



ANNUAL REVIEW 2012

BANK OF JAPAN



BANK OF JAPAN

ANNUAL REVIEW 2012

Year Ended March 31, 2012

OUR POLICY AND OPERATIONS



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All of the above are available on the Bank of Japan's web site (<http://www.boj.or.jp/en/index.htm>).



BANK OF JAPAN

FOREWORD BY THE GOVERNOR





The *Annual Review* is based on the Japanese original of the *Gyoumu Gaikyo Sho* (Outline of Business Operations), which is prepared pursuant to Article 55 of the Bank of Japan Act. The Japanese original and the *Annual Review 2012* have been drawn up and released to explain to readers the implementation of the Bank's business operations during fiscal 2011.

The fiscal year got off to a demanding start with the significant task of restoration and rebuilding following the Great East Japan Earthquake of March 11, 2011. The Bank expended every effort to produce the necessary response to the various challenges posed by the earthquake and its aftermath, making full use of its functions as central bank.

Following the earthquake, the Bank exerted every possible effort to provide cash to the disaster-stricken areas and to ensure the stable operation of payment and settlement systems; it also provided ample funds for several successive days to financial markets. Moreover, the Bank further enhanced monetary easing by increasing the size of the Asset Purchase Program, mainly by increasing purchases of risk assets, and introduced the funds-supplying operation to support financial institutions in the disaster-stricken areas in their efforts to meet the demand for funds for restoration and rebuilding. The Bank also spared no efforts in providing services to meet demand for the exchange of damaged banknotes and coins in the disaster-stricken areas as well as providing treasury funds services and Japanese government securities services to supplement those offered by damaged financial institutions.

Japan's economy continued to face strong downward pressure for a period during the first half of the fiscal year, mainly on the production side due in part to disruptions to production facilities and supply chains caused by the disaster. The economy subsequently picked up as the supply-side constraints eased, but entered a lull in the second half of the year, remaining more or less flat, mainly due to the effects of the slowdown in overseas economies and the appreciation of the yen against the background of the European debt problem.

In view of such developments, the Bank of Japan continued consistently to contribute as the central bank throughout the year in order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, through the three-pronged approach of pursuing powerful monetary easing via its comprehensive monetary easing measures, ensuring financial market stability, and providing support to strengthen the foundations for economic growth. In February 2012, the Bank introduced "the price stability goal in the medium to long term," clarifying the inflation rate which the Bank's monetary policy aims to achieve. The Bank stated that for the time being it would aim to achieve the goal of a year-on-year rate of increase in the consumer price index (CPI) of 1 percent, and that, until it judged this goal to be in sight, it would pursue it through powerful monetary easing, by conducting its virtually zero interest rate policy and purchasing mainly financial assets as part of the Asset Purchase

Program. In its pursuit of the above, the Bank will verify that there is no significant risk to the sustainability of economic growth, such as from the accumulation of financial imbalances.

With regard to the financial system, the Bank ensured that it maintained an accurate grasp of business conditions at financial institutions, while strengthening the feedback between its on-site examinations and off-site monitoring. It also further refined its methods for analyzing the financial system and assessing its stability, taking a macroprudential perspective—assessing risks in the financial system as a whole—and paying due attention to the interconnectedness of the real economy, financial markets, and the behavior of financial institutions. Moreover, the Bank played an active role in international discussions on issues relevant to ensuring the stability of the global financial system in the wake of the global financial crisis of autumn 2008.

During fiscal 2011, the Bank worked to enhance the safety and efficiency of Japan's payment and settlement systems through, for example, the construction of the new Bank of Japan Financial Network System (BOJ-NET). It also worked to enhance market infrastructure to improve the functioning of financial markets. The Bank supported economic and financial activities in Japan through its steady execution of other central banking business operations such as the issuance, circulation, and maintenance of banknotes, as well as operations related to treasury funds and Japanese government securities, including those carried out in response to the disaster. At the same time, the Bank took advantage of various opportunities to provide the public with a clear explanation of its efforts across these wide-ranging areas.

The above business operations are conducted in line with the Bank's Strategic Priorities, which have a rolling three-year horizon. The Bank maintains a medium-term perspective and updates the Strategic Priorities at the end of every fiscal year to respond to any changes in circumstances in a flexible and timely manner. During fiscal 2011, the Bank followed the Strategic Priorities in implementing various action plans, including those in response to the disaster. Working within such frameworks and making use of the lessons learned from reflecting on the Bank's experiences and response during and after the earthquake, the Bank will continue to make efforts as the country's central bank toward the sustainable growth and development of Japan's economy.



Masaaki Shirakawa
Governor of the Bank of Japan

About the Bank of Japan

I. Core Purposes

II. Capital

III. The Bank's Officers

IV. Organization

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

I. CORE PURPOSES

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

Article 1

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

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

Article 2

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

II. CAPITAL

The Bank is capitalized at 100 million yen in accordance with Article 8, paragraph 1 of the Act. As of the end of March 2012, 55,008,000 yen is subscribed by the government, and the rest by the private sector (Table 2).¹

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

III. THE BANK'S OFFICERS

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

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 Board's recommendation.⁵

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

2. Stipulated by Article 53, paragraph 4.

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

4. Stipulated by Article 16, paragraph 2.

5. Stipulated by Article 23.

The terms of office are five years for the Governor, Deputy Governors, and Members of the Policy Board; four years for Auditors and Executive Directors; and two years for Counsellors.⁶ 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.⁷

For duties and powers of the Bank's officers, see Table 3.⁸

6. Stipulated by Article 24.

7. Stipulated by Article 25.

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

Table 1

History of the Bank of Japan

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

Table 2

Subscribers by Category

Subscribers	Amount of subscription (thous. yen) ¹	Percentage of the total subscription (%)
The government	55,008	55.0
The private sector	44,991	45.0
Individuals	37,771	37.8
Financial institutions	2,269	2.3
Public organizations	211	0.2
Securities companies	53	0.1
Other firms	4,685	4.6
Total	100,000	100.0

Note: 1. Rounded down to the nearest 1,000 yen. As of the end of March 2012.

Table 3

Duties and Powers of the Bank's Officers

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

Policy Board Members¹



Standing from left to right: Takehiro Sato, Sayuri Shirai, Ryuzo Miyao, Yoshihisa Morimoto, Koji Ishida, and Takahide Kiuchi
Seated from left to right: Hirohide Yamaguchi, Masaaki Shirakawa, and Kiyohiko G. Nishimura

Masaaki Shirakawa

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

Date of Birth

September 27, 1949

Education

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

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

Note: 1. Members are as of August 17, 2012.

