

# The Bank's Accounts

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## I. SETTLEMENT OF ACCOUNTS FOR THE 122ND FISCAL YEAR<sup>1</sup>

On April 24, 2007, the Policy Board finalized the Bank of Japan's financial statements (the inventory of property, balance sheet, and statement of income) for the 122nd fiscal year (fiscal 2006: April 1, 2006–March 31, 2007), prepared under Article 52, Paragraph 1 of the Bank of Japan Law, and the schedule for the financial statements for fiscal 2006, as well as the statement of income for the second half of fiscal 2006 (October 1, 2006–March 31, 2007). The Bank submitted the financial statements and the statement of income, together with the Executive Auditors' opinion, to the Minister of Finance, and received the Minister's approval on May 23. The schedule for the financial statements was audited by the Executive Auditors, whose opinion was that it duly complemented the financial statements.

The overview of the settlement of accounts for fiscal 2006 is as below.

### A. Assets and Liabilities (Table 1)

The balance sheet of the Bank at the end of fiscal 2006 shows that total assets decreased by 22.2 percent (32,121.9 billion yen) from a year earlier to 112,740.9 billion yen, mainly due to decreases in holdings of Japanese government securities (JGSs)<sup>2</sup> and bills purchased. Total liabilities decreased by 22.9 percent (32,585.3 billion yen) from the previous year to 109,416.4 billion yen, mainly due to decreases in current deposits and payables under repurchase agreements.

Detailed developments in the Bank's balance sheet in fiscal 2006 are as follows.

Total assets at the end of March 2007 were down year on year for the second consecutive year for the following reasons. First, holdings of JGSs decreased by 18.0 percent from a year earlier to 76,445.7 billion yen, reflecting the fact that the amount of JGSs redeemed and sold by the Bank exceeded the amount of those purchased and underwritten. Second, loans and bills discounted increased to 23,187.7 billion yen due to the introduction in June 2006 of funds-supplying operations against pooled collateral via the electronic lending that replaced paper-based bill purchasing operations, accompanied by a 37,814.4 billion yen decrease in bills purchased that reduced the amount of bills purchased to zero. And third, receivables under resale agreements decreased by 13.2 percent from the previous year to 4,506.2 billion yen

1. The financial statements and the schedule for the financial statements for the first half of the 122nd fiscal year (April 1–September 30, 2006) were finalized by the Policy Board on October 27, 2006. The financial statements were submitted to the Minister of Finance together with the Executive Auditors' opinion and received the Minister's approval on November 24, 2006.

2. JGSs comprise Japanese government bonds (JGBs), treasury bills (TBs), and financing bills (FBs).

due to a decrease in funds-supplying operations through purchases of commercial paper (CP) under repurchase agreements.

The Bank continued to make efforts to maintain the quality of its balance sheet in terms of liquidity and soundness of assets. Specifically, the Bank continued to underwrite one-year treasury bills (TBs) to refund maturing Japanese government bonds (JGBs) held by the Bank with a view to, for example, protecting the liquidity of its assets. Most of the one-year TBs underwritten in fiscal 2005 to refund JGBs were sold or redeemed in cash (see "The Bank's Other Operations" Section III.D.2 on pages 76–77).

Turning to liabilities, the amount outstanding of current account deposits at the Bank was 11,675.8 billion yen at the end of March 2007, decreasing by 62.6 percent from a year earlier, as the Bank conducted money market operations in accordance with the guidelines for money market operations decided at the Monetary Policy Meetings held in and after March 2006 (see "Monetary Policy" Section III on pages 37–40). Payables under repurchase agreements decreased by 47.1 percent from a year earlier to 12,879.6 billion yen, reflecting a decline in the amount outstanding of JGBs under repurchase agreements to the government. Meanwhile, the amount outstanding of banknotes issued (banknotes in circulation) increased by 1.2 percent from the previous year to 75,894.1 billion yen at the end of March 2007.

