, with a view to improving efficiency.

- (2) With regard to banknote examination, the Bank proceeded with its reappraisal of the division of roles between its Head Office and branches, as well as among branches.

- (3) The Bank will continue to seek to make its operational framework in this area even more stable and efficient, in view of recent changes in the delivery routes of banknotes between financial institutions and the Bank.

## **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 ensured the appropriate provision of treasury funds and JGS services by executing all related business with precision and deliberation, while continuing work to improve its operational risk management.

**b. The Bank, responding steadily to the various institutional changes surrounding treasury funds and JGS services, will contribute to the improvement of the convenience of services for the public as well as to efforts to reform the JGS market.**

- (1) In cooperation with the relevant ministries and government agencies, the Bank responded steadily to matters such as the resumption of the issuance of inflation-indexed JGBs and the change in the frequency of issuance of JGBs for retail investors from a quarterly to a monthly basis.

- (2) Regarding the revisions to the tax system for

Japanese bonds scheduled to take effect in January 2016, the Bank, in cooperation with relevant parties, deliberated on necessary changes to the JGB book-entry system and then compiled and released an outline of the changes to be implemented.

- c. With regard to treasury funds and JGS services, the Bank will proceed with its reappraisal of the division of roles among its operating locations, such as the Bank's Head Office, branches, and agents, as well as the operational framework for these services, taking into account (1) effects of the expansion of direct electronic payment of taxes, tariffs, and fees to the government; (2) movements toward the centralized online payment of salaries for government employees; and (3) lessons learned from responding to the Great East Japan Earthquake. Through these efforts, it will seek to make its operational framework even more stable and efficient. It will also conduct a systematic review of related future initiatives including possible institutional changes.**

- (1) Regarding the concentration of services that use optical character readers (OCRs) for sorting and calculating revenue items to particular locations, the Bank established an operational framework in cooperation with financial institutions and launched the project in November 2013, as scheduled.
- (2) Meanwhile, the Bank worked to maintain a firm grasp of the business operations of its agents through dialogue. The Bank also implemented measures to enhance the stability and efficiency of operational procedures for treasury funds and JGS services at its Head Office, branches, and agents.
- (3) The Bank will continue to reappraise its operational framework for treasury funds and JGS services,

taking into account the likely changes in future workloads at its Head Office, branches, and agents.

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

- 1-1. The Bank will work to improve the effectiveness of its communication with the public—taking into account the latest trends in technology—so as to gain broad public understanding both at home and abroad of its policies and overall business operations. As part of this effort, the Bank will continue to enhance its dissemination of English-language materials as well as reports and research papers it releases.**
- 1-2. Regarding its web site, the Bank will work to respond better to users' diverse needs and make further enhancements to the effectiveness of its communication with the public. With a view to promoting better understanding of central banking operations, the Bank will also work to enhance the quality, range, and presentation of contents on its web site.**

- (1) The Bank worked to enhance its communication with the public, mainly by providing a clear and accessible explanation of its thinking on the conduct of monetary policy, including quantitative and qualitative monetary easing, on various occasions and via a variety of communication channels: press conferences; speeches and meetings at home and abroad; interviews including those with foreign media; and publications on its web site. The Bank will further strengthen its communication with the public on its business operations as well as its monetary policy conduct in a clear and intelligible manner.
- (2) In accordance with the Act, the Bank submitted two issues of the *Semiannual Report on Currency and*

*Monetary Control* to the Diet in fiscal 2013, in June and December.<sup>3</sup>

- (3) Besides holding regular in-house tours of the Head Office, the Bank hosted various public relations events as follows: special in-house tours for families visiting with children during school holiday seasons in spring and summer; a new special in-house tour for junior high school students during the summer, providing opportunities for them to deepen their understanding of monetary policy through a simulation of a Monetary Policy Meeting; and public lectures and feature exhibitions about banknotes, the history of the Bank, and other related themes as well as in-house tours of the Old Building—designated as an important cultural property—in October and November 2013. In addition, the Bank gave 18 on-campus lectures to college students on the functions and operations of the Bank. As for the "BOJ Grand Prix"—an essay and presentation contest primarily for college students—there were 120 entries from 39 colleges across Japan. Meanwhile, the total number of in-house tour visitors to the Head Office was around 42,000 in fiscal 2013, a decrease of 6.5 percent from the previous fiscal 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 135 million, an increase of 16.9 percent from the previous fiscal year; of these page views, around 20 million were made to its English-language web site, an increase of 17.6 percent.
- (5) The Bank made efforts to improve the user-friendliness of its web site by launching a smartphone site. With

respect to the contents available on its web site, the Bank fully updated "*Oshiete! Nichigin*," a question-and-answer section explaining the Bank's policies and business operations in plain terms (available only in Japanese).

- (6) The Bank also remade its introductory video, which was released under a new title "The Bank of Japan in Our Daily Lives"; enhanced the content of *Nichigin*, the Bank's public relations magazine (available only in Japanese); and revised the public relations brochure, "Bank of Japan: Its Functions and Organization."

**2. The Bank will take the opportunity of internal operational reviews to canvass and exchange opinions with relevant ministries and government agencies, financial and business communities, as well as a wide range of other involved parties, and to gain a clear understanding of outside parties' needs regarding the Bank's business operations. The Bank will take due note of these in its subsequent conduct of business operations.**

- (1) In fiscal 2013, the Bank provided pertinent responses to around 6,700 inquiries and comments on a wide range of matters including the conduct of monetary policy (excluding letters or e-mails that were sent for the purpose of sales, illegible, or incorrectly addressed), representing a decrease of 27.3 percent from the previous fiscal year. The Bank also received and responded appropriately to requests for information disclosure.
- (2) The Bank continued to hold 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

<sup>3</sup> Excerpts from the summaries of the two issues of the report dealing with developments in fiscal 2013, namely, the issues released in December 2013 and June 2014, can be found on pages 30–36. The full texts of these two issues in Japanese as well as the summaries in English are available on the Bank's web site.

Office; both types of meeting were established as channels for exchanging views on the Bank's business operations.

- (3) The Bank will continue to seek a better grasp of public opinion as well as public needs regarding its business operations from people and organizations across a wide range of fields.

**3. With the aim of improving user-friendliness, the Bank will make appropriate refinements of the statistics it compiles in line with the principles of the Statistics Act (Act No. 53 of 2007). When refining statistics, it will take account of changes in the global financial and economic structure. The Bank will look to further strengthen its communication with the public, reinforce its collaborative links with international organizations, and cooperate with the government's statistical offices that have been working to improve the accuracy of the GDP statistics. It will also look to improve the systems involved in producing statistics.**

- (1) Regarding statistics, the Bank proceeded with the following actions.

(a) A member of the Bank's senior staff, namely, an Associate Director-General, served as member of the Executive of the Irving Fisher Committee on Central Bank Statistics (IFC), and participated in international discussions regarding the compilation and use of statistics. In cooperation with relevant domestic parties, the Bank proceeded with refinements of statistics in line with proposals from the G-20 and the International Monetary Fund (IMF).

(b) The Bank started, one-by-one, to collect new source data to enhance the BIS statistics, namely, the International Locational Banking Statistics and

International Consolidated Banking Statistics.

- (c) As for the *Tankan* (Short-Term Economic Survey of Enterprises in Japan), the Bank reviewed survey items for introduction/removal, deciding, for example, to introduce a new survey on the inflation outlook of enterprises. The Bank also continued to look into different methodologies for sample design based on the Economic Census data and the Establishment Frame Database, a database which collects regularly-updated information on all establishments and enterprises.
- (d) The Bank drafted basic guidelines on revising the Flow of Funds Accounts Statistics (FFA) in line with the System of National Accounts, 2008 (2008 SNA), the latest version of the international statistical standard for the national accounts. In addition, taking account of international demand for the refinement of accounting statistics, the Bank reviewed and expanded the FFA through, for example, the reclassification of public and private sectors and the compilation of data series for the issuance and holding of bonds by remaining maturity.
- (e) The Bank proceeded with the arrangements for revising the base year for the corporate services price index (CSPI) from 2005 to 2010: it reviewed the price sampling and quality adjustment methods and released the final draft for the base-year revision.
- (f) The Bank made progress in its examination into the launch of a wholesale services price survey, one of the aims of which is to contribute to improving the accuracy of the System of National Accounts (SNA) statistics.
- (g) With regard to the balance of payments statistics, the Bank completed its system development for

conforming with the sixth edition of the IMF's *Balance of Payments and International Investment Position Manual* (BPM6). It also supplied appropriate information on, for example, accompanying changes in the reporting of the data.

- (h) The Bank, as both a compiler and user of statistics, closely exchanged views with the government, which is responsible for compiling major sets of economic statistics such as the SNA, and also provided feedback.

**4. In support of the activities of the Central Council for Financial Services Information (CCFSI) and Local Financial Services Information Committees (hereafter Local Committees), the Bank will continue to contribute to financial 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, paying due attention to the particular characteristics of target recipients and cooperating closely with relevant parties.**

- (1) As the secretariat of the CCFSI, the Bank supported the CCFSI's efforts to pursue the following actions in cooperation with Local Committees and relevant parties, including ministries, local public bodies, and financial and economic organizations.

- (a) In line with the report by the Study Group on Financial Education set up within the Financial Services Agency, in June 2013 the CCFSI established the Committee for the Promotion of Financial Education and promoted efforts to

address the issues identified in the report. The CCFSI also worked to forge links between consumer education and financial education by, for example, participating in the Consumer Education Promotion Council set up within the Consumer Affairs Agency.

- (b) Regarding support for the promotion of financial education, the CCFSI organized the following: festivals at five locations where children could learn about money with their families; open classes at 22 schools; seminars for school teachers and undergraduate and graduate students on teacher-training courses; and the nationwide distribution of teaching material targeted mainly at high school students (available only in Japanese). In addition, the CCFSI held essay competitions for students and teachers, as well as lectures for students at six universities.

- (c) In terms of raising awareness and understanding of financial and economic issues among the public, the CCFSI engaged in the following: the publication of a pamphlet for the middle-aged and the elderly (available only in Japanese); the launch of the CCFSI's smartphone site; and the dispatch of speakers to public lectures organized by Local Committees.

- (2) The Bank, as the secretariat of the CCFSI, supported the CCFSI's continued conduct of the *Survey of Household Finances* (available only in Japanese). It also contributed to the compilation of a report by the OECD and other organizations on national strategies for financial education in major economies around the world.