Hirohide Yamaguchi

Deputy Governor

Date of Birth	Education
March 6, 1951	The University of Tokyo (1974, B.A. in Economics)
1974	Joined the Bank of Japan
1992	Director, Head of Price Statistics Division, Research and Statistics Department
1993	Director, Head of Credit and Market Division, Osaka Branch
1995	Director, Head of Bank Relations Division, Credit and Market Management Department
1996	General Manager, Takamatsu Branch
1998	Deputy Director-General, Budget and Management Office
2004	Director-General, Monetary Affairs Department
2006	Executive Director
2008	Present position

Ryuzo Miyao

Date of Birth	Education
July 3, 1964	Kobe University (1987, B.A. in Economics and 1989, M.A. in Economics) Harvard University (1994, Ph.D. in Economics)
1989	Research Associate, Kobe University
1995	Associate Professor, Kobe University
2003	Professor, Kobe University
2008	Director, Research Institute for Economics and Business Administration, Kobe University
2010	Present position

Sayuri Shirai

Date of Birth	Education
January 2, 1963	Keio University (1987, B.A. in Sociology and 1989, M.A. in Economics) Columbia University (1993, Ph.D. in Economics)
1993	Economist, International Monetary Fund
1998	Associate Professor, Keio University
2006	Professor, Keio University
2011	Present position

Takehiro Sato

Date of Birth	Education
August 2, 1961	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) ⁵
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 MUFG Securities Co., Ltd. ⁶
	Present position

Kiyohiko G. Nishimura

Deputy Governor

Date of Birth	Education
March 30, 1953	The University of Tokyo (1975, B.A. in Economics and 1977, M.A. in Economics) Yale University (1982, Ph.D. in Economics)
1981	Arthur M. Okun Memorial Research Fellow, Economic Studies Program, The Brookings Institution
1983	Associate Professor, The University of Tokyo
1994	Professor, The University of Tokyo
2003	Executive Research Fellow, Economic and Social Research Institute, Cabinet Office, and Professor, Graduate School of Economics, The University of Tokyo
2005	Member of the Policy Board, Bank of Japan
2008	Present position

Yoshihisa Morimoto

Date of Birth	Education
June 25, 1944	The University of Tokyo (1967, B.A. in Law)
1967	Joined The Tokyo Electric Power Company, Incorporated (TEPCO)
1998	General Manager, Pricing & Power Contract Department, TEPCO
2001	Director and General Manager, Marketing & Customer Relations Department, TEPCO
2002	Managing Director, TEPCO
2004	Executive Vice President and General Manager, Marketing & Sales Division, TEPCO
2007	Vice Chairman, The Federation of Electric Power Companies of Japan, and Director, TEPCO
2010	Present position

Koji Ishida

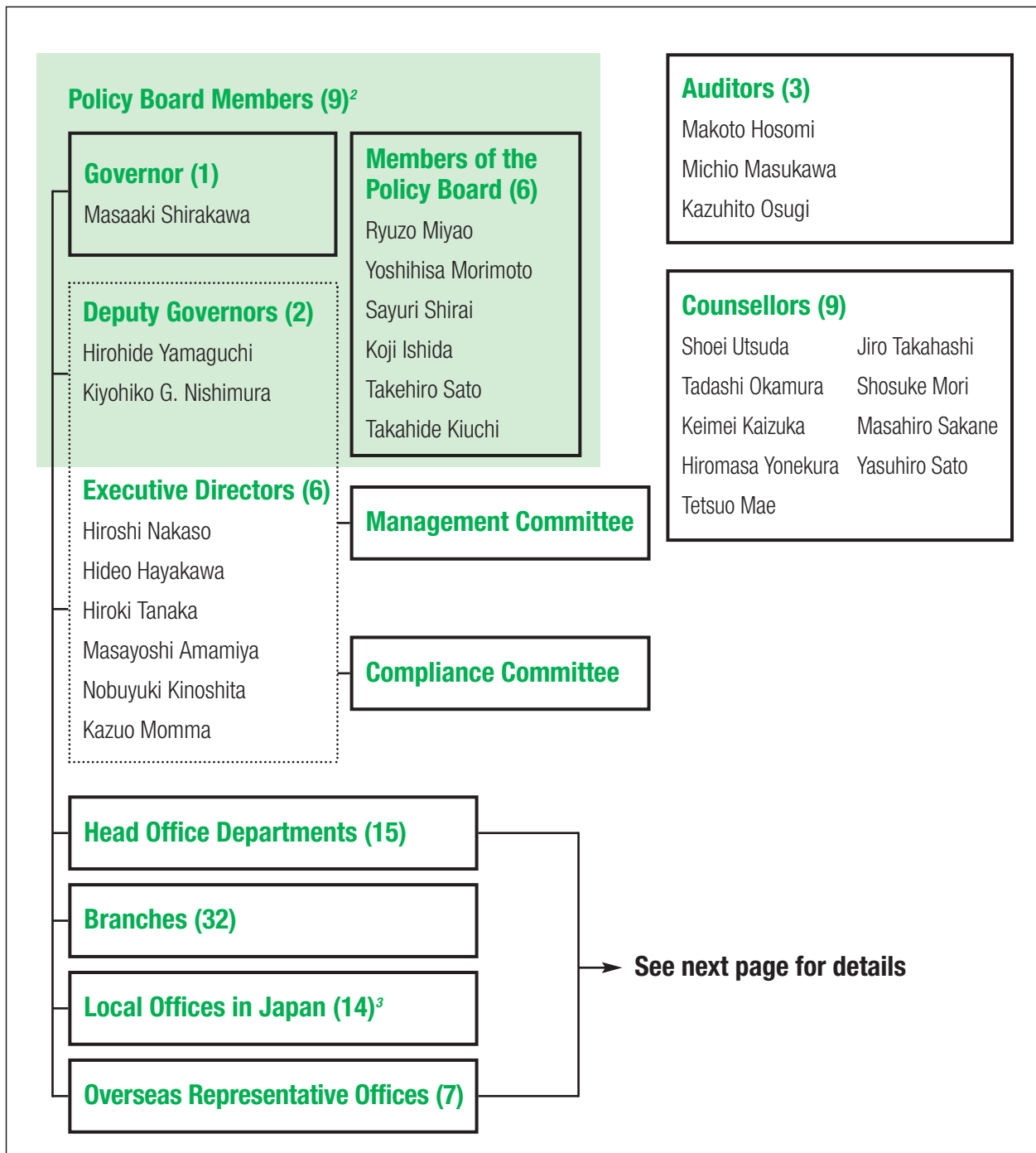
Date of Birth	Education
June 22, 1947	The University of Tokyo (1970, B.A. in Economics)
1970	Joined The Sumitomo Bank, Ltd.
2001	Managing Director and General Manager, Planning Department, The Sumitomo Bank, Ltd.
	Managing Director and General Manager, Corporate Planning Department, Sumitomo Mitsui Banking Corporation (SMBC) ²
2004	Senior Managing Director (Representative Director), Sumitomo Mitsui Financial Group, Inc. (SMFG) ³
2006	President, SMBC Leasing Co., Ltd.
2007	President, Sumitomo Mitsui Finance and Leasing Co., Ltd. (SMFL) ⁴
2011	Present position