## B. Profits and Losses (Table 2)

The Bank's statement of income for fiscal 2006 shows that operating profits increased by 324.6 billion yen to 1,052.4 billion yen, mainly due to increases in "core" operating income,<sup>3</sup> particularly a rise in yields on assets, and gains on pecuniary trusts<sup>4</sup> related to stocks purchased from financial institutions.

Special profits amounted to 1.2 billion yen, due to gains on disposal of fixed assets. Meanwhile, special losses amounted to 101.0 billion yen, due mainly to the transfer of funds that resulted from net foreign exchange-related gains<sup>5</sup> to the provision for possible losses on foreign exchange transactions.

As a result of the above, net income before taxes for the term increased by 390.5 billion yen from the previous year to 952.6 billion yen. Net income for the term—after subtracting corporate income tax and inhabitants and enterprise taxes—increased by 446.6 billion yen to 780.5 billion yen.

3. For the definition of "core" operating income, see Note 3 in Table 2 on page 103.

4. For the definition of pecuniary trusts, see Note 6 in Table 2 on page 103.

5. Gains on foreign currency assets resulting from fluctuations in foreign exchange rates and arising from revaluation.

Table 1

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

bil. yen

| Item   | End of fiscal 2005<br>(March 31, 2006) | End of fiscal 2006<br>(March 31, 2007)   |
|--|--|--|
| <b>Total Assets</b>                              | 144,862.9<br>(-3.8)<br><-5,654.4>      | 112,740.9<br>(-22.2)<br><-32,121.9>      |
| Of which:  |  |  |
| Receivables under resale agreements              | 5,189.7<br>(-0.7)<br><-38.6>           | 4,506.2<br>(-13.2)<br><-683.5>           |
| Bills purchased                                  | 37,814.4<br>(+0.5)<br><+204.5>         | 0.0<br>(...)<br><...>                    |
| Japanese government securities                   | 93,273.1<br>(-5.9)<br><-5,850.8>       | 76,445.7<br>(-18.0)<br><-16,827.3>       |
| Loans and bills discounted                       | 30.0<br>(7.5 times)<br><+26.0>         | 23,187.7<br>(772.9 times)<br><+23,157.7> |
| Pecuniary trusts (stocks held as trust property) | 1,996.9<br>(-1.3)<br><-25.5>           | 1,783.3<br>(-10.7)<br><-213.6>           |
| <b>Total Liabilities</b>                         | 142,001.7<br>(-3.9)<br><-5,819.1>      | 109,416.4<br>(-22.9)<br><-32,585.3>      |
| Of which:  |  |  |
| Banknotes  | 74,978.1<br>(+0.4)<br><+306.1>         | 75,894.1<br>(+1.2)<br><+915.9>           |
| Deposits (excluding those of the government)     | 31,414.1<br>(-13.0)<br><-4,714.4>      | 11,709.5<br>(-62.7)<br><-19,704.6>       |
| Deposits of the government                       | 6,569.3<br>(-13.4)<br><-1,017.8>       | 5,531.0<br>(-15.8)<br><-1,038.2>         |
| Payables under repurchase agreements             | 24,357.7<br>(-0.4)<br><-94.3>          | 12,879.6<br>(-47.1)<br><-11,478.0>       |
| Bills sold                                       | 1,400.5<br>(-21.9)<br><-392.7>         | 0.0<br>(...)<br><...>                    |