# The Bank's Organizational Management in Fiscal 2013

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**I. Statement 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**

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**V. Internal Audits**

## I. STATEMENT OF ACCOUNTS AND BUDGET FOR EXPENSES

As for the Bank of Japan's expenses for fiscal 2013, the Bank duly made, in line with the budget, the disbursements necessary to cover "The Bank of Japan's Strategic Priorities for Fiscal 2013–2015" (the 2013–15 Strategic Priorities). With regard to the Bank's statement of accounts for fiscal 2013, the total amount of actual expenses increased from the previous fiscal year by 0.9 percent (1.6 billion yen) to 182.5 billion yen. Regarding the Bank's budget for expenses for fiscal 2014, the Bank has carefully

examined overall expenditure in compiling a suitable budget for the year while securing the necessary budget to perform its role as central bank. The total amount of actual expenses in the Bank's statement of accounts for fiscal 2013 reflects the provisional and exceptional measure taken by the Bank to reduce its officers' and employees' remuneration in support of rebuilding efforts following the disaster caused by the Great East Japan Earthquake.<sup>1</sup>

## II. IT INVESTMENT

The Bank steadily carried out the system development projects necessary to achieve the goals set out in the 2013–15 Strategic Priorities, while working to raise the efficiency and streamline the development of such projects. Specifically, projects such as construction of

the new Bank of Japan Financial Network System (BOJ-NET) proceeded as scheduled. The scale of system development for fiscal 2013 was 14,003 person-months<sup>2</sup> (including 10,969 person-months that were outsourced).

## III. HUMAN RESOURCES

The Bank maintained the number of employees necessary to achieve the goals set out in the 2013–15 Strategic Priorities without breaking the ceiling on the number of full-time employees for fiscal 2013, which was set at 4,900. Following the Bank's efforts to further increase the overall efficiency of its business operations while securing the staff needed to enhance its capabilities, the number of full-time employees was 4,620 at the end of March 2014, down 43 from the

previous fiscal year (Table 1).

Regarding remuneration, the Bank reduced its officers' remuneration by between 10 and 30 percent as a provisional and exceptional measure for fiscal 2012 and 2013, in support of rebuilding efforts following the earthquake disaster.

As for its employees, the Bank reduced annual remuneration by between 5.94 percent and 9.79 percent as a provisional and exceptional measure for

1. A cut in officers' or employees' remuneration increases the Bank's payment to the government because the Bank pays the government its entire net income—after deducting expenses and income taxes—excluding certain provisions and dividends.

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

fiscal 2012 and 2013, in support of rebuilding efforts following the earthquake disaster. With regard to the base levels of annual remuneration for fiscal 2013, to which the reduction rates were applied when calculating

the actual annual remuneration, base levels of both salaries and bonuses were kept unchanged from the previous fiscal year.

Table 1

**Number of Full-Time Employees as of the End of March 2014**

number of people; figures in parentheses are as of the end of March 2013

<b>Total</b>		<b>4,620</b>	<b>(4,663)</b>
Head Office <sup>1</sup>		2,704	(2,691)
Branches		1,844	(1,899)
Local offices <sup>1</sup>		48	(49)
Overseas representative offices		24	(24)

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

With a view to addressing the issues and moving forward with the action plans stated in the 2013–15 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, with a view to the stable execution of its business operations, the Bank assessed its business processes so as to identify where operational risks existed, including those associated with information security, 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 by 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.

### **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 with improving 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" by, for example, implementing measures to support employees who are raising children. As the Bank had achieved the goals for the second phase, it formulated

action plans for the third phase starting from fiscal 2014. In the new phase, the Bank will continue to work to improve the employment and working conditions of its employees so that they can balance work and child-rearing.

### **C. Performance Reviews**

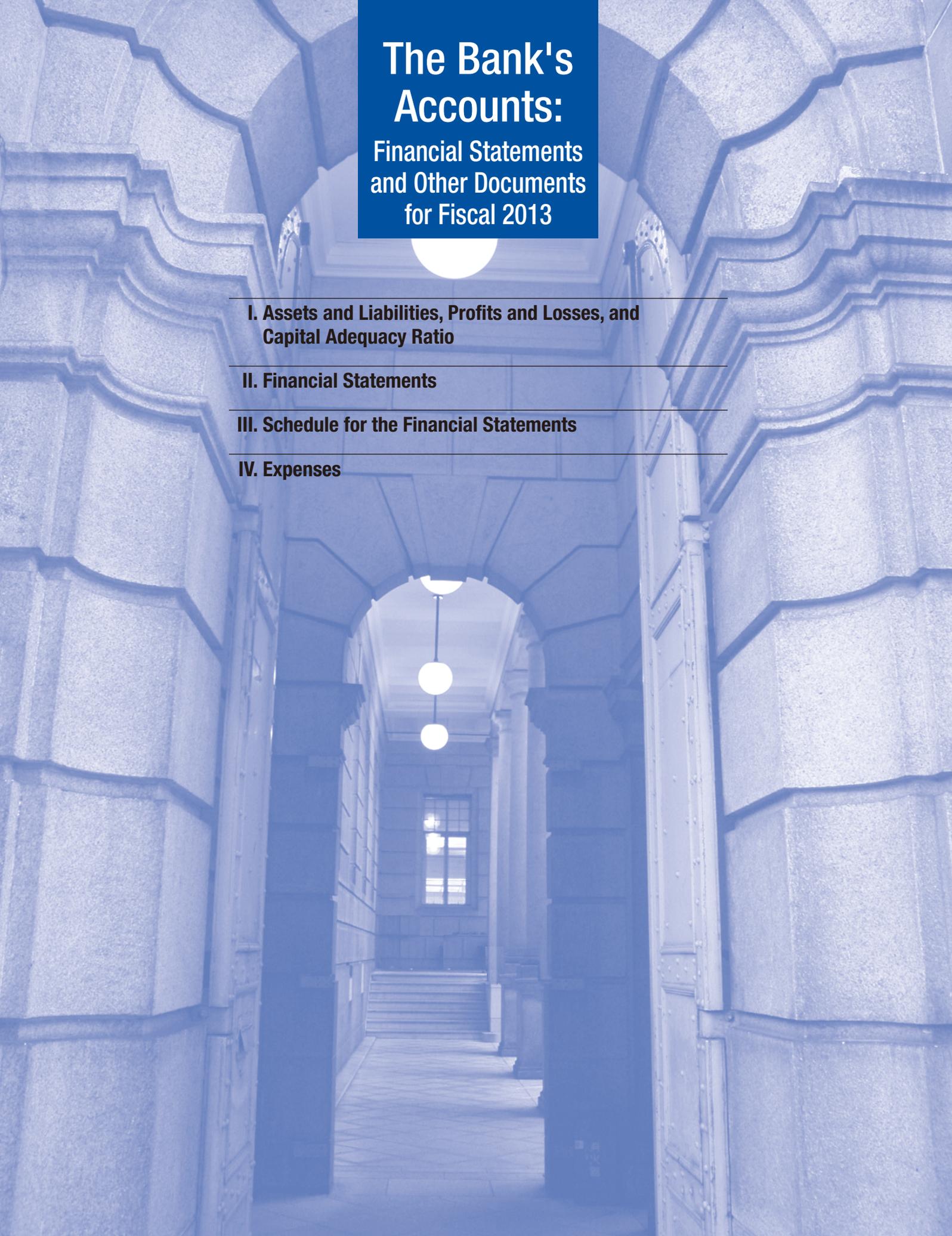
Every fiscal year, the Bank conducts performance reviews of the progress that has been made in the business operations and organizational management highlighted in the Strategic Priorities. Its evaluation of progress in fiscal 2013 for "Issues and Action Plans" and "Organizational Management" set out in the 2013–15 Strategic Priorities is described in the sections entitled "The Bank's Review of Fiscal 2013" and "The Bank's Organizational Management in Fiscal 2013" in this issue of the *Annual Review*.

## **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 2013, the Internal Auditors' Office audited 4 departments at the Bank's Head Office (the Secretariat of the Policy Board, the Financial System

and Bank Examination Department, the Currency Issue Department, and the Administration Department), 2 overseas representative offices (New York and Washington, D.C.), 15 branches (Kushiro, Sapporo, Hakodate, Aomori, Akita, Maebashi, Niigata, Kanazawa, Matsumoto, Shizuoka, Kyoto, Kobe, Okayama, Hiroshima, and Kagoshima), and 7 local offices (Asahikawa, Obihiro, Mito, Toyama, Fukui, Nagano, and Miyazaki). In addition, in fiscal 2013 the Bank carried out target inspections on the accuracy in the preparation of financial statements.



# The Bank's Accounts:

Financial Statements  
and Other Documents  
for Fiscal 2013

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**I. Assets and Liabilities, Profits and Losses, and  
Capital Adequacy Ratio**

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**II. Financial Statements**

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**III. Schedule for the Financial Statements**

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**IV. Expenses**

On May 28, 2014, the Bank of Japan released the "Financial Statements for the 129th Fiscal Year" (available only in Japanese), which contains the Bank's financial statements (the inventory of property, balance sheet, and statement of income) for the 129th fiscal year, i.e., fiscal 2013 (April 1, 2013–March 31, 2014), and the schedule for the financial statements for fiscal 2013.

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 financial results for fiscal 2013 is as below.

## **I. ASSETS AND LIABILITIES, PROFITS AND LOSSES, AND CAPITAL ADEQUACY RATIO**

The balance sheet of the Bank at the end of fiscal 2013 shows that total assets increased by 46.6 percent (76,767.1 billion yen) from the previous fiscal year-end to 241,579.8 billion yen, mainly due to an increase in holdings of Japanese government securities (JGSs).<sup>1</sup> Total liabilities increased by 47.4 percent (76,590.0 billion yen) from the previous fiscal year-end to 238,114.0 billion yen, mainly due to an increase in current deposits (Table 1).

Detailed developments in the Bank's balance sheet in fiscal 2013 are as follows.

Looking at assets at the fiscal year-end, holdings of JGSs increased by 58.2 percent from the previous fiscal year-end to 198,337.0 billion yen, mainly reflecting the progress in the Bank's JGB purchases under quantitative and qualitative monetary easing.<sup>2</sup> Loans and bills discounted increased by 3.2 percent from the previous fiscal year-end to 26,313.8 billion yen, mainly due to an increase in the amount of funds provided through the fund-provisioning measure to stimulate bank lending (hereafter the Stimulating Bank Lending Facility). The amount outstanding of loans provided through the Loan Support Program<sup>3</sup> was 12,686.4 billion yen.

Turning to liabilities, current deposits increased by a factor of 2.2 from the previous fiscal year-end to 128,667.8 billion yen, reflecting an increase in the amount of funds provided through JGB purchases and other measures. Meanwhile, the amount outstanding of banknotes issued (banknotes in circulation) increased by 3.9 percent from the previous fiscal year-end to 86,630.8 billion yen.