Takahide Kiuchi

Date of Birth	Education
November 29, 1963	Waseda University (1987, B.A. in Economics)
1987	Joined Nomura Research Institute, Ltd. (NRI)
2002	Head of the 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.

IV. ORGANIZATION

Organization Chart of the Bank¹

Notes: 1. As of August 17, 2012.

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	Yuji Iino (Director-General) Toshitaka Sakoda (Director-General, Senior Secretary to the Governor) Nobuyasu Yoshioka (Director-General for Parliamentary Affairs, Management Strategy, Budget, and Accounting)
Internal Auditors' Office	Seikou Hattori (Director-General)
Monetary Affairs Department	Shinichi Uchida (Director-General) Toru Umemori (Director-General for Policy Infrastructure)
Financial System and Bank Examination Department	Atsushi Miyanoya (Director-General)
Payment and Settlement Systems Department	Yasuhiro Hayasaki (Director-General)
Financial Markets Department	Shuhei Aoki (Director-General)
Research and Statistics Department	Eiji Maeda (Director-General)
International Department	Hideaki Ono (Director-General)
Currency Issue Department	Norio Shimizu (Director-General)
Operations Department	Yoshiki Tanji (Director-General)
Information System Services Department	Tomohisa Takeda (Director-General) ⁴
Public Relations Department	Michio Ayuse (Director-General)
Personnel and Corporate Affairs Department	Kimihito Etoh (Director-General)
Administration Department	Kazuo Fukuda (Director-General)
Institute for Monetary and Economic Studies	Tomoo Yoshida (Director-General)

Overseas representative offices		Telephone numbers	General managers/ chief representatives
New York	Bank of Japan Chief Representative Office for the Americas Bank of Japan Representative Office in New York 140 Broadway, 18th Floor, New York, NY 10005, U.S.A.	+1-212-269-6566	Haruyuki Toyama (General Manager for the Americas and Chief Representative in New York)
Washington, D.C.	Bank of Japan Representative Office in Washington, D.C. 2100 Pennsylvania Ave., N.W., Suite 505, Washington, D.C. 20037, U.S.A.	+1-202-466-2228	Kenji Hayashi (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	Shigeto Nagai (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	Shinsuke Oyama (Chief Representative in Paris)
Frankfurt	Bank of Japan Representative Office in Frankfurt Taunusanlage 21, 60325 Frankfurt am Main, Germany	+49-69-9714310	Yutaka Soejima (Chief Representative in Frankfurt)
Hong Kong	Bank of Japan Representative Office in Hong Kong Suite 1012, One Pacific Place, 88 Queensway, Central, Hong Kong	+852-2525-8325	Yuko Kawai (Chief Representative in Hong Kong)
Beijing	Bank of Japan Representative Office in Beijing 19th Floor, Unit 12C, China World Tower 2, No. 1 Jian Guo Men Wai Avenue, Beijing 100004, China	+86-10-6505-9601	Rikuichi Niikawa (Chief Representative in Beijing)

Note: 4. Concurrently also Director-General for new BOJ-NET planning for the Payment and Settlement Systems Department.

Functions of Committees/Departments/Offices

COMMITTEES/DEPARTMENTS/OFFICES

Management Committee

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

Compliance Committee

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

Secretariat of the Policy Board

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

OTHER OFFICES

Branches

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

Local Offices in Japan

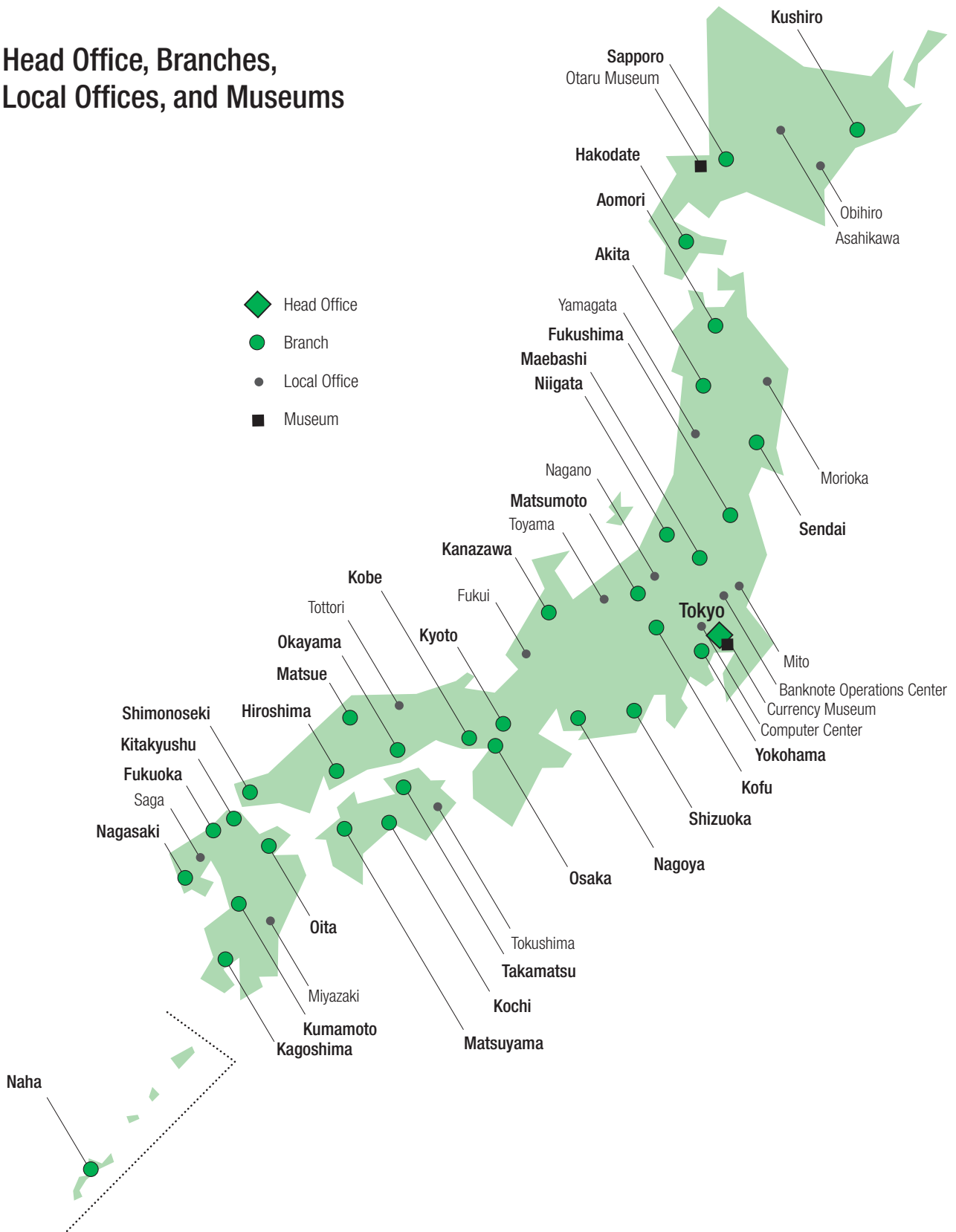
The computer center in Fuchu City, Tokyo, operates the Bank's systems. The banknote operations center in Toda City, Saitama Prefecture, receives, pays, and stores banknotes. The other twelve local offices handle some of the operations of the Head Office or branches.