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

Table 2

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

bil. yen

| Item   | Fiscal 2005<br>(April 1, 2005–March 31, 2006) | Fiscal 2006<br>(April 1, 2006–March 31, 2007) |
|--|---|---|
| <b>Operating profits/losses (A – B)<sup>2</sup></b>  | 727.8<br>(+43.4)<br><+220.4>                  | 1,052.4<br>(+44.6)<br><+324.6>                |
| <b>Operating income (A)</b>  | 1,006.1<br><+221.4>                           | 1,383.7<br><+377.6>                           |
| <b>Operating expenses (B)</b>  | 278.2<br><+1.0>                               | 331.2<br><+52.9>                              |
| Of which:  |   |   |
| "Core" operating income <sup>3</sup>   | 626.1<br><+89.4>                              | 843.9<br><+217.7>                             |
| Net government bond-related gains/losses <sup>4</sup>  | 23.5<br><+0.3>                                | -17.1<br><-40.6>                              |
| Net foreign exchange-related gains/losses <sup>5</sup>   | 336.2<br><+143.5>                             | 201.1<br><-135.0>                             |
| Net pecuniary trusts gains/losses <sup>6</sup>   | 54.8<br><+16.2>                               | 243.3<br><+188.5>                             |
| <b>Special profits/losses (C – D)<sup>2</sup></b>  | -165.6<br><-72.7>                             | -99.7<br><+65.9>                              |
| <b>Special profits (C)</b>   | 3.2<br><-0.7>                                 | 1.2<br><-1.9>                                 |
| <b>Special losses (D)</b>  | 168.8<br><+71.9>                              | 101.0<br><-67.8>                              |
| Of which:  |   |   |
| Net transfer to/from provision for possible losses on securities transactions                    | ...<br><...>                                  | ...<br><...>                                  |
| Net transfer to/from provision for possible losses on foreign exchange transactions <sup>7</sup> | -168.1<br><-71.7>                             | -100.5<br><+67.5>                             |
| Net income before taxes  | 562.1<br>(+35.6)<br><+147.6>                  | 952.6<br>(+69.5)<br><+390.5>                  |
| Provision for corporate income tax, inhabitants taxes, and enterprise taxes                      | 228.3<br><+7.8>                               | 172.1<br><-56.1>                              |
| Net income   | 333.8<br>(+72.0)<br><+139.8>                  | 780.5<br>(2.3 times)<br><+446.6>              |

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

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

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

- Figures for operating profits/losses (A – B) and special profits/losses (C – D) are calculated in yen and then rounded down to the nearest 0.1 billion yen, thus they are not necessarily equal to the total of relevant items listed in the above table.
- The total of interest on loans and discounts, interest on receivables under resale agreements, discounts on bills purchased, interest and discounts on JGSs, on asset-backed securities, and on foreign currency securities, lending fees on foreign currency securities, and interest on foreign currency deposits.
- Net gains/losses on sale of JGBs.
- Net gains/losses on foreign currency assets resulting from fluctuations in foreign exchange rates during the fiscal year and arising from revaluation at the end of the fiscal year.
- Net gains/losses on pecuniary trusts (stocks held as trust property).
- A minus sign shows net transfer to the relevant provisions (negative figures reduce net income).

## C. Transfers to/from Provisions

The Bank made transfers of funds to various provisions in accordance with rules and regulations including the Bank of Japan Law, the Bank's by-laws, and the Accounting Rules decided by the Policy Board on October 9, 1998. The following transfers were made in fiscal 2006.

### 1. Provision for possible loan losses

The provision for possible loan losses is maintained in accordance with Article 16 of the Bank's Accounting Rules. This provision is divided into two categories: the general provision and the special provision. Regarding the former, the Accounting Rules prescribe that it should be based on the past experience of the ratio of actual loan losses to total loans (the loan-loss ratio). In fiscal 2006, however, no transfer to the provision was made because the Bank had experienced no loan losses, which are the basis for calculating the loan-loss ratio, in the recent past.

With regard to the special provision, the exception clause of Article 16 of the Accounting Rules stipulates that the Bank's Policy Board should decide the necessity for and size of the special provision for possible losses on specific loans. In fiscal 2006, however, no transfer to the special provision was made because the Bank held no such loans.

### 2. Provision for retirement benefits

In fiscal 2001, the Bank introduced accounting for retirement benefits with a view to clarifying the Bank's financial situation, given the changes in accounting practices in the private sector. In line with the Bank's Accounting Rules, the Bank decided that appropriation for the provision for retirement benefits for fiscal 2006 would be based on the estimated amount of retirement benefit obligations at the end of March 2007.