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

2. For details, see pages 32–33.

3. The Bank aims through this program to support private financial institutions' efforts in strengthening the foundations for economic growth and stimulating bank lending. It was introduced as a temporary measure that would help the effects of monetary easing to permeate the entire economy, with a view to achieving price stability and thereby contributing to the sound development of the national economy. For details, see page 37.

With regard to the Bank's statement of income for fiscal 2013, operating profits increased by 148.8 billion yen from the previous fiscal year to 1,280.5 billion yen, mainly due to the rise in "core" operating income<sup>4</sup> (Table 2).

Meanwhile, net special losses amounted to 298.8 billion yen, due mainly to the transfer of funds to the provision for possible losses on foreign exchange transactions following net foreign exchange-related gains.

Net income for the term—after subtracting corporate income tax and inhabitants and enterprise taxes—increased by 148.2 billion yen from the previous fiscal year to 724.2 billion yen. After transferring 144.8 billion yen to the legal reserve (20 percent of net income for the term) 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 (579.3 billion yen). Of the amount transferred to the legal reserve, 108.6 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 (hereafter the Act).

The capital adequacy ratio, after the appropriation of net income, rose from its previous fiscal year-end level of 7.45 percent to 7.74 percent at the end of fiscal 2013 (Table 3).

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4. For the definition of "core" operating income, see Note 2 in Table 2 on page 64.

Table 1

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

bil. yen

Item	End of fiscal 2012 (March 31, 2013)	End of fiscal 2013 (March 31, 2014)
<b>Total assets</b>	164,812.7 (+18.2) <+25,355.8>	241,579.8 (+46.6) <+76,767.1>
Of which:		
Japanese government securities	125,355.6 (+43.7) <+38,108.4>	198,337.0 (+58.2) <+72,981.4>
Commercial paper	1,245.7 (-21.9) <-349.1>	1,874.9 (+50.5) <+629.1>
Corporate bonds	2,887.2 (+45.0) <+896.6>	3,204.1 (+11.0) <+316.8>
Pecuniary trusts (stocks held as trust property)	1,378.0 (-3.5) <-50.2>	1,372.8 (-0.4) <-5.2>
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	1,544.0 (+82.1) <+696.1>	2,851.1 (+84.7) <+1,307.1>
Pecuniary trusts (Japan real estate investment trusts held as trust property)	118.9 (+61.6) <+45.3>	148.8 (+25.1) <+29.8>
Loans and bills discounted	25,487.0 (-34.6) <-13,508.3>	26,313.8 (+3.2) <+826.7>
Foreign currency assets	5,526.4 (-5.9) <-345.9>	6,158.2 (+11.4) <+631.8>
<b>Total liabilities</b>	161,523.9 (+18.6) <+25,282.3>	238,114.0 (+47.4) <+76,590.0>
Of which:		
Banknotes	83,378.2 (+3.1) <+2,535.4>	86,630.8 (+3.9) <+3,252.5>
Deposits (excluding those of the government)	58,320.0 (+62.5) <+22,423.6>	132,347.7 (2.3 times) <+74,027.6>
Deposits of the government	1,494.1 (-18.5) <-338.2>	1,677.8 (+12.3) <+183.6>
Payables under repurchase agreements	14,505.4 (+0.8) <+108.3>	13,375.5 (-7.8) <-1,129.9>

Note: 1. Figures in parentheses are the percentage changes from a year earlier unless otherwise noted; figures in angular brackets are changes in billions of yen from a year earlier.

[Reference to Table 1]

**Loans Provided through the Loan Support Program<sup>1,2</sup>**

bil. yen

Item	End of fiscal 2011 (March 31, 2012)	End of fiscal 2012 (March 31, 2013)	End of fiscal 2013 (March 31, 2014)
<b>Total amount outstanding</b>	...	3,684.3	12,686.4
Loans made under the fund-provisioning measure to support strengthening the foundations for economic growth	...	3,684.3	4,136.8
Loans made under the fund-provisioning measure to stimulate bank lending	...	...	8,549.6

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

2. For the details of this program, see page 37.

Table 2

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

bil. yen

Item	Fiscal 2012 (April 1, 2012–March 31, 2013)	Fiscal 2013 (April 1, 2013–March 31, 2014)
<b>Operating profits/losses</b>	1,131.6 (2.1 times) <+595.6>	1,280.5 (+13.2) <+148.8>
Of which: "Core" operating income <sup>2</sup>	741.0 <-22.7>	908.7 <+167.7>
Net government bond-related gains/losses <sup>3</sup>	0.3 <-0.8>	0.2 <-0.1>
Net foreign exchange-related gains/losses <sup>4</sup>	603.6 <+664.2>	619.4 <+15.8>
Net gains/losses on pecuniary trusts (stocks held as trust property)	-13.3 <+14.2>	42.1 <+55.4>
<b>Special profits/losses<sup>5</sup></b>	-295.0 <-304.2>	-298.8 <-3.8>
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	-301.8 <-301.8>	-309.7 <-7.9>
Net transfer to/from provision for unrealized losses on index-linked exchange-traded funds	... <-2.1>	... <...>
Net transfer to/from provision for unrealized losses on Japan real estate investment trusts	... <-0.1>	... <...>
<b>Net income before taxes</b>	836.6 (+53.4) <+291.3>	981.6 (+17.3) <+144.9>
<b>Provision for corporate income tax, inhabitants taxes, and enterprise taxes</b>	260.6 <+244.3>	257.3 <-3.2>
<b>Net income<sup>6</sup></b>	576.0 (+8.9) <+46.9>	724.2 (+25.7) <+148.2>

Notes: 1. Figures in parentheses are the percentage changes from the previous fiscal year unless otherwise noted; figures in angular brackets are changes in billions of yen from the previous fiscal year. "..." indicates that figures are not applicable.

2. The total of interest on loans and discounts, interest and discounts on JGSs, interest on commercial paper (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 revaluation following fluctuations in foreign exchange rates.

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

6. 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 providing for the amount transferred to the legal reserve and for 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.

Table 3

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

bil. yen, except where otherwise noted

Item	End of fiscal 2011 (March 31, 2012)	End of fiscal 2012 (March 31, 2013)	End of fiscal 2013 (March 31, 2014)	[Reference]	
				Changes from a year earlier	End of the first half of fiscal 2013 (September 30, 2013)
<b>Capital accounts (A)</b>	<b>2,712.7</b>	<b>2,741.5</b>	<b>2,886.3</b>	<b>+144.8</b>	<b>2,741.5</b>
Capital	0.1	0.1	0.1	...	0.1
Legal reserve and others <sup>2</sup>	2,712.6	2,741.4	2,886.2	+144.8	2,741.4
<b>Provisions (B)</b>	<b>3,037.8</b>	<b>3,339.6</b>	<b>3,649.3</b>	<b>+309.7</b>	<b>3,491.4</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	1,096.3	1,406.0	+309.7	1,248.1
<b>Capital base<sup>3</sup> (C) = (A) + (B)</b>	<b>5,750.5</b>	<b>6,081.1</b>	<b>6,535.7</b>	<b>+454.5</b>	<b>6,233.0</b>
<b>Annual average of banknotes issued (D)</b>	<b>79,646.4</b>	<b>81,569.5</b>	<b>84,411.6</b>	<b>+2,842.1</b>	<b>83,278.3</b>
<b>Capital adequacy ratio (C)/(D) × 100 (percent)</b>	<b>7.22</b>	<b>7.45</b>	<b>7.74</b>	<b>+0.29</b>	<b>7.48</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.

## II. FINANCIAL STATEMENTS

### 1. Inventory of property as at March 31, 2014

Item	Value in yen	Unit (except where otherwise noted)
<b>ASSETS</b>		
Gold	441,253,409,037	
Cash	289,848,532,257	
Japanese government securities	198,337,031,240,604	Face value at 195,802,378,500,000 yen
Commercial paper	1,874,901,616,064	Face value at 1,875,000,000,000 yen
Corporate bonds	3,204,134,652,692	Face value at 3,166,700,000,000 yen
Pecuniary trusts (stocks held as trust property)	1,372,809,053,507	
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	2,851,175,926,577	
Pecuniary trusts (Japan real estate investment trusts held as trust property)	148,828,559,477	
Loans and bills discounted	26,313,833,000,000	
Electronic loans	26,313,833,000,000	1,698
Foreign currency assets	6,158,293,721,818	
Foreign currency deposits	775,121,686,196	
Foreign currency securities	4,426,572,243,822	
Foreign currency mutual funds	50,506,196,800	
Foreign currency loans	906,093,595,000	
Deposits with agents	25,384,176,928	Deposits with 89 agents
Other assets	358,968,074,467	
Bills and checks in process of collection	1,626,442,156	9
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
Withdrawn cash to be returned to the government	65,898,388,030	6
Accrued interest receivable	245,667,044,542	
Others	30,272,825,375	
Tangible fixed assets	203,257,330,049	
Buildings	100,767,249,031	633,461.24 square meters
Land	82,830,507,504	571,528.83 square meters
Lease assets	7,108,497,193	Number of lease property: 20,732
Construction in progress	1,398,166,350	
Other tangible fixed assets	11,152,909,971	Number of movable property: 10,514
Intangible fixed assets	126,522,433	
Utility rights	126,522,433	
<b>Total assets</b>	<b>241,579,845,815,910</b>	
<b>LIABILITIES</b>		
Banknotes	86,630,810,178,427	
Deposits (excluding those of the government)	132,347,720,198,864	
Current deposits	128,667,873,654,832	1,145
Other deposits	3,679,846,544,032	122
Deposits of the government	1,677,803,694,047	
Treasury deposit	149,998,722,256	
Domestic designated deposit	1,170,217,267,220	
Other government deposits	357,587,704,571	
Payables under repurchase agreements	13,375,580,245,208	3
Other liabilities	233,744,524,353	
Remittances payable	5,473,070,579	
Unearned interest and discounts	25,479	
Taxes payable	198,012,000,000	
Lease liabilities	7,468,470,626	
Others	22,790,957,669	
Provision for retirement benefits	199,025,115,009	
Provision for possible losses on bonds transactions	2,243,348,993,013	
Provision for possible losses on foreign exchange transactions	1,406,025,000,000	
<b>Total liabilities</b>	<b>238,114,057,948,921</b>	
<b>NET ASSETS</b>		
Capital	100,000,000	
Legal reserve	2,741,425,223,071	
Special reserve	13,196,452	
Net income	724,249,447,466	
<b>Total net assets</b>	<b>3,465,787,866,989</b>	
<b>Total liabilities and net assets</b>	<b>241,579,845,815,910</b>	