Overseas Representative Offices

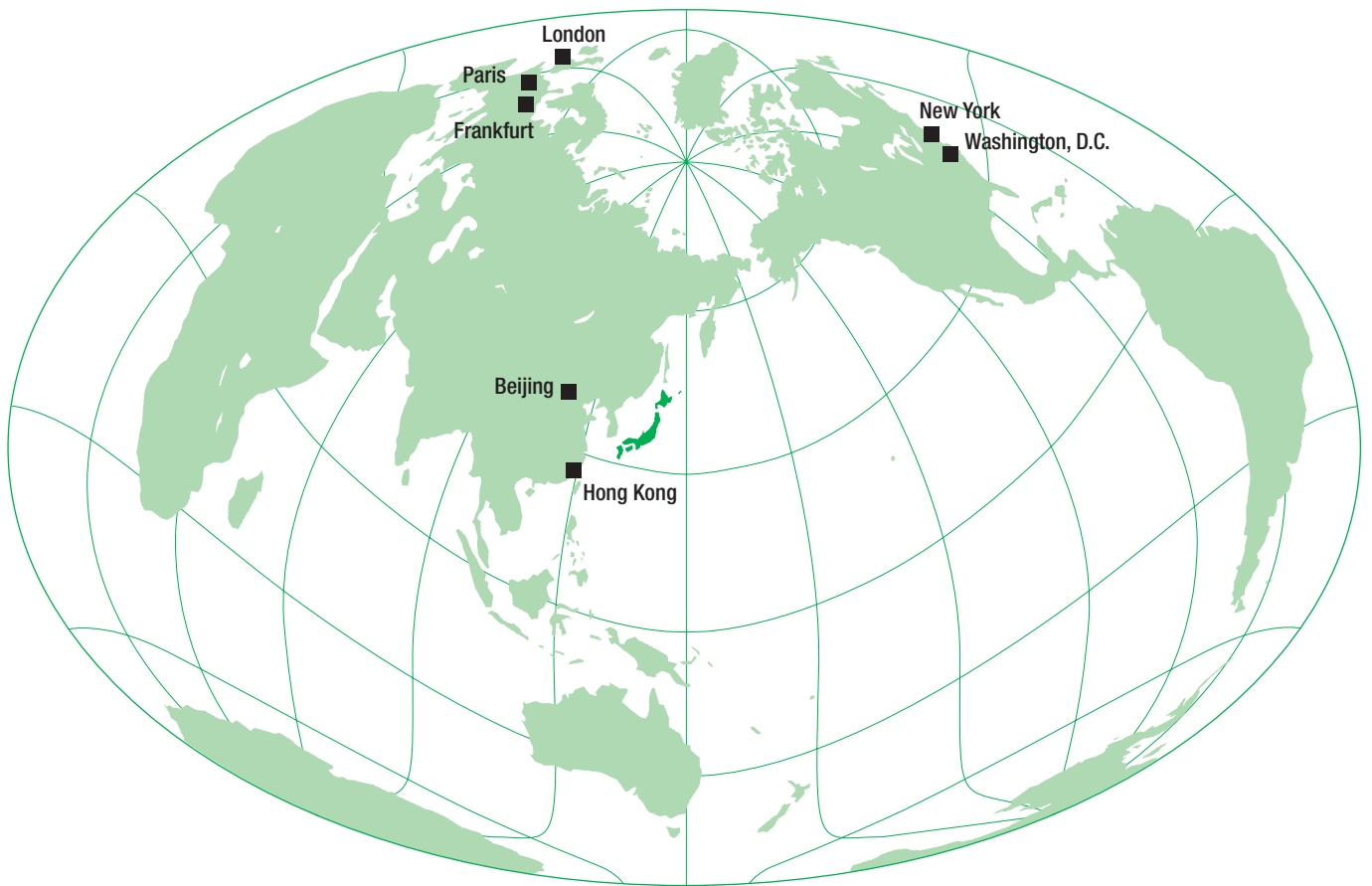
The seven overseas representative offices perform a liaison function, gather information, and conduct research.

The Bank's Offices

Head Office, Branches, Local Offices, and Museums



Overseas Representative Offices¹



Note: 1. For details, see page 17.

The Bank's Business Operations

I. Monetary Policy

II. Financial System Policy

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

IV. International Operations

V. Issuance, Circulation, and Maintenance of Banknotes

VI. Services Relating to the Government

VII. Communication with the Public

I. MONETARY POLICY

The Bank of Japan decides and implements monetary policy, with the aim of achieving price stability and thereby contributing to the sound development of the national economy, as stipulated in Article 2 of the Bank of Japan Act (hereafter the Act). Monetary policy is decided by the Policy Board at Monetary Policy Meetings (MPMs), and money market operations—the Bank's day-to-day provision and absorption of funds in the market—are carried out based on the guideline decided at each MPM. The Bank held 15 MPMs, one of which was unscheduled, in fiscal 2011.