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

The Bank appropriates provisions for possible losses on securities transactions and foreign exchange transactions, pursuant to such rules and regulations as Article 15 of the Bank of Japan Law Enforcement Order, Articles 9, 10, and 11 of the Enforcement Regulations of the Bank of Japan Law, and Article 18 of the Bank's Accounting Rules. The amount of funds transferred to/from these provisions is determined by the following criteria, which are prescribed in Article 18 of the Accounting Rules: (1) for both securities transactions and foreign exchange transactions, about 50 percent of net gains/losses should be transferred to/from the relevant provisions; and (2) the level of the Bank's capital adequacy ratio should also be taken into consideration.<sup>6</sup>

<sup>6</sup> For the definition of the Bank's capital adequacy ratio, see page 107.

In fiscal 2006, a net loss on JGS transactions and a net gain on foreign exchange transactions were recorded. In line with the above-mentioned rules and regulations, the Bank decided to transfer about 50 percent of net gains on foreign exchange transactions to the provision for possible losses on such transactions, taking into account the level of the Bank's capital adequacy ratio.

#### **4. Provision for unrealized losses on stockholdings**

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

In fiscal 2006, the Bank did not appropriate a provision for unrealized losses on stockholdings, as the market value of the Bank's total stockholdings exceeded their book value.

### **D. Appropriation of Net Income**

On April 24, 2007, the Bank decided on the appropriation of net income under Article 53 of the Bank of Japan Law at its Policy Board meeting. In accordance with Paragraph 1 of the above Article, the Bank transferred 39.0 billion yen to the legal reserve (5 percent of net income for the fiscal year). After paying dividends totaling 5 million yen (5 percent of the face value of shares) upon the approval of the Minister of Finance in accordance with Article 53, Paragraph 4 of the Law, the Bank paid the remainder of its net income to the government (741.4 billion yen).

With regard to the appropriation of net income for fiscal 2006, the opinion of the Executive Auditors was that the Bank's net income was properly appropriated in accordance with Article 53 of the Law.

### **E. Preliminary Payment to the Government**

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

On October 27, 2006, the Bank decided at its Policy Board meeting not to make a preliminary payment to the government. This was because, depending on financial conditions in the second half of fiscal 2006, there was a possibility that the Bank would make no final payment to the government due to a significant drop in its income.<sup>7</sup>

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<sup>7</sup> No preliminary payments have been made to the government in the past.

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

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

The capital adequacy ratio, after the appropriation of net income, rose to 7.53 percent at the end of fiscal 2006. This was the result of the following measures. First, the Bank transferred about 50 percent of net gains on foreign exchange transactions to the provision for possible losses on such transactions (see Section I.C.3 on pages 104–105). And second, it transferred to the legal reserve the amount required under Article 53, Paragraph 1 of the Bank of Japan Law (see Section I.D on page 105).



Table 3

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

bil. yen, except where otherwise noted

| Item  | End of fiscal 2004<br>(March 31, 2005) | End of fiscal 2005<br>(March 31, 2006) | End of fiscal 2006<br>(March 31, 2007) | Changes from<br>a year earlier | [Reference]<br>End of the first<br>half of fiscal 2006<br>(September 30, 2006) |
|---|--|--|--|--------------------------------|--|
| <b>Capital accounts (A)</b>   | <b>2,527.3</b>                         | <b>2,543.9</b>                         | <b>2,583.0</b>                         | <b>+39.0</b>                   | <b>2,543.9</b>   |
| Capital   | 0.1                                    | 0.1                                    | 0.1                                    | ...                            | 0.1  |
| Legal reserve and others <sup>2</sup>   | 2,527.2                                | 2,543.8                                | 2,582.9                                | +39.0                          | 2,543.8  |
| <b>Provisions (B)</b>   | <b>2,769.1</b>                         | <b>2,937.2</b>                         | <b>3,037.8</b>                         | <b>+100.5</b>                  | <b>2,994.9</b>   |
| Provision for possible loan losses<br>(excluding special provision for<br>possible loan losses) | ...                                    | ...                                    | ...                                    | ...                            | ...  |
| Provision for possible losses on<br>securities transactions                                     | 2,243.3                                | 2,243.3                                | 2,243.3                                | ...                            | 2,243.3  |
| Provision for possible losses on<br>foreign exchange transactions                               | 525.7                                  | 693.9                                  | 794.5                                  | +100.5                         | 751.6  |
| <b>Capital base<sup>3</sup> (A) + (B) = (C)</b>   | <b>5,296.4</b>                         | <b>5,481.2</b>                         | <b>5,620.8</b>                         | <b>+139.6</b>                  | <b>5,538.9</b>   |
| <b>Annual average of<br/>banknotes issued (D)</b>   | <b>72,029.3</b>                        | <b>73,985.7</b>                        | <b>74,611.3</b>                        | <b>+625.6</b>                  | <b>74,038.1</b>  |
| <b>Capital adequacy ratio<br/>(C)/(D) × 100 (percent)</b>                                       | <b>7.35</b>                            | <b>7.40</b>                            | <b>7.53</b>                            | <b>+0.13</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.