## 2. Balance sheet as at March 31, 2014

yen

<b>ASSETS</b>	
Gold	441,253,409,037
Cash	289,848,532,257
Japanese government securities	198,337,031,240,604
Commercial paper	1,874,901,616,064
Corporate bonds	3,204,134,652,692
Pecuniary trusts (stocks held as trust property)	1,372,809,053,507
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	2,851,175,926,577
Pecuniary trusts (Japan real estate investment trusts held as trust property)	148,828,559,477
Loans and bills discounted	26,313,833,000,000
Electronic loans	26,313,833,000,000
Foreign currency assets	6,158,293,721,818
Foreign currency deposits	775,121,686,196
Foreign currency securities	4,426,572,243,822
Foreign currency mutual funds	50,506,196,800
Foreign currency loans	906,093,595,000
Deposits with agents	25,384,176,928
Other assets	358,968,074,467
Bills and checks in process of collection	1,626,442,156
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
Withdrawn cash to be returned to the government	65,898,388,030
Accrued interest receivable	245,667,044,542
Others	30,272,825,375
Tangible fixed assets	203,257,330,049
Buildings	100,767,249,031
Land	82,830,507,504
Lease assets	7,108,497,193
Construction in progress	1,398,166,350
Other tangible fixed assets	11,152,909,971
Intangible fixed assets	126,522,433
Utility rights	126,522,433
<b>Total assets</b>	<b>241,579,845,815,910</b>
<b>LIABILITIES</b>	
Banknotes	86,630,810,178,427
Deposits (excluding those of the government)	132,347,720,198,864
Current deposits	128,667,873,654,832
Other deposits	3,679,846,544,032
Deposits of the government	1,677,803,694,047
Treasury deposit	149,998,722,256
Domestic designated deposit	1,170,217,267,220
Other government deposits	357,587,704,571
Payables under repurchase agreements	13,375,580,245,208
Other liabilities	233,744,524,353
Remittances payable	5,473,070,579
Unearned interest and discounts	25,479
Taxes payable	198,012,000,000
Lease liabilities	7,468,470,626
Others	22,790,957,669
Provision for retirement benefits	199,025,115,009
Provision for possible losses on bonds transactions	2,243,348,993,013
Provision for possible losses on foreign exchange transactions	1,406,025,000,000
<b>Total liabilities</b>	<b>238,114,057,948,921</b>
<b>NET ASSETS</b>	
Capital	100,000,000
Legal reserve	2,741,425,223,071
Special reserve	13,196,452
Net income	724,249,447,466
<b>Total net assets</b>	<b>3,465,787,866,989</b>
<b>Total liabilities and net assets</b>	<b>241,579,845,815,910</b>

**3. Statement of income for fiscal 2013 (April 1, 2013–March 31, 2014)**

yen

<b>Operating income</b>	<b>1,579,307,772,810</b>
<b>Interest on loans and discounts</b>	<b>25,612,802,320</b>
Interest on loans	25,612,802,320
<b>Interest and discounts on Japanese government securities</b>	<b>805,736,536,923</b>
<b>Interest on commercial paper</b>	<b>1,872,301,505</b>
<b>Interest and discounts on corporate bonds</b>	<b>5,376,154,921</b>
<b>Gains on sale of Japanese government securities</b>	<b>207,400,000</b>
<b>Gains on foreign currency assets</b>	<b>628,307,553,922</b>
Foreign exchange gains	619,431,527,313
Gains on foreign currency securities	5,747,876,501
Gains on foreign currency mutual funds	620,501,780
Interest on foreign currency deposits and loans	2,507,648,328
<b>Other operating income</b>	<b>112,195,023,219</b>
Gains on pecuniary trusts (stocks held as trust property)	42,101,856,184
Gains on pecuniary trusts (index-linked exchange-traded funds held as trust property)	37,533,321,989
Gains on pecuniary trusts (Japan real estate investment trusts held as trust property)	6,634,798,096
Dividends	801,661,101
Fees and commissions	10,828,634,736
Other income	14,294,751,113
<b>Operating expenses</b>	<b>298,764,260,532</b>
<b>Interest on payables under repurchase agreements</b>	<b>14,602,562,616</b>
<b>General and administrative expenses and costs</b>	<b>190,816,633,129</b>
Cost of production of banknotes	48,016,228,000
Administrative expenses for treasury business and Japanese government securities	18,039,865,122
Personnel expenses	47,209,437,775
Expenses for transportation and communications	4,325,935,733
Expenses for maintenance and repairs	1,967,932,236
Other general and administrative expenses and costs	51,800,274,693
Taxes excluding corporate income tax, inhabitants taxes, and enterprise taxes	3,843,256,283
Depreciation and amortization	15,613,703,287
<b>Other general and administrative expenses</b>	<b>93,345,064,787</b>
Fees and commissions paid	114,747,677
Other expenses	93,230,317,110
<b>Operating profits</b>	<b>1,280,543,512,278</b>
<b>Special profits</b>	<b>11,075,893,954</b>
<b>Gains on disposal of fixed assets</b>	<b>11,075,893,954</b>
<b>Special losses</b>	<b>309,971,913,208</b>
<b>Losses on disposal of fixed assets</b>	<b>256,913,208</b>
<b>Transfer to provision for possible losses on foreign exchange transactions</b>	<b>309,715,000,000</b>
<b>Net income before taxes</b>	<b>981,647,493,024</b>
<b>Provision for corporate income tax, inhabitants taxes, and enterprise taxes</b>	<b>257,398,045,558</b>
<b>Net income</b>	<b>724,249,447,466</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, beneficiary 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 the foreign exchange rates used in swap transactions with the Federal Reserve Bank of New York.

**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**

The provision for retirement benefits is appropriated 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 will be registered for the difference between the market value and the book value for each in cases where the market value is less than the book value.

### Explanatory Notes to Lease Transactions

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**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	136
More than one year	57
Total	193

b. Lessor

	mil. yen
Within one year	1
More than one year	43
Total	45

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

#### 1. Reconciliation of beginning and ending balances of the projected benefit obligation

	yen
Projected benefit obligation at the beginning of fiscal 2013	200,699,678,000
Service cost	4,790,517,000
Interest cost	4,013,994,000
Actuarial differences	12,851,556,471
Retirement benefits paid	-9,355,781,471
Prior service cost	...
Projected benefit obligation at the end of fiscal 2013	212,999,964,000

#### 2. Reconciliation of the projected benefit obligation and the provision for retirement benefits

	yen
Projected benefit obligation	212,999,964,000
Fair value of plan assets	...
Unfunded projected benefit obligation	212,999,964,000
Unrecognized actuarial differences	-13,974,848,991
Unrecognized prior service cost	...
Net amount recorded on the balance sheet	199,025,115,009
Prepaid pension cost	...
Provision for retirement benefits	199,025,115,009

#### 3. Retirement benefit cost

	yen
Service cost	4,790,517,000
Interest cost	4,013,994,000
Expected return on plan assets	...
Amortization of actuarial differences	-45,018,287
Amortization of prior service cost	...
Retirement benefit cost	8,759,492,713

#### 4. Assumptions

Discount rate	1.6%
Long-term expected rate of return on plan assets	...
Method of attributing the projected benefits to periods of service	Straight-line method

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

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

May 2, 2014

### Auditors' Opinion on the Bank of Japan's Financial Statements for Fiscal 2013

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 2013 indicated below. In our opinion, the financial statements present fairly the state of property and the results of operations for fiscal 2013.

The financial statements comprise the following:  
Inventory of property as at March 31, 2014;  
Balance sheet as at March 31, 2014; and  
Statement of income for fiscal 2013.

Makoto Hosomi  
Kazuhito Osugi  
Yuji Iino

Auditors, Bank of Japan

## 6. Appropriation of net income for fiscal 2013

yen

<b>Net income</b>	<b>724,249,447,466</b>
Appropriations:	
Transfer to legal reserve	144,849,889,494
Dividends, 5 percent of share face value	5,000,000
Payment to the government	579,394,557,972
<b>Total</b>	<b>724,249,447,466</b>

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

### III. SCHEDULE FOR THE FINANCIAL STATEMENTS

#### 1. Details of assets

yen

Item	Balance at the beginning of fiscal 2013	Balance at the end of fiscal 2013	Changes during fiscal 2013
<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>323,540,126,250</b>	<b>289,848,532,257</b>	<b>-33,691,593,993</b>
<b>3. Japanese government securities</b>	<b>125,355,626,798,498</b>	<b>198,337,031,240,604</b>	<b>72,981,404,442,106</b>
Treasury discount bills	34,006,385,099,605	44,183,394,256,253	10,177,009,156,648
Japanese government bonds	91,349,241,698,893	154,153,636,984,351	62,804,395,285,458
2-year Japanese government bonds	19,094,649,889,195	18,549,272,192,216	-545,377,696,979
5-year Japanese government bonds	22,163,404,377,540	43,305,046,131,749	21,141,641,754,209
10-year Japanese government bonds	28,999,723,652,281	57,186,771,246,336	28,187,047,594,055
20-year Japanese government bonds	16,082,741,884,653	26,600,194,210,818	10,517,452,326,165
30-year Japanese government bonds	769,299,403,684	2,502,764,386,635	1,733,464,982,951
40-year Japanese government bonds	18,003,191	783,697,613,149	783,679,609,958
Floating-rate Japanese government bonds	3,110,219,438,261	3,962,471,247,746	852,251,809,485
Inflation-indexed bonds	1,129,185,050,088	1,263,419,955,702	134,234,905,614
<b>4. Commercial paper<sup>2</sup></b>	<b>1,245,715,573,746</b>	<b>1,874,901,616,064</b>	<b>629,186,042,318</b>
Dematerialized commercial paper	1,245,715,573,746	1,874,901,616,064	629,186,042,318
<b>5. Corporate bonds<sup>3</sup></b>	<b>2,887,292,458,984</b>	<b>3,204,134,652,692</b>	<b>316,842,193,708</b>
<b>6. Pecuniary trusts (stocks held as trust property)<sup>4</sup></b>	<b>1,378,033,869,914</b>	<b>1,372,809,053,507</b>	<b>-5,224,816,407</b>
Stocks	1,360,524,610,814	1,351,505,455,007	-9,019,155,807
Dividends receivable and others	17,509,259,100	21,303,598,500	3,794,339,400
<b>7. Pecuniary trusts (index-linked exchange-traded funds held as trust property)<sup>5</sup></b>	<b>1,544,000,809,742</b>	<b>2,851,175,926,577</b>	<b>1,307,175,116,835</b>
Index-linked exchange-traded funds	1,544,000,809,742	2,851,175,926,577	1,307,175,116,835
<b>8. Pecuniary trusts (Japan real estate investment trusts held as trust property)<sup>6</sup></b>	<b>118,972,150,107</b>	<b>148,828,559,477</b>	<b>29,856,409,370</b>
Japan real estate investment trusts	117,481,388,575	147,030,239,019	29,548,850,444
Distributions receivable	1,490,761,532	1,798,320,458	307,558,926
<b>9. Loans and bills discounted</b>	<b>25,487,067,000,000</b>	<b>26,313,833,000,000</b>	<b>826,766,000,000</b>
Electronic loans	25,487,067,000,000	26,313,833,000,000	826,766,000,000
Loans by complementary lending facility	1,000,000,000	3,100,000,000	2,100,000,000
Loans by funds-supplying operations against pooled collateral <sup>7</sup>	25,486,067,000,000	26,310,733,000,000	824,666,000,000
<b>10. Foreign currency assets</b>	<b>5,526,470,710,319</b>	<b>6,158,293,721,818</b>	<b>631,823,011,499</b>
Foreign currency deposits <sup>8</sup>	949,502,132,282	775,121,686,196	-174,380,446,086
Foreign currency securities <sup>9,10</sup>	4,202,429,703,017	4,426,572,243,822	224,142,540,805
Foreign currency mutual funds	47,169,195,020	50,506,196,800	3,337,001,780
Foreign currency loans <sup>11</sup>	327,369,680,000	906,093,595,000	578,723,915,000
<b>11. Deposits with agents<sup>12</sup></b>	<b>22,803,167,847</b>	<b>25,384,176,928</b>	<b>2,581,009,081</b>

Notes: 1. Coins reserved for circulation.