The Policy Board members' assessment of the economic and financial situation is expressed in the statement on monetary policy released after each MPM. The Bank also releases semiannually, in April and October, the *Outlook for Economic Activity and Prices* (hereafter the Outlook Report), after the Policy Board has decided the text of "The Bank's View" section at a second MPM held in each of those months. In the Outlook Report, taking into account "the price stability goal in the medium to long term,"¹ 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), namely, those published in *Monetary and Economic Studies* and the *IMES Discussion Paper Series*.²

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 2011.³

1. At the MPM held in February 2012, the Bank introduced "the price stability goal in the medium to long term" as a part of its efforts to further clarify the determination to overcome deflation and achieve sustainable growth with price stability. "The price stability goal in the medium to long term" is the inflation rate that the Bank judges to be consistent with price stability sustainable in the medium to long term, and will be reviewed once a year in principle. Prior to the introduction of the goal, the "understanding of medium- to long-term price stability" showed a range of inflation rates that each Policy Board member understood as price stability from a medium- to long-term viewpoint.

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

3. For excerpts from the summaries of these two issues, see pages 32–35. The full texts in Japanese are available on the Bank's web site.

II. FINANCIAL SYSTEM POLICY

One of the core purposes of the Bank, as stipulated in Article 1, paragraph 2 of the Act, is to ensure smooth settlement of funds among banks and other financial institutions, thereby contributing to the maintenance of financial system stability. To this end, the Bank provides safe and convenient settlement assets in the form of deposits in 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*⁴—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"

4. The Bank decided to release the new *Financial System Report* from the October 2011 issue, integrating the two existing reports—the *Financial System Report* and the *Financial Markets Report*. The decision was made in view of the recent growing importance of analyzing developments in domestic and overseas financial markets in assessing the stability of the financial system. The new *Financial System Report* assesses the financial system stability while bearing in mind the greater importance of the macroprudential perspective.

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 2011¹

	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	128 (125)	128 (125)	128 (124)	128 (124)	128 (124)
Trust banks	17 (18)	17 (18)	11 (12)	11 (12)	17 (18)
Foreign banks	55 (56)	55 (56)	42 (42)	46 (46)	43 (44)
<i>Shinkin</i> banks	262 (262)	262 (262)	99 (98)	128 (127)	127 (126)
Financial instruments business operators	38 (39)	38 (39)	32 (33)	38 (39)	36 (37)
Bankers associations	33 (33)	0 (0)	0 (0)	0 (0)	0 (0)
Other institutions	21 (21)	11 (11)	10 (10)	11 (11)	14 (14)
Total	554 (554)	511 (511)	322 (319)	362 (359)	365 (363)

Note: 1. Figures in parentheses indicate the number of institutions as of the end of fiscal 2010.

Table 2

Number of Financial Institutions Examined

	Fiscal 2009	Fiscal 2010	Fiscal 2011
Domestically licensed banks ¹	46	38	26
<i>Shinkin</i> banks	47	43	29
Other institutions ²	19	19	13
Total	112	100	68

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).

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

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

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

IV. INTERNATIONAL OPERATIONS

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

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

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

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

V. ISSUANCE, CIRCULATION, AND MAINTENANCE OF BANKNOTES

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

authorized issuer of coins, and then put into circulation.

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

VI. SERVICES RELATING TO THE GOVERNMENT

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

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

Besides the above operations, the Bank engages in various transactions with the government, such as 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 2011

I. Introduction

II. Review of Economic and Financial Developments

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III. The Bank's Response to the Great East Japan Earthquake

- A. Implementation of Emergency Measures after the Earthquake
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- A. Matters Relating to the Conduct of Monetary Policy
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I. INTRODUCTION

In March 2011, the Bank of Japan formulated and released "The Bank of Japan's Strategic Priorities for Fiscal 2011–2013." The Bank conducted its daily business operations for fiscal 2011 in accordance with these Strategic Priorities, which comprise the set of issues to be addressed and concrete measures to be taken during this period. In the Strategic Priorities, the Bank stated its resolve to respond appropriately, making full use of its functions as central bank, to new challenges arising across a wide range of business areas since the Great East Japan Earthquake¹ on March 11, 2011. The Bank implemented various action plans

during fiscal 2011 based on this resolve.

This section provides a brief review of economic and financial developments in fiscal 2011, followed by an overview of the Bank's response to the earthquake, and a detailed evaluation of the Bank's progress made during the year.

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

II. REVIEW OF ECONOMIC AND FINANCIAL DEVELOPMENTS³

A. First Half of Fiscal 2011 (April–September 2011)

1. Economic Developments

a. Looking back at the first half of fiscal 2011, Japan's economy continued to face strong downward pressure for some time, mainly on the production side, against the background of supply-side constraints caused by the effects of the Great East Japan Earthquake. The economy headed toward a pick-up thereafter, as efforts to restore damaged facilities and supply chains progressed and supply-side constraints eased.

After declining sharply following the earthquake, production and exports picked up with the easing of supply-side constraints, almost

recovering their pre-quake levels toward the summer. In this situation, domestic private demand also weakened after the earthquake, but started picking up partly due to improvement in household and business sentiment.

b. The rate of increase in domestic corporate goods prices rose on a year-on-year basis compared with the second half of fiscal 2010, mainly due to effects of the rise in international commodity prices observed toward spring 2011. The year-on-year rate of decline in consumer prices (all items less fresh food) continued to slow, and was around 0 percent in the July–September quarter.

2. Financial Developments

a. In the money market, short-term interest rates

1. Various names were given to the earthquake in its aftermath, but in this issue of the Annual Review, we use "the Great East Japan Earthquake," the official term adopted by the government on April 1, 2011.

2. For the text of "The Bank of Japan's Strategic Priorities for Fiscal 2012–2014," see Appendix 2 on pages 88–94.

3. 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 2011 and June 2012. The full texts of both issues in Japanese and summaries in English are available on the Bank's web site.

remained at low levels against the backdrop of the Bank of Japan's continued provision of ample funds. Compared with the second half of fiscal 2010, the rates declined, albeit slightly, mainly in longer-term interest rates with relative room for a further decline.