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

Capital adequacy ratio

$$= (\text{capital} + \text{legal reserve}^8 + \text{special reserve}^9 + \text{general provision for possible loan losses}^{10} + \text{provision for possible losses on securities transactions} + \text{provision for possible losses on foreign exchange transactions}) / (\text{period average of Bank of Japan notes issued}).$$

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

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

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

## II. AMENDMENTS TO THE ACCOUNTING RULES OF THE BANK OF JAPAN

The Bank decided at its Policy Board meeting held on October 27, 2006 to make the following amendments to the Accounting Rules, reflecting the reclassification of its fixed assets.

Article 14 shall be amended as follows (sections underlined have been added while those crossed out have been deleted).<sup>1</sup>

(Depreciation)

At the ends of the first half of every fiscal year and of the full fiscal year, assets that are subject to depreciation under the Corporation Tax Law of Japan and are recorded as ~~premises and movable property~~ tangible fixed assets or intangible fixed assets, shall be depreciated according to the methods listed below (the range of assets to be accounted for is determined in Article 22).

Article 19 shall be amended as follows (sections underlined have been added while those crossed out have been deleted).

(Notes to accounting policies)

Notes shall be kept in financial statements providing the details of significant accounting policies, as follows.

- (1) Standards and methods used in the valuation of securities
- (2) Methods used in calculating the depreciation of ~~premises and movable property~~ tangible fixed assets and intangible fixed assets
- (3) Rates for converting foreign-currency assets/liabilities into Japanese yen
- (4) Criteria for maintaining provisions
- (5) Other significant accounting policies adopted in the preparation of financial statements

(Supplementary Provision)

The above amendments shall become effective from the accounting of fiscal year 2006, the 122nd fiscal year of the Bank, which starts in April 2006.

Note: 1. Provisions (1)–(3) are unaffected by the amendment.

### III. SETTLEMENT OF ACCOUNTS FOR GENERAL AND ADMINISTRATIVE EXPENSES AND COSTS FOR THE 122ND FISCAL YEAR

#### A. Overview

On April 24, 2007, the Bank finalized its settlement of accounts for general and administrative expenses and costs for the 122nd fiscal year (fiscal 2006) at its Policy Board meeting. Regarding general and administrative expenses and costs subject to the approval of the Minister of Finance under Article 51, Paragraph 1 of the Bank of Japan Law, the Bank submitted the annual report on the settlement of accounts, together with the Executive Auditors' opinion, to the Minister of Finance for authorization (as prescribed in Article 52, Paragraph 2 of the Bank of Japan Law). The settlement of accounts for the purchase of premises used for the Bank's business operations is not subject to the Minister's authorization, but it was also audited by the Executive Auditors, who approved it as fairly presenting the expenses for such purchases.

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

The settlement of accounts for general and administrative expenses and costs (excluding the cost of fixed-asset purchases and contingency funds) for fiscal 2006 decreased by 2.2 percent (4.6 billion yen) to 204.7 billion yen compared to the previous year.<sup>11</sup> The details of the above year-on-year changes are as follows.