2. 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.

3. Includes corporate bonds issued by real estate investment corporations.

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

5. Comprises beneficiary interests in index-linked exchange-traded funds purchased through a trust bank and distributions receivable.

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

7. Includes the amount outstanding of loans made through the fixed-rate funds-supplying operation against pooled collateral, that of loans made under the fund-provisioning measure to support strengthening the foundations for economic growth (hereafter the Growth-Supporting Funding Facility) conducted through the Loan Support Program (excluding loans disbursed pursuant to the special rules for the U.S. dollar lending arrangement), and that of loans made through the funds-supplying operation to support financial institutions in disaster areas. The amount outstanding at the fiscal year-end includes loans made under the Stimulating Bank Lending Facility conducted through the Loan Support Program.

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

9. Includes securities issued by foreign governments.

10. 508,230,560,692 yen of the amount outstanding of the foreign currency securities at the fiscal year-end comprises loans due to lending/borrowing of securities.

11. The amount outstanding of loans disbursed pursuant to the special rules for the U.S. dollar lending arrangement to enhance the Growth-Supporting Funding Facility conducted through the Loan Support Program.

12. 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 fiscal 2013	Balance at the end of fiscal 2013	Changes during fiscal 2013
<b>12. Other assets</b>	<b>276,848,121,861</b>	<b>358,968,074,467</b>	<b>82,119,952,606</b>
Bills and checks in process of collection <sup>13</sup>	2,072,328,960	1,626,442,156	-445,886,804
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>14</sup>	15,278,374,364	15,278,374,364	0
Withdrawn cash to be returned to the government <sup>15</sup>	60,168,087,633	65,898,388,030	5,730,300,397
Accrued interest receivable	162,261,697,825	245,667,044,542	83,405,346,717
Others	36,842,633,079	30,272,825,375	-6,569,807,704

Notes: 13. Checks and bills received as cash and in process of collection.

14. A subscription to the BIS.

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

yen

Item	Balance at the beginning of fiscal 2013	Increase during fiscal 2013	Decrease during fiscal 2013	Of which:	Balance at the end of fiscal 2013	Cumulative total of depreciation
				Depreciation		
<b>13. Tangible fixed assets<sup>16</sup></b>	<b>204,979,635,610</b>	<b>23,122,912,254</b>	<b>24,845,217,815</b>	<b>15,005,822,059</b>	<b>203,257,330,049</b>	<b>335,610,293,900</b>
Buildings <sup>17,18</sup>	100,936,146,417 (637,581.61)	8,903,116,680 (5,143.65)	9,072,014,066 (9,264.02)	8,789,092,189 (...)	100,767,249,031 (633,461.24)	303,983,841,113 (...)
Land <sup>17</sup>	82,861,043,896 (611,170.62)	0 (152.26)	30,536,392 (39,794.05)	... (...)	82,830,507,504 (571,528.83)	... (...)
Lease assets <sup>19,20</sup>	7,449,941,655 (23,785)	3,268,330,059 (3,186)	3,609,774,521 (6,239)	3,596,808,581 (...)	7,108,497,193 (20,732)	6,430,558,035 (...)
Construction in progress <sup>21</sup>	2,652,457,180	8,093,836,923	9,348,127,753	...	1,398,166,350	...
Other tangible fixed assets <sup>22,23</sup>	11,080,046,462 (10,651)	2,857,628,592 (170)	2,784,765,083 (307)	2,619,921,289 (...)	11,152,909,971 (10,514)	25,195,894,752 (...)

Notes: 16. "..." indicates that figures are not applicable.

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

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

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

20. The increase in "lease assets" was mainly due to new lease contracts on electronic data processing systems.

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

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

23. The increase in "other tangible fixed assets" was mainly due to purchase of new automatic banknote examination machines.

yen

Item	Balance at the beginning of fiscal 2013	Increase during fiscal 2013	Decrease during fiscal 2013	Of which:	Balance at the end of fiscal 2013	Cumulative total of depreciation
				Depreciation		
<b>14. Intangible fixed assets</b>	<b>136,225,839</b>	<b>3,251,200</b>	<b>12,954,606</b>	<b>12,954,606</b>	<b>126,522,433</b>	<b>825,839,584</b>
Utility rights	136,225,839	3,251,200	12,954,606	12,954,606	126,522,433	825,839,584

**Appendix 1: Details of assets purchased and loans provided through the Asset Purchase Program<sup>1</sup>**

yen

Item	Balance at the beginning of fiscal 2013	Balance at the end of fiscal 2013	Changes during fiscal 2013
<b>Total amount outstanding</b>	<b>72,076,908,717,426</b>	...	...
Treasury discount bills	16,448,873,707,797	...	...
Japanese government bonds	28,133,754,017,050	...	...
2-year Japanese government bonds	16,596,219,998,924	...	...
5-year Japanese government bonds	8,704,570,341,256	...	...
10-year Japanese government bonds	2,818,721,911,092	...	...
20-year Japanese government bonds	14,241,765,778	...	...
Commercial paper	1,245,715,573,746	...	...
Dematerialized commercial paper	1,245,715,573,746	...	...
Corporate bonds	2,887,292,458,984	...	...
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	1,544,000,809,742	...	...
Pecuniary trusts (Japan real estate investment trusts held as trust property)	118,972,150,107	...	...
Loans by funds-supplying operations against pooled collateral	21,698,300,000,000	...	...

Note: 1. This program was terminated on April 4, 2013 upon the introduction of quantitative and qualitative monetary easing. Thus, "..." indicates that figures for the balance at the end of fiscal 2013 and changes during fiscal 2013 are not applicable. Assets purchased and loans provided through the program continue to be included in the amounts outstanding of relevant items on the inventory of property and on the balance sheet after the termination of the program.

**Appendix 2: Details of loans provided through the Loan Support Program<sup>1</sup>**

yen

Item	Balance at the beginning of fiscal 2013	Balance at the end of fiscal 2013	Changes during fiscal 2013
<b>Total amount outstanding</b>	<b>3,684,336,680,000</b>	<b>12,686,426,595,000</b>	<b>9,002,089,915,000</b>
Loans made under the fund-provisioning measure to support strengthening the foundations for economic growth <sup>2</sup>	3,684,336,680,000	4,136,826,595,000	452,489,915,000
Loans made under the fund-provisioning measure to stimulate bank lending	0	8,549,600,000,000	8,549,600,000,000

Notes: 1. For the details of this program, see page 37.

2. Comprises the loans disbursed pursuant to the following: (1) main rules; (2) special rules for equity investments and asset-based lending; (3) special rules for small-lot investments and loans; and (4) special rules for the U.S. dollar lending arrangement. Figures for loans in categories (1) through (3) are included in "loans and bills discounted" under assets. As for loans in category (4), the relevant figure is included in "foreign currency assets" under assets.

## 2. Details of liabilities and net assets

yen

Item	Balance at the beginning of fiscal 2013	Balance at the end of fiscal 2013	Changes during fiscal 2013
<b>1. Banknotes</b>	<b>83,378,274,888,019</b>	<b>86,630,810,178,427</b>	<b>3,252,535,290,408</b>
10,000 yen notes	76,440,768,260,000	79,371,102,615,000	2,930,334,355,000
5,000 yen notes	2,818,242,075,000	3,093,642,837,500	275,400,762,500
2,000 yen notes	201,426,592,000	198,639,468,000	-2,787,124,000
1,000 yen notes	3,765,348,604,500	3,816,277,518,000	50,928,913,500
Other banknotes <sup>1</sup>	152,489,356,519	151,147,739,927	-1,341,616,592
<b>2. Deposits (excluding those of the government)</b>	<b>58,320,053,288,847</b>	<b>132,347,720,198,864</b>	<b>74,027,666,910,017</b>
Current deposits	58,128,929,684,391	128,667,873,654,832	70,538,943,970,441
Current deposits of financial institutions <sup>2</sup>	55,480,785,778,780	124,724,970,570,116	69,244,184,791,336
Other current deposits of nonfinancial institutions <sup>3</sup>	2,648,143,905,611	3,942,903,084,716	1,294,759,179,105
Other deposits <sup>4</sup>	191,123,604,456	3,679,846,544,032	3,488,722,939,576
<b>3. Deposits of the government</b>	<b>1,494,128,994,225</b>	<b>1,677,803,694,047</b>	<b>183,674,699,822</b>
Treasury deposit	149,999,975,085	149,998,722,256	-1,252,829
Domestic designated deposit <sup>5</sup>	958,134,134,169	1,170,217,267,220	212,083,133,051
Other government deposits <sup>6</sup>	385,994,884,971	357,587,704,571	-28,407,180,400
<b>4. Payables under repurchase agreements<sup>7</sup></b>	<b>14,505,493,650,544</b>	<b>13,375,580,245,208</b>	<b>-1,129,913,405,336</b>
Sales of Japanese government bonds under repurchase agreements to the government	12,469,768,660,557	13,375,149,036,392	905,380,375,835
Sales of treasury discount bills under repurchase agreements to foreign central banks and other foreign entities	2,035,214,875,995	0	-2,035,214,875,995
Other sales of Japanese government securities under repurchase agreements	510,113,992	431,208,816	-78,905,176
Of which: Under the securities lending facility	510,113,992	431,208,816	-78,905,176
<b>5. Other liabilities</b>	<b>286,743,176,540</b>	<b>233,744,524,353</b>	<b>-52,998,652,187</b>
Remittances payable	7,926,965,793	5,473,070,579	-2,453,895,214
Unearned interest and discounts	8,219	25,479	17,260
Taxes payable	256,601,459,000	198,012,000,000	-58,589,459,000
Lease liabilities	7,867,999,266	7,468,470,626	-399,528,640
Others	14,346,744,262	22,790,957,669	8,444,213,407