Long-term interest rates rose temporarily to around 1.3 percent in early April 2011, partly due to concerns about an increase in the issuance of Japanese government bonds (JGBs). As such concerns had subsided somewhat, they declined moderately thereafter and stayed at around 1.0 percent, due in part to the decline in U.S. interest rates.

The Nikkei 225 Stock Average temporarily recovered to the 10,000 yen level reflecting the faster-than-expected recovery from the earthquake disaster. It fell substantially thereafter, however, temporarily plunging below 8,500 yen in late September. The fall reflected the appreciation of the yen amid sharp adjustments that had been observed in U.S. and European stock prices since August.

In foreign exchange markets, the yen continued to appreciate against the U.S. dollar on the whole, partly due to a decline in U.S. interest rates against the background of rising concern over a slowdown in the U.S. economy. It started to depreciate temporarily triggered by a foreign exchange intervention in early August, but appreciated again with a decline in U.S. interest rates and recorded a historical high in mid-August. The yen's exchange rate against the U.S. dollar moved within a narrow range of 76-77 yen thereafter, due in part to vigilance regarding a possible foreign exchange intervention.

b. In terms of credit supply, financial institutions' lending attitudes as perceived by firms continued to be on an improving trend. In the corporate bond market, issuing conditions were generally favorable, as new issuances resumed after a pause following the earthquake and the variety of corporate bond issuers increased. Meanwhile, issuing conditions for CP generally remained favorable.

As for credit demand, firms' demand for working capital rose.

In terms of firms' funding, the rate of decline in the amount outstanding of lending by domestic commercial banks continued to be on a decelerating trend. The amount outstanding of corporate bonds issued exceeded its previous year's level, and that of CP issued either exceeded or was around its previous year's level.

c. The monetary base (currency in circulation plus current accounts at the Bank) significantly exceeded its previous year's level. The year-on-year rate of growth in the money stock (M2) remained around 2.5–3.0 percent.

B. Second Half of Fiscal 2011 (October 2011–March 2012)

1. Economic Developments

a. Looking back at the second half of fiscal 2011, Japan's economic activity continued to pick up following the plunge caused by the Great East Japan Earthquake. Toward the end of 2011, it entered a lull and remained more or less flat, mainly due to the effects of a slowdown in overseas economies and of the appreciation of the yen. As the fiscal year-end approached, signs that conditions would pick up became evident again.

Although exports and production picked up rapidly following the plunge after the earthquake disaster, they stopped increasing and more or less flattened, due in part to the slowdown in overseas economies and the appreciation of the yen against the background of the European debt problem as well as supply constraints caused by the flooding in Thailand. Toward the end of fiscal 2011, however, they began to show signs of a possible pick-up in the coming period. Business fixed investment, private consumption, and housing investment were on an improving trend, mainly reflecting pent-up demand that had been restrained temporarily after the earthquake disaster. Public investment, which had stopped declining after the disaster, mainly reflecting the construction of temporary housing and restoration projects for social infrastructure, started to increase after the turn of the year as the execution of a series of supplementary budgets progressed.

- b. The year-on-year rate of increase in the domestic corporate goods price index slowed after peaking in the summer, due to the effects of a decline in international commodity prices toward the end of 2011. The year-on-year rate of change in the consumer price index (CPI, all items less fresh food) stayed around 0 percent.

2. Financial Developments

- a. In the money market, short-term interest rates remained stable at low levels against the backdrop of the Bank of Japan's continued provision of ample funds.

Long-term interest rates were generally around 1.0 percent.

The Nikkei 225 Stock Average moved within a

range centering around 8,500 yen toward the end of 2011. It subsequently rose to around 10,000 yen toward the fiscal year-end. Behind this was abating risk aversion among investors in light of an improvement in U.S. economic indicators while concern over the European debt problem had somewhat subsided.

In the foreign exchange market, the yen continued to appreciate against the U.S. dollar toward the end of October. After recording a historical high, it depreciated following foreign exchange intervention. The yen subsequently appreciated again, and generally moved within a narrow range of 76-78 yen to the dollar toward the beginning of 2012. The yen's exchange rate against the dollar then fell in February onward, mainly against the background of an abatement of investors' risk aversion. It traded at the 82-83 yen level at the end of March.

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

As for credit demand, firms' demand for working capital was on a rising trend mainly backed by recovery in production activity after the earthquake, and that for funds related to mergers and acquisitions also showed an increase.

In terms of firms' funding, the amount outstanding of lending by domestic commercial banks stayed above the previous year's level. The amount outstanding of CP issuance stayed more or less above the previous year's level. Meanwhile, that of corporate bond issuance stayed slightly

below the previous year's level in December 2011 onward, partly because some issuers shifted to the CP market.

- c. The year-on-year rate of change in the monetary base (currency in circulation plus current accounts

at the Bank) remained at a high level, but became slightly negative in March. The year-on-year rate of growth in the money stock (M2) remained around 2.5–3.0 percent.

III. THE BANK'S RESPONSE TO THE GREAT EAST JAPAN EARTHQUAKE

A. Implementation of Emergency Measures after the Earthquake

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

First, the Bank worked to maintain the financial intermediation function and secure the smooth settlement of funds. Specifically, to cope with demand for cash in the disaster-stricken areas, the Bank provided cash to financial institutions in these areas promptly and in sufficient quantities, not only on business days but also on weekends and holidays. Moreover, the Governor of the Bank, jointly with the Minister of State for Financial Services, released a document regarding financial measures to respond to the disaster triggered by the earthquake, requesting that financial institutions take appropriate measures to accommodate the needs of those affected by the disaster, for example by permitting the withdrawal of deposits in cases where depositors had lost passbooks or seals. Furthermore, the Bank, in cooperation with relevant parties, maintained the stable functioning of Japan's core payment and settlement systems, such as the Bank of Japan Financial Network System (BOJ-NET), even after the earthquake.

Second, the Bank strived to prevent an excessive increase in risk aversion from emerging in financial markets or other areas of financial and economic activity. To this end, the Bank provided ample funds to

meet demand in financial markets for several successive days after the earthquake, and worked to ensure stability in the markets by maintaining confidence on the funding front. Also, with a view to preventing any deterioration in business sentiment or heightening of risk aversion in financial markets from adversely affecting economic activity, the Bank further enhanced monetary easing by increasing the size of the Asset Purchase Program, mainly of the purchases of risk assets, under the comprehensive monetary easing framework.