##### a. Increasing factor

"Administrative expenses for treasury business and JGSs" increased by 1.8 billion yen overall, mainly because of an increase in fees and commissions paid to the Bank's agents that accompanied the large amount of redemptions of interest-bearing JGBs.

##### b. Decreasing factor

The "cost of production of banknotes" decreased by 6.1 billion yen due to a decrease in the number of banknotes produced.

The surplus amounted to 14.9 billion yen compared to the initial budget, due mainly to the substantially smaller-than-budgeted expenses for the "administrative expenses for treasury business and JGSs."

<sup>11</sup> Figures hereafter are rounded to the nearest 0.1 billion yen.

## **2. Cost of fixed-asset purchases and contingency funds**

The settlement of accounts for the "cost of fixed-asset purchases" was 11.8 billion yen, an increase of 15.5 percent (1.6 billion yen) from the previous year, mainly due to the construction costs associated with the relocation and rebuilding of the Bank of Japan Naha branch and the rise in the costs of maintenance and repairs for the Bank's Head Office.

The surplus amounted to 3.7 billion yen compared to the initial budget. This was due mainly to the smaller-than-budgeted cost of construction work on the Bank of Japan Naha branch and the Bank's Head Office.

No contingency funds were used in fiscal 2006.

**B. Annual Report on Settlement of Accounts****1. Settlement of accounts for the 122nd fiscal year**

yen

| Item  | Initial budget         | Use of contingency funds | Diversion of funds | Adjusted budget <sup>1</sup> | Settlement of accounts | Surpluses             | Changes from the previous year's settlement of accounts |
|---|------------------------|--------------------------|--------------------|------------------------------|------------------------|-----------------------|---|
| <b>Cost of production of banknotes</b>  | <b>56,380,138,000</b>  | <b>0</b>                 | <b>0</b>           | <b>56,380,138,000</b>        | <b>55,595,504,000</b>  | <b>784,634,000</b>    | <b>-6,142,212,000</b>                                   |
| <b>Administrative expenses for treasury business and Japanese government securities</b> | <b>49,621,135,000</b>  | <b>0</b>                 | <b>0</b>           | <b>49,621,135,000</b>        | <b>41,734,936,079</b>  | <b>7,886,198,921</b>  | <b>1,788,157,566</b>                                    |
| <b>Personnel expenses</b>   | <b>50,978,491,000</b>  | <b>0</b>                 | <b>0</b>           | <b>50,978,491,000</b>        | <b>50,177,445,019</b>  | <b>801,045,981</b>    | <b>962,340,516</b>                                      |
| Remuneration of the executives  | 436,472,000            | 0                        | 0                  | 436,472,000                  | 433,083,500            | 3,388,500             | -9,184,000  |
| Remuneration of the staff   | 40,894,357,000         | 0                        | 0                  | 40,894,357,000               | 40,512,457,715         | 381,899,285           | 648,446,599   |
| Retirement allowances   | 9,647,662,000          | 0                        | 0                  | 9,647,662,000                | 9,231,903,804          | 415,758,196           | 323,077,917   |
| <b>Expenses for transportation and communications</b>                                   | <b>6,166,293,000</b>   | <b>0</b>                 | <b>0</b>           | <b>6,166,293,000</b>         | <b>5,564,675,098</b>   | <b>601,617,902</b>    | <b>-312,856,648</b>                                     |
| Expenses for transportation   | 2,367,316,000          | 0                        | 0                  | 2,367,316,000                | 2,021,450,423          | 345,865,577           | -281,490,999  |
| Expenses for communications   | 3,798,977,000          | 0                        | 0                  | 3,798,977,000                | 3,543,224,675          | 255,752,325           | -31,365,649   |
| <b>Expenses for maintenance and repairs</b>   | <b>1,659,295,000</b>   | <b>0</b>                 | <b>0</b>           | <b>1,659,295,000</b>         | <b>1,542,395,238</b>   | <b>116,899,762</b>    | <b>145,201,935</b>                                      |
| <b>Other general and administrative expenses and costs</b>                              | <b>54,830,040,000</b>  | <b>0</b>                 | <b>0</b>           | <b>54,830,040,000</b>        | <b>50,084,225,651</b>  | <b>4,745,814,349</b>  | <b>-1,057,913,105</b>                                   |
| Cost of expendable supplies   | 1,993,635,000          | 0                        | 0                  | 1,993,635,000                | 1,607,845,194          | 385,789,806           | -7,447,520  |
| Expenses for electricity and water supply   | 2,262,929,000          | 0                        | 0                  | 2,262,929,000                | 2,053,824,491          | 209,104,509           | -17,493,956   |
| Leasing fees for buildings and equipment  | 13,228,151,000         | 0                        | 0                  | 13,228,151,000               | 12,555,498,718         | 672,652,282           | -27,502,730   |
| Expenses for maintenance of buildings and equipment                                     | 10,131,612,000         | 0                        | 0                  | 10,131,612,000               | 9,403,126,005          | 728,485,995           | 523,701,919   |
| Miscellaneous expenses  | 27,213,713,000         | 0                        | 0                  | 27,213,713,000               | 24,463,931,243         | 2,749,781,757         | -1,529,170,818  |
| <b>Subtotal</b>   | <b>219,635,392,000</b> | <b>0</b>                 | <b>0</b>           | <b>219,635,392,000</b>       | <b>204,699,181,085</b> | <b>14,936,210,915</b> | <b>-4,617,281,736</b>                                   |
| <b>Cost of fixed-asset purchases</b>  | <b>15,547,207,000</b>  | <b>0</b>                 | <b>0</b>           | <b>15,547,207,000</b>        | <b>11,837,631,000</b>  | <b>3,709,576,000</b>  | <b>1,588,924,068</b>                                    |
| Of which: Subject to the approval of the Minister of Finance <sup>2</sup>               | 6,448,968,000          | 0                        | 0                  | 6,448,968,000                | 5,798,948,674          | 650,019,326           | -312,828,056  |
| <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>236,182,599,000</b> | <b>0</b>                 | <b>0</b>           | <b>236,182,599,000</b>       | <b>216,536,812,085</b> | <b>19,645,786,915</b> | <b>-3,028,357,668</b>                                   |
| Of which: Subject to the approval of the Minister of Finance <sup>2</sup>               | 227,084,360,000        | 0                        | 0                  | 227,084,360,000              | 210,498,129,759        | 16,586,230,241        | -4,930,109,792  |