- 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 business operators.
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 sales of JGSs under repurchase agreements.

yen

Item	Balance at the beginning of fiscal 2013	Increase during fiscal 2013	Decrease during fiscal 2013	Balance at the end of fiscal 2013
<b>6. Provisions<sup>8</sup></b>	<b>3,539,280,396,780</b>	<b>318,474,492,713</b>	<b>9,355,781,471</b>	<b>3,848,399,108,022</b>
Provision for retirement benefits	199,621,403,767	8,759,492,713	9,355,781,471	199,025,115,009
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	1,096,310,000,000	309,715,000,000	0	1,406,025,000,000
<b>7. Net assets</b>	<b>2,712,736,985,666</b>	<b>28,801,433,857</b>	<b>0</b>	<b>2,741,538,419,523</b>
Capital	100,000,000	0	0	100,000,000
Legal reserve <sup>9</sup>	2,712,623,789,214	28,801,433,857	0	2,741,425,223,071
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 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 for fiscal 2013

#### a. Operating income

<b>Interest on loans and discounts</b>	
Interest on loans	25,612,802,320 yen from electronic loans.
<b>Interest and discounts on Japanese government securities</b>	805,736,536,923 yen from interest income on Japanese government securities after adjustment.
<b>Interest on commercial paper</b>	1,872,301,505 yen from interest income on commercial paper after adjustment.
<b>Interest and discounts on corporate bonds</b>	5,376,154,921 yen from interest income on corporate bonds after adjustment.
<b>Gains on sale of Japanese government securities</b>	207,400,000 yen from gains on sales of Japanese government bonds.
<b>Gains on foreign currency assets</b>	
Foreign exchange gains	619,431,527,313 yen from gains on foreign currency assets resulting from revaluation following fluctuations in foreign exchange rates.
Gains on foreign currency securities	Total of 67,542,097,460 yen from interest and discounts on foreign currency securities and 122,365,992 yen from lending fees on them; and 61,916,586,951 yen of losses arising from sale, redemption, and revaluation at end-March 2014 of foreign currency securities.
Gains on foreign currency mutual funds	620,501,780 yen
Interest on foreign currency deposits and loans	2,507,648,328 yen
<b>Other operating income</b>	
Gains on pecuniary trusts (stocks held as trust property)	42,101,856,184 yen mainly from dividends.
Gains on pecuniary trusts (index-linked exchange-traded funds held as trust property)	37,533,321,989 yen mainly from distributions.
Gains on pecuniary trusts (Japan real estate investment trusts held as trust property)	6,634,798,096 yen mainly from distributions.
Dividends	801,661,101 yen for dividends from shares of the Bank for International Settlements held by the Bank.
Fees and commissions	10,828,634,736 yen for fees and commissions for operations regarding Japanese government securities, the Bank of Japan Financial Network System (BOJ-NET), foreign exchange transactions, and other operations.
Other income	14,294,751,113 yen from transfer from provision for retirement benefits and other miscellaneous income.

## b. Operating expenses

<b>Interest on payables under repurchase agreements</b>	14,602,562,616 yen for interest payment on sales of Japanese government securities under repurchase agreements.
<b>General and administrative expenses and costs</b>	
Cost of production of banknotes	48,016,228,000 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	18,039,865,122 yen from fees and commissions paid to agents of the Bank for administration of treasury business and Japanese government securities.
Personnel expenses	341,114,900 yen for remuneration of the officers; 37,433,937,404 yen for remuneration of the employees; and 9,434,385,471 yen for retirement allowances.
Expenses for transportation and communications	1,752,885,103 yen for expenses for transportation and 2,573,050,630 yen for expenses for communications.
Expenses for maintenance and repairs	1,967,932,236 yen on offices and other premises.
Other general and administrative expenses and costs	990,461,130 yen for the cost of expendable supplies; 2,033,619,471 yen for expenses for electricity and water supply; 9,369,814,795 yen for leasing fees for buildings and equipment; 10,109,023,235 yen for expenses for maintenance of buildings and equipment; and 29,297,356,062 yen for miscellaneous expenses.
Taxes excluding corporate income tax, inhabitants taxes, and enterprise taxes	3,843,256,283 yen for taxes and public charges (including fixed-asset tax and urban development tax).
Depreciation and amortization	15,613,703,287 yen on buildings and lease assets.
<b>Other general and administrative expenses</b>	
Fees and commissions paid	114,747,677 yen
Other expenses	83,650,785,485 yen for interest on excess reserve balances under the complementary deposit facility; 277,380,498 yen for interest on domestic designated deposit and interest payment on currency swap transactions; and 9,302,151,127 yen for transfer to provision for retirement benefits and other expenses.

## c. Special profits

<b>Gains on disposal of fixed assets</b>	11,075,893,954 yen for gains on sales of land for the Bank's premises and other gains.
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## d. Special losses

<b>Losses on disposal of fixed assets</b>	256,913,208 yen for losses on disposals of automatic banknote examination machines and other properties.
<b>Transfer to provision for possible losses on foreign exchange transactions</b>	309,715,000,000 yen

## e. Net income

<b>Net income before taxes</b>	981,647,493,024 yen
<b>Provision for corporate income tax, inhabitants taxes, and enterprise taxes</b>	257,398,045,558 yen
<b>Net income</b>	724,249,447,466 yen

## **IV. EXPENSES**

With regard to the Bank's statement of accounts for fiscal 2013 (the 129th fiscal year), the total amount of actual expenses increased by 0.9 percent (1.6 billion yen) to 182.5 billion yen compared to the previous fiscal year. This was mainly because decreases in "personnel expenses," such as the remuneration of the Bank's employees and retirement allowances, and in the "cost of production of banknotes" due to a cost reduction were more than offset by increases in "other general and administrative expenses and costs," particularly expenses related to computerization, and in the "cost of fixed-asset purchases" reflecting the replacement of automatic banknote examination machines.

## 1. Statement of accounts for fiscal 2013

yen

Item	Initial budget	Use of contingency funds	Diversion of funds	Adjusted budget <sup>1</sup>	Actual	Surpluses	Changes from the previous year (actual)
<b>Cost of production of banknotes</b>	<b>48,161,301,000</b>	<b>0</b>	<b>0</b>	<b>48,161,301,000</b>	<b>48,016,228,000</b>	<b>145,073,000</b>	<b>-302,381,000</b>
<b>Administrative expenses for treasury business and Japanese government securities</b>	<b>18,086,881,000</b>	<b>0</b>	<b>0</b>	<b>18,086,881,000</b>	<b>18,039,865,122</b>	<b>47,015,878</b>	<b>49,637,589</b>
<b>Personnel expenses</b>	<b>48,121,955,000</b>	<b>0</b>	<b>0</b>	<b>48,121,955,000</b>	<b>47,209,437,775</b>	<b>912,517,225</b>	<b>-380,186,613</b>
Remuneration of the officers	343,394,000	0	0	343,394,000	341,114,900	2,279,100	1,401,800
Remuneration of the employees	38,017,274,000	0	0	38,017,274,000	37,433,937,404	583,336,596	-201,004,426
Retirement allowances	9,761,287,000	0	0	9,761,287,000	9,434,385,471	326,901,529	-180,583,987
<b>Expenses for transportation and communications</b>	<b>4,902,413,000</b>	<b>0</b>	<b>0</b>	<b>4,902,413,000</b>	<b>4,325,935,733</b>	<b>576,477,267</b>	<b>19,109,005</b>
Expenses for transportation	1,978,093,000	0	0	1,978,093,000	1,752,885,103	225,207,897	84,465,561
Expenses for communications	2,924,320,000	0	0	2,924,320,000	2,573,050,630	351,269,370	-65,356,556
<b>Expenses for maintenance and repairs</b>	<b>1,997,344,000</b>	<b>0</b>	<b>0</b>	<b>1,997,344,000</b>	<b>1,967,932,236</b>	<b>29,411,764</b>	<b>-10,570,319</b>
<b>Other general and administrative expenses and costs</b>	<b>55,421,175,000</b>	<b>0</b>	<b>0</b>	<b>55,421,175,000</b>	<b>51,800,274,693</b>	<b>3,620,900,307</b>	<b>1,690,177,878</b>
Cost of expendable supplies	1,280,513,000	0	0	1,280,513,000	990,461,130	290,051,870	-72,613,466
Expenses for electricity and water supply	2,162,266,000	0	0	2,162,266,000	2,033,619,471	128,646,529	105,110,158
Leasing fees for buildings and equipment	9,831,632,000	0	0	9,831,632,000	9,369,814,795	461,817,205	-189,944,920
Expenses for maintenance of buildings and equipment	11,039,253,000	0	0	11,039,253,000	10,109,023,235	930,229,765	1,051,402,917
Miscellaneous expenses	31,107,511,000	0	0	31,107,511,000	29,297,356,062	1,810,154,938	796,223,189
<b>Subtotal</b>	<b>176,691,069,000</b>	<b>0</b>	<b>0</b>	<b>176,691,069,000</b>	<b>171,359,673,559</b>	<b>5,331,395,441</b>	<b>1,065,786,540</b>
<b>Cost of fixed-asset purchases</b>	<b>11,781,868,000</b>	<b>0</b>	<b>0</b>	<b>11,781,868,000</b>	<b>11,104,950,633</b>	<b>676,917,367</b>	<b>583,730,208</b>
Of which: Subject to the approval of the Minister of Finance <sup>2</sup>	3,523,322,000	0	0	3,523,322,000	3,281,097,321	242,224,679	921,596,320
<b>Contingency funds</b>	<b>1,000,000,000</b>	<b>0</b>	<b>0</b>	<b>1,000,000,000</b>	<b>0</b>	<b>1,000,000,000</b>	<b>0</b>
<b>Total</b>	<b>189,472,937,000</b>	<b>0</b>	<b>0</b>	<b>189,472,937,000</b>	<b>182,464,624,192</b>	<b>7,008,312,808</b>	<b>1,649,516,748</b>
Of which: Subject to the approval of the Minister of Finance <sup>2</sup>	181,214,391,000	0	0	181,214,391,000	174,640,770,880	6,573,620,120	1,987,382,860

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 statement 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.