Third, the Bank worked to ensure calm in markets at home and abroad by providing accurate information. Specifically, immediately after the earthquake, it expanded the communications offered on its web site, setting up a section devoted to the earthquake in both Japanese and English, and releasing a series of information updates regarding its business continuity situation. In addition, on various occasions such as at international conferences, in speeches given at home and abroad, and at press conferences, the Bank emphasized that Japan's financial markets as well as its financial and settlement systems had consistently maintained normal functioning.

B. Further Subsequent Challenges and the Bank's Response

Even after implementation of these emergency

measures, the Bank faced various challenges pertaining to the earthquake that required its continued prompt and flexible response as well as the stable and efficient conduct of requisite business operations. It took the following specific responses.

In terms of its policy response, the Bank's challenge was to support financial institutions in the disaster-stricken areas in their initial efforts to meet the demand for funds for restoration and rebuilding, and at the same time, to ensure that they had sufficient financing capacity to do so. To this end, at the Monetary Policy Meeting (MPM) held in April 2011, the Bank introduced the funds-supplying operation to support financial institutions in the disaster areas and relaxed the collateral eligibility standards for debts of companies operating in these areas. In this regard, the Bank, in October 2011 and March 2012, extended the deadline for new applications for loans through the above funds-supplying operation, as well as the application period for taking advantage of the relaxed collateral eligibility standards. In conducting research and analysis behind these policy operations, the Bank made use of its nationwide network of branches and local offices in order to keep a firm grasp of the evolving situation in the aftermath of the earthquake, given that the effects of the disaster had spread beyond those areas immediately affected by the earthquake. In addition to keeping abreast of the effects of the disaster on regional economic and financial conditions, the Bank worked to remain up-to-date with progress in restoration and rebuilding, developments in financial conditions, as well as the maintenance of the financial intermediation function in the disaster-stricken areas. Its findings were compiled and published in such reports as the *Regional*

Economic Report and Financial System Report.

In its business operations and organizational management, the Bank responded to further challenges by taking actions that included the following: providing services to meet demand for the exchange of damaged banknotes and coins in the disaster-stricken areas; providing treasury funds services and Japanese government securities (JGS) services to supplement those offered by damaged financial institutions; and addressing electricity shortages. For the exchange of banknotes and coins damaged during the earthquake and its aftermath, the Bank, from April 20 to July 20, 2011, opened a temporary teller window in Morioka city, Iwate Prefecture, where it does not have a branch, and sent staff to branches in the disaster-stricken areas. By March 31, 2012, the Bank had exchanged a total of 480 thousand banknotes and 4.24 million coins damaged during and after the earthquake. With regard to treasury funds and JGS services, the Bank offered treasury funds services at its Head Office and branches on behalf of or in supplement to the services offered by damaged financial institutions. The Bank also carried out targeted relief measures to facilitate the smooth processing of coupon payments and redemptions to disaster victims holding ownership rights on lost or damaged subsidy bonds.

Furthermore, the Bank took various measures at its Head Office and branches in response to electricity shortages during the summer and winter of fiscal 2011.⁴ Specifically, in the summer, with restrictions on the use of electricity being imposed within the service areas of the Tokyo Electric Power Company (TEPCO) and Tohoku Electric Power Company based on the Electricity Business Act, the Bank released plans to reduce its

4. Immediately following the earthquake, blackouts occurred over virtually the entire Tohoku region. Also, within the service area of the Tokyo Electric Power Company (TEPCO), rolling blackouts were implemented from March 14, 2011.

electricity usage and adopted a number of measures accordingly.⁵ These measures included: operating banknote examination machines at its Head Office and branches during weekends, and rotating operation between branches; suspending the operation of some systems-operation equipment; restricting or reducing the use of air conditioners; and limiting the use of and turning off lights.

With regard to organizational management also, the Bank responded as befit the exceptional circumstances, executing its business operations in a timely and flexible manner. Measures included sending staff to branches and offices in the disaster-stricken areas as required and adjusting working hours to fit in with the operating hours of banknote examination machines.

C. Temporary Suspension of Some of the Bank's Business Operations Following the Earthquake

As described above, the Bank took various measures in response to further challenges emerging after the earthquake and worked to ensure the stable conduct of its central banking operations as a whole. Some of the Bank's business operations, however, were temporarily suspended amid the various constraints that arose following the earthquake.

Specifically, the Bank's on-site examinations of financial institutions in the Tohoku and Kanto regions were, in principle, suspended during the first half of fiscal 2011 out of consideration for the impact on those institutions' business operations not only of the disaster but also of subsequent efforts to reduce electricity usage. Similarly, on the research and statistics front, the Bank also took account of the situation of companies in

the disaster-stricken areas when conducting surveys on regional economic and financial conditions. Moreover, the Bank substantially reduced its public relations activities, particularly during the summer when its arrangements to reduce electricity usage were carried out. Specifically, the Bank closed the Currency Museum immediately after the earthquake until the middle of April, closing it again on weekdays throughout the summer period when electricity reduction arrangements were in place. The Bank's in-house tours at its Head Office were also suspended during the same periods.

D. Issues to Be Considered in Responding to Disasters

In light of the Bank's response to the disaster as described above, the following issues regarding business operations and organizational management will require consideration.

First is the need for continuous efforts by the Bank to strengthen the competency of its staff, grounded in the accurate practical knowledge and depth of expertise with which they execute business operations. In responding to the disaster, it was necessary that the Bank smoothly execute unprecedented emergency business operations, including the following: (1) provision of relevant services offered on behalf of or in supplement to those offered by damaged financial institutions; (2) carrying out targeted relief measures, such as increasing flexibility in payment procedures for subsidy bonds owned by disaster victims; and (3) exchange of a substantial volume of damaged banknotes and coins. For the Bank to maintain a framework that allows core operations to be conducted in a timely and stable manner even in such emergencies,

5. The Bank set a goal to keep its electricity consumption during peak hours—from 9:00 a.m. to 8:00 p.m.—to a level 15 percent less than its maximum for the same period of the previous year, on business days from July 1 to September 30, 2011, while making the utmost effort to reduce electricity usage still further. In the event, the Bank achieved a reduction of 18.8 to 21.5 percent at its Head Office and branches.

it is vital that it continue to exert efforts to deepen the knowledge and expertise of its staff across the whole range of its banking operations.