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

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

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

General and administrative expenses and costs decreased by 5.8 billion yen overall in fiscal 2006 from a year earlier. This was because administrative expenses associated with the issuance of banknotes declined sharply as the cost of banknote production fell, although those associated with services relating to the government<sup>12</sup> increased due mainly to an increase in "administrative expenses for treasury business and JGSs."

Table 4

#### General and Administrative Expenses and Costs by Area of Business Operation<sup>1</sup>

mil. yen

| Area of business operation                       | General and administrative expenses and costs | Changes from a year earlier | Share of total (percent) |
|--|---|-----------------------------|--------------------------|
| Issuance of banknotes                            | 90,700  | -6,763                      | 40.3                     |
| Monetary policy                                  | 21,153  | -361                        | 9.4                      |
| Financial system policy                          | 18,275  | -504                        | 8.1                      |
| Payment and settlement systems                   | 28,961  | +365                        | 12.9                     |
| Services relating to the government <sup>2</sup> | 65,823  | +1,458                      | 29.3                     |
| <b>Total</b>                                     | <b>224,912</b>                                | <b>-5,806</b>               | <b>100.0</b>             |

Notes: 1. Calculated based on "general and administrative expenses and costs" (224.9 billion yen) in the statement of income for the 122nd fiscal year. Figures are rounded to the nearest million yen, thus they are not necessarily equal to the total of relevant items listed in the above table.

General and administrative expenses and costs for the Bank's various business and organizational divisions (international finance, research and statistics, 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.

<sup>12</sup>. Services provided by the Bank, specifically those relating to treasury funds, JGSs, and others.

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