## 2. Expenses by area of business operation for fiscal 2013<sup>1</sup>

mil. yen

Area of business operation	Expenses	Changes from a year earlier	Share of total (percent)
Issuance of banknotes	77,700	-424	40.7
Monetary policy	24,165	-29	12.7
Financial system policy	16,196	+90	8.5
Payment and settlement systems	33,164	+1,237	17.4
Services relating to the government <sup>2</sup>	39,591	+26	20.7
<b>Total</b>	<b>190,817</b>	<b>+899</b>	<b>100.0</b>

Notes: 1. Calculated based on "general and administrative expenses and costs" (190.8 billion yen) in the statement of income for fiscal 2013 (the 129th 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 2014–2018**

## 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 2013 and at the beginning of fiscal 2014.

### I. Audits of the Bank's Financial Statements and Other Documents<sup>1</sup>

#### A. Financial Statements and Other Documents for Fiscal 2012

From April through to early May 2013, the Auditors audited the Bank's financial statements and other documents, specifically, the inventory of property, the balance sheet, the statement of income, the statement of accounts, the appropriation of net income, and the schedule for the financial statements for fiscal 2012 (the 128th fiscal year) as well as the statement of income for the second half of fiscal 2012.

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 2012 as well as the results of operations for the second half of fiscal 2012.

#### B. Financial Statements and Other Documents for the First Half of Fiscal 2013

From October through to early November 2013, 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 2013 (the 129th 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 2013.

#### C. Financial Statements and Other Documents for Fiscal 2013

From April through to early May 2014, the Auditors audited the Bank's financial statements and other documents, specifically, the inventory of property, the balance sheet, the statement of income, the statement of accounts, the appropriation of net income, and the schedule for the financial statements for fiscal 2013 as well as the statement of income for the second half of fiscal 2013.

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 2013 as well as the results of operations for the second half of fiscal 2013.

### II. Audits of Cash, Securities, and Books

In fiscal 2013, the Auditors conducted a total of 57 on-site audits on 7 Head Office departments and 32 branches of the Bank, examining cash and securities in their custody as well as their books.

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 and Expenses**

In fiscal 2013, the Auditors conducted on-site audits on 32 branches, 12 of the Bank's local offices in Japan, and 3 overseas representative offices to assess business operations and expenses, as well as on 1 Head Office department to assess operations relating to expenses and contracts. They also conducted a total of

203 meetings with Head Office departments to review the execution of business operations, receiving explanatory overviews of business operations at each department as well as reports concerning high-priority issues from relevant departments. In addition, they conducted 378 examinations of key documents and 5 special on-site visits to the Bank's premises.

**APPENDIX 2: THE BANK OF JAPAN'S STRATEGIC PRIORITIES FOR FISCAL 2014–2018<sup>1</sup>****I. Introduction**

"The Bank of Japan's Strategic Priorities for Fiscal 2014–2018" describes the basic principles for the Bank's business operations and organizational management during the five-year period.

From fiscal 2009, the Bank formulated the Strategic Priorities within a framework covering a three-year period and updated them every fiscal year. The Bank has decided to adopt a new five-year framework for the Strategic Priorities for fiscal 2014–2018, the content of which will be kept basically unchanged for the whole period, with a view to (1) clarifying the Bank's objectives to be achieved over the medium term and (2) evaluating its performance properly.

The Bank plans to conduct an interim review during the five-year period in order to address any changes in its environment. It will revise the content flexibly in response to any significant changes in its environment.

**II. The Bank's Organizational Principles**

The Bank has decided and made public its organizational principles, which constitute a set of fundamental values to be respected by the Bank, as the central bank of Japan. The officers and employees of the Bank are to keep these principles in mind at all times in the conduct of business operations. The Bank will maintain public confidence through the appropriate conduct of its policies and business operations in accordance with the organizational principles listed below.

**Public Interest**

The Bank shall promote the public interest by fulfilling the core purposes stipulated in the Bank of Japan Act.<sup>2</sup>

**Transparency**

The Bank shall demonstrate proper accountability in its policies and business operations via its various external networks.

**Excellence**

The Bank shall pursue excellence in central banking services, responding sufficiently to changes in its environment.

**Integrity**

The Bank shall ensure integrity in execution of duties by each and every officer and employee, requiring that they uphold high standards of morality.

**Effectiveness and Efficiency**

The Bank shall make effective and efficient use of management resources in its conduct of business operations and organizational management.

**III. Background and Management Guidelines**

There is a growing need for central banks to address issues arising from (1) further globalization of the financial and economic environment, (2) diversification and the increasing complexity of financial instruments and transactions, and (3) continuing advances in financial engineering and information processing technology.

In this situation, the Bank is required to respond flexibly to any changes in its environment to properly perform its role as the central bank. This involves

1. Decided by the Policy Board on March 25, 2014.

2. The Bank of Japan Act determines the Bank's core purposes as follows: Article 1 stipulates that the Bank is required to issue banknotes, carry out currency and monetary control, and maintain the stability of the financial system; and Article 2 stipulates that currency and monetary control shall be aimed at achieving price stability, thereby contributing to the sound development of the national economy.

(1) dealing proactively with new issues and (2) conducting business operations stably while managing operational risks properly. In order to ensure public confidence, it is also important for the Bank to explain clearly to the public its policies and business operations.

Based on the above understanding, the following three management guidelines have been set out in the Strategic Priorities for fiscal 2014–2018.

#### **A. Engage in Bank-Wide Efforts to Fulfill Its Missions**

The Bank's missions are to achieve price stability and ensure the stability of the financial system. To achieve price stability, the Bank has set the "price stability target" at 2 percent in terms of the year-on-year rate of change in the consumer price index (CPI). It will engage in Bank-wide efforts to steadily fulfill these missions, with its officers and employees sharing the understanding that doing so promotes the public interest. To this end, they shall at all times (1) work to make the fullest possible use of a high degree of central banking expertise and (2) remain aware of the importance of a creative attitude to handle new issues proactively.

#### **B. Improve Capability in the Conduct of Business Operations**

The Bank's missions are fulfilled through the conduct of a wide range of central banking operations, and the public expects the Bank to conduct these operations stably. Recently, there is a growing need for central banks to address issues reflecting changes in the domestic and overseas environments. The Bank will therefore improve its capability in the conduct of business operations, by making use of job-specific expertise that has been cultivated over the years and by managing its operational risks properly. In addition, it will establish an operational framework that responds properly to changes in these environments.

#### **C. Enhance External Communication and Strengthen Networks**

In maintaining public confidence, it is important for the Bank, taking a global perspective, to explain clearly to the public its policies and business operations and to listen carefully to outside opinion. Such multilateral and multilevel communication will contribute to the Bank's fulfillment of its missions and will promote the public interest. Recognizing this, the Bank will further enhance its communication by building appropriate networks with people and organizations across a wide range of fields both inside and outside Japan.

### **IV. Strategic Objectives for Business Operations**

In accordance with (1) the organizational principles, which constitute a set of fundamental values subscribed to by the Bank, and (2) the management guidelines, which provide direction for the Strategic Priorities, the Bank will focus on the following strategic objectives for its business operations.

#### **A. Plan and Formulate Monetary Policy Measures That Facilitate Policy Conduct**

In the course of Japan's economy overcoming deflation and achieving a sustainable growth path with price stability, a number of changes in financial and economic conditions are expected to take place.

With a view to responding sufficiently to such changes and providing a firm underpinning for monetary policy conduct, the Bank will carry out the requisite research and analysis on financial and economic conditions at home and abroad from multiple perspectives.

Based on such multi-perspective analysis of the effects and impacts of monetary policy, the Bank will plan and formulate monetary policy measures flexibly. In

addition, the Bank will work to have the necessary operational arrangements in place so that money market operations are conducted properly, in line with monetary policy conduct.

### **B. Ensure Stability and Improve the Functioning of the Financial System**

It is essential to ensure stability and improve the functioning of the financial system in order to provide support from the financial side for Japan's economy to strengthen its growth potential.

In this regard, the Bank will appropriately plan and execute the selection of financial institutions holding current accounts at the Bank (BOJ account holders) as well as business operations relating to the provision of loans.

The Bank will also thoroughly assess the business operations, risk management, profitability, and capital bases of individual financial institutions through on-site examinations and off-site monitoring, making use of analysis of expected future developments in these areas. In particular, with a view to dealing with systemic risks more effectively, the Bank will work to ensure a firm grasp of business conditions at systemically important financial institutions. It will identify and share issues of managerial concern with financial institutions, thereby encouraging an appropriate response.

In planning and formulating its financial system policy measures, the Bank will place greater importance than ever on taking a macroprudential perspective. As a prerequisite for this, it will enhance its research and analysis on the stability and functioning of the financial system as a whole.

Meanwhile, in order to ensure financial system stability, the Bank will stand ready to act effectively as lender of last resort for individual financial institutions and financial markets when necessary.

The Bank will address these objectives in due cooperation with relevant parties.

### **C. Enhance Payment and Settlement Services and Reinforce Market Infrastructure**

The Bank will implement the second phase of the new Bank of Japan Financial Network System (BOJ-NET) project scheduled for fiscal 2015 and thereafter operate the system smoothly and reliably.

While making effective use of the improved functionality of the new BOJ-NET, the Bank will enhance Japan's payment and settlement services in response to the diversification of payment and settlement needs and financial globalization. Specifically, the Bank will encourage the enhancement of retail payment systems and work to realize payment and settlement using the new BOJ-NET for cross-border transactions in yen or Japanese government bonds (JGBs). In addition, the Bank will conduct appropriate oversight of financial market infrastructures, while considering changes in financial market environments.

The Bank will also work actively to reinforce the financial market infrastructure in Japan to reduce settlement risk and strengthen market functioning, while giving due consideration to international developments and working in close cooperation with market participants.

### **D. Conduct Stable and Efficient Central Banking Operations**

With regard to business operations relating to banknote issuance, the Bank will work to secure confidence in banknotes and coins using new technology. It will strengthen the monitoring of the cleanliness of banknotes in circulation and proceed with the introduction of next-generation automatic banknote examination machines.

The Bank will also work to maintain a firm grasp of

changes in the delivery routes of cash and will establish more efficient operational frameworks based on the information gathered.

With regard to banking operations, the Bank will, on a daily basis, continue to settle financial transactions using BOJ accounts and conduct money market operations in an accurate and stable manner. As for treasury funds and Japanese government securities (JGSs), the Bank will carry out its range of services with precision.

The Bank will reassess the efficiency of its operational frameworks in view of changing trends in workloads associated with banking operations as well as services relating to treasury funds and JGSs.

#### **E. Contribute to the Response to Globalization on the International Financial Front**

Amid further globalization and growth in business and financial transactions between Japanese institutions and counterparties located in Asia, financial and economic stability around the globe, particularly in Asia, has become crucial to Japan's economy.

Based on this recognition, the Bank will play its due part as a central bank in ensuring the stability of the international currency system, in cooperation with overseas authorities. It will also play a leading role at international meetings, including those organized by the Bank for International Settlements (BIS) and the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), in keeping with Japan's position. Furthermore, to ensure financial and economic stability in Asia, the Bank will expand and enhance its technical assistance in the region.

#### **F. Contribute to the Regional Economic and Financial Environment**

The Bank will contribute to the regional economic and financial environment by providing appropriate central banking services in each region of the country, making

due use of the functions available at its Head Office, branches, and local offices.

In this regard, the Bank will aim to ensure that it can conduct its business operations in a stable manner even in times of disaster. It will maintain an accurate grasp of regional financial and economic conditions through close and frequent communication with local financial institutions, firms, and economic organizations. At the same time, the Bank will provide a clear and accessible explanation of (1) its view of economic and financial conditions both at home and abroad as well as (2) the thinking behind its policies and business operations. It will make active use of information gained through such efforts in conducting monetary policy and business operations.

#### **G. Strengthen External Communication**

With a view to ensuring broad public confidence, the Bank will communicate its conduct of monetary policy and business operations to not only financial professionals but also the public in a clear and intelligible manner. To this end, the Bank will enhance (1) the effectiveness of its communication by making full use of information technology, for example through improvements to its web site, and (2) the in-house tours of its Head Office and branches.

Moreover, with the aim of better grasping public opinion as well as public needs regarding its policies and business operations, the Bank will further strengthen its communication with financial institutions closely involved in its conduct of policies and business operations and will build and strengthen networks with people, firms, and economic organizations across a wide range of fields.

Meanwhile, the Bank will publish the findings from its research and analysis in effective ways. It will also appropriately compile and release statistics with a view to improving their user-friendliness and responding to

global structural changes.

In addition to the above efforts, the Bank, in cooperation with relevant parties, will work to support the activities of the Central Council for Financial Services Information (CCFSI) and associated committees to promote financial literacy among the public.

## V. Strategic Objectives for Organizational Management

### A. Organizational Management

In accordance with the organizational principles and the management guidelines described above, the Bank will focus on the following strategic objectives for its organizational management and all sections of its Head Office, branches, and local offices will coordinate their efforts to achieve them.

#### 1. Ensure the appropriate conduct of business operations given changes in the Bank's environment

The Bank will enhance its capability in planning business operations, responding appropriately to changes in its environment where the need for central banks to address certain issues is growing. It will promote the passing on of know-how among employees with a view to firmly maintaining the levels of job-specific expertise that have underpinned its business operations over the years. In addition, it will work actively to revise its business processes in response to changes in its environment.

Moreover, the Bank will promote efficiency and stability in its business operations through computerization, and will also review its business processes to reflect technological advances.

#### 2. Manage operational risks appropriately

In order to maintain public confidence, it is important for the Bank to continue to conduct all business operations

with precision and deliberation. To this end, it will engage in Bank-wide efforts to manage operational risks effectively, giving due consideration to a change in the composition of its workforce following the anticipated retirement of a large number of experienced workers.

With regard to due execution of duties by its officers and employees, the Bank will continue to work to promote compliance with social norms as well as the appropriate management of information security.

#### 3. Strengthen business continuity arrangements

Based on its experience following the Great East Japan Earthquake and the government's reappraisal of potential damage for large-scale earthquakes such as those directly under Tokyo or in the Nankai Trough, the Bank will reinforce its business continuity arrangements through the effective use of its management resources.

### B. Management Resources

#### 1. Human resources

In order to steadily carry out the strategic objectives outlined in the Strategic Priorities for fiscal 2014–2018, the Bank will work to secure the necessary employee numbers and to increase the efficiency of its overall business operations. To this end, for each fiscal year, it will decide and make public the ceiling on the number of full-time employees.<sup>3</sup>

In addition, the Bank will secure and foster human resources with a high degree of central banking expertise in the execution of business operations and organizational management. In particular, it will encourage its employees to cultivate the practical skills to build and manage relationships both inside and outside Japan, the creative mind-set to deal proactively with new issues, and the ability to play an active role internationally. From this perspective, the Bank will continue to work to promote personnel exchanges with

3. See Attachment 2 for Appendix 2 on page 93 for the ceiling on the number of full-time employees for fiscal 2014.

institutions both inside and outside Japan.

Furthermore, the Bank will expand its recruitment of women and encourage their promotion; it will also seek to offer various working arrangements to improve the work-life balance of its employees. In addition, it will continue to work to facilitate internal communication.

## **2. Budget for expenses**

In order to steadily carry out the strategic objectives outlined in the Strategic Priorities for fiscal 2014–2018, the Bank will secure the necessary budget and achieve more streamlined overall spending. To this end, for each fiscal year, it will decide and make public the budget for expenses.<sup>4</sup>

## **VI. Performance Reviews**

With a view to (1) steadily carrying out the strategic objectives for business operations and organizational management outlined in the Strategic Priorities for fiscal 2014–2018 and (2) reviewing and revising as necessary the allocation of management resources, the Bank will conduct and make public performance reviews of measures taken under the Strategic Priorities every fiscal year. In addition, it will conduct a thorough review of the entire contents of the Strategic Priorities.

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4. See Attachment 1 for Appendix 2 on page 92 for the budget for expenses for fiscal 2014.

### THE BANK OF JAPAN'S BUDGET FOR EXPENSES FOR FISCAL 2014<sup>1</sup>

The Bank of Japan's budget for expenses for fiscal 2014 (the 130th fiscal year) is as follows (Table 1).<sup>2</sup> While securing the necessary budget to perform its role as the central bank of Japan, the Bank has also thoroughly examined each item of expenditure to achieve more streamlined overall spending.

The budget for expenses for fiscal 2014 marked an increase of 3.5 percent from the previous year, of which the amount subject to the approval of the Minister of Finance increased by 3.8 percent. This overall increase was due to rises in the following items: 7.0 percent in personnel expenses, mainly reflecting a termination at the end of fiscal 2013 of the provisional and exceptional measure that reduced the remuneration of the Bank's officers and employees in support of rebuilding efforts following the disaster caused by the Great East Japan Earthquake; 6.9 percent in the cost of production of banknotes, 1.0 percent in administrative expenses for treasury business and Japanese government securities, 2.6 percent in expenses for maintenance and repairs, and 0.8 percent in other general and administrative expenses and costs—all of which were attributed mainly to the effects of the consumption tax hike. On the other hand, the cost of fixed-asset purchases decreased by 5.4 percent, mainly due to a decline in expenses incurred in updating and repairing banknote-related machines, and expenses for transportation and communications decreased by 1.3 percent.

1. Decided by the Policy Board on March 18, 2014.

2. 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 2014, the Bank sought approval on March 18, 2014 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 2014 (The 130th Fiscal Year)

Item	Initial budget (thous. yen)	Change from the previous year (percent)
<b>Cost of production of banknotes</b>	<b>51,483,139</b>	<b>6.9</b>
<b>Administrative expenses for treasury business and Japanese government securities</b>	<b>18,263,871</b>	<b>1.0</b>
<b>Personnel expenses</b>	<b>51,467,678</b>	<b>7.0</b>
Remuneration of the officers	420,556	22.5
Remuneration of the employees	41,265,270	8.5
Retirement allowances	9,781,852	0.2
<b>Expenses for transportation and communications</b>	<b>4,837,106</b>	<b>-1.3</b>
Expenses for transportation	1,973,712	-0.2
Expenses for communications	2,863,394	-2.1
<b>Expenses for maintenance and repairs</b>	<b>2,049,069</b>	<b>2.6</b>
<b>Other general and administrative expenses and costs</b>	<b>55,861,348</b>	<b>0.8</b>
Cost of expendable supplies	1,296,014	1.2
Expenses for electricity and water supply	2,508,272	16.0
Leasing fees for buildings and equipment	10,276,524	4.5
Expenses for maintenance of buildings and equipment	11,728,094	6.2
Miscellaneous expenses	30,052,444	-3.4
<b>Subtotal</b>	<b>183,962,211</b>	<b>4.1</b>
<b>Cost of fixed-asset purchases</b>	<b>11,148,620</b>	<b>-5.4</b>
Of which: Subject to the approval of the Minister of Finance <sup>1</sup>	3,198,934	-9.2
<b>Contingency funds</b>	<b>1,000,000</b>	<b>0.0</b>
<b>Total<sup>2</sup></b>	<b>196,110,831</b>	<b>3.5</b>
Of which: Subject to the approval of the Minister of Finance <sup>1</sup>	188,161,145	3.8

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 34,211,601 thousand yen, a 2.4 percent decrease 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 of approximately 10,105 person-months (one person-month is the workload equivalent of one person working for one month in system development), and total of approximately 13,105 person-months if the workload of the Bank's employees is included.

**THE CEILING ON THE NUMBER OF FULL-TIME EMPLOYEES  
OF THE BANK OF JAPAN FOR FISCAL 2014<sup>7</sup>**

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The Bank has set the ceiling on the number of full-time employees for fiscal 2014 at 4,900.

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7. Decided by the Policy Board on March 25, 2014.

# Information

## Bank of Japan Web Site:

Full site

<http://www.boj.or.jp/en/index.htm>

Smartphone site

<http://www.boj.or.jp/z/sp/en/index.html>

Provides various information, including monetary policy releases, speeches and statements, the latest releases of reports and research papers, financial and economic statistics, as well as general information about the Bank.



### 1 Virtual Tour:

<http://www.boj.or.jp/en/z/tour/b/index.htm>

Introduces the Bank's history and operations, allowing viewers to take a virtual stroll around its Old and New Buildings.



### 2 Introductory Video “The Bank of Japan in Our Daily Lives”:

<http://www.boj.or.jp/en/announcements/education/thisisboj.htm/>

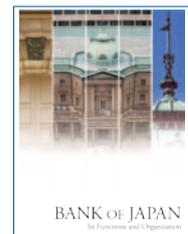
Explains the importance of maintaining people's confidence in the currency, as well as the Bank's policies and operations toward this end.



### 3 PR Brochure “Bank of Japan: Its Functions and Organization”:

[http://www.boj.or.jp/en/announcements/education/boj\\_pamphlet.htm/](http://www.boj.or.jp/en/announcements/education/boj_pamphlet.htm/)

Provides a concise and easy-to-follow overview of the Bank's functions and operations, as well as its history and organizational structure.



## Twitter Account: @Bank\_of\_Japan\_e

Tweets the latest updates on the Bank's web site. In addition, the Bank may use this account as an extra channel for communication, for example in cases of emergency.

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Public Relations Department

Bank of Japan

P.O. Box 30, Nihonbashi

Tokyo 103-8660, Japan

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