The second issue is the implementation of necessary revisions in light of the lessons learned from reflecting on the Bank's experiences and response during and after the earthquake. The Bank's efforts to date toward refining and strengthening its business continuity arrangements contributed to a considerable degree to maintaining the functioning of financial and settlement systems in the wake of the disaster. Nevertheless, looking back on the Bank's initial responses to the earthquake, certain incidents might have warranted concern in a more severe situation. Examples included: difficulties in confirming the safety of some Bank

employees as a result of congested telecommunications systems; as well as delays and sudden changes in the schedule of public transportation services that affected employees' attendance for work. It is important that the Bank reflect on and learn the necessary lessons from its experiences and response during and after the earthquake so as to execute its business operations with increased precision and deliberation in future. From this perspective, the Bank, as stated in the 2012–14 Strategic Priorities, will work not only on examining its current business continuity arrangements but also on action plans such as reappraising its operational frameworks and the division of roles between its Head Office and branches, as well as that among branches.

IV. PROGRESS IN ADDRESSING ISSUES AND IMPLEMENTING ACTION PLANS

A. Matters Relating to the Conduct of Monetary Policy

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

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

(1) After plunging following the earthquake, Japan's economy picked up through summer 2011, although the pace of the pick-up moderated from the

beginning of autumn mainly due to the effects of a slowdown in overseas economies and the appreciation of the yen. Since then, Japan's economic activity has been more or less flat. Moreover, uncertainty about the future remains high. Against this background, the Bank acted to enhance the quality of its research and analysis on developments in economic activity, prices, and the financial environment, including the impacts of the earthquake and the European debt problem.

- (2) In monitoring the financial environment, the Bank conducted an overall assessment of developments in financial markets and corporate finance. Furthermore, the Bank assessed the accumulation of financial imbalances and further strengthened analysis of the relationship between such imbalances and the conduct of monetary policy, both from a macroprudential perspective.
- (3) The Bank conducted research and analysis on developments in policies taken by other central banks so as to make use of the findings in conducting monetary policy.

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 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 opinions and information with overseas authorities

with a view to better grasping overseas economic and financial conditions as well as developments in global financial markets. The Bank contributed to the close cooperation among central banks with its Executive Director continuing to serve as Chair of the BIS Markets Committee. The Bank also contributed to the formulation and execution of coordinated actions by major central banks. 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, 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 played an important part in the G20 Study Group on Commodities, chaired by the Bank's Executive Director, particularly in the compilation of the Group's report, which provided the background to international commodity price fluctuations and set out policy implications.

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 continued its ample and flexible provision of funds through, for example, the expansion of the Asset Purchase Program. Furthermore, the Bank worked out the operational details of and then steadily implemented the new lending arrangement for equity investments and asset-based lending (ABL) established for the fund-provisioning measure to support strengthening the foundations for economic growth (hereafter the Growth-Supporting Funding Facility).
- (2) In response to the Great East Japan Earthquake, the Bank worked out the operational details of and then steadily implemented 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. To facilitate the conduct of monetary policy, the Bank will discuss matters related to the frameworks for money market operations.

- (1) In order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, the Bank formulated and implemented the following policy measures to pursue powerful monetary easing, to ensure financial market stability, and to provide support to strengthen the foundations for economic growth.
 - (a) Expansion of the Asset Purchase Program in August and October 2011 and in February 2012.
 - (b) Introduction of "the price stability goal in the medium to long term" in February 2012.
 - (c) Clarification of the Bank's determination to pursue monetary easing through policy duration effects in February 2012.
 - (d) Extensions of the effective period of the Bank's

U.S. dollar funds-supplying operations against pooled collateral in July and November 2011, as well as the lowering of interest rates on these operations in November 2011.

- (e) Establishment of bilateral liquidity swap arrangements among five central banks that would enable the provision of liquidity in non-domestic currencies other than the U.S. dollar in November 2011; also the establishment of principal terms and conditions for funds-supplying operations against pooled collateral for the four currencies in December 2011.
 - (f) Introduction of and preparations for the new lending arrangements for the Growth-Supporting Funding Facility.
 - i) Establishment of special rules for the lending arrangement for equity investments and ABL in June 2011.
 - ii) Establishment of special rules for the lending arrangement for small-lot investments and loans in March 2012.
 - iii) Decision to establish special rules for a U.S. dollar lending arrangement for foreign currency-denominated investments and loans in March 2012, followed by preparations for the same.
 - (g) Increase in the ceiling for the outstanding balance of loans under the main rules for the Growth-Supporting Funding Facility; and the extension of the deadline for applications for new loans under both the main rules and the special rules for the lending arrangement for equity investments and ABL, all in March 2012.
- (2) With a view to supporting financial institutions in the disaster-stricken areas in their initial efforts to meet the demand for funds for restoration and rebuilding as well as with a view to securing sufficient financing

capacity at these institutions, the Bank formulated and implemented the following policy measures.

(a) Introduction of the funds-supplying operation to support financial institutions in disaster areas in April 2011; also extensions of the deadline for new applications for loans in October 2011 and March 2012.

(b) Introduction of more relaxed collateral eligibility standards for debts of companies in disaster areas in April 2011, as well as extensions of the relevant application period in October 2011 and March 2012.

5. 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.

(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 "Recent Conduct of Monetary Policy toward a Sustainable Growth Path with Price Stability," in which it provided concise summaries and explanations of its policy schemes. It also released and regularly updated the amount outstanding of the Bank's financial assets purchased as well as that for funds-supplying operations.

(3) Following the earthquake, with a view to offering easily digestible explanations of various measures to provide support for disaster-stricken areas, the Bank

introduced a new section on its web site related to such measures and the progress in their implementation.

(4) The Bank also made public the findings of its research and analysis through, for example, the releases of the *Bank of Japan Review Series* and the *Bank of Japan Working Paper Series*.

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

(1) The Bank released its research findings on the developments in economic activity and financial markets underpinning its conduct of monetary policy. These included: the effects of demographic changes on the financial environment; and the relationship between the supply and demand of safe assets and yields on major countries' government bonds.

(2) In the *Outlook for Economic Activity and Prices*, the Bank focused particularly on the following topics that were crucial for making its projections: the effects of the earthquake on the output gap and prices; and the effects of the base-year change in the CPI. It provided a detailed explanation of its findings on these two topics in the April and October 2011 issues, respectively.

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

(1) The Bank expressed its opinion on the importance of raising Japan's growth potential and achieving fiscal consolidation at various governmental meetings including the Council on the Realization of the New Growth Strategy and the Council on National Strategy and Policy. The Bank, in its capacity as central bank, also actively participated in discussions held by the

Financial System Council's Working Group on Medium and Long Term Approach of Japan's Financial Industry, the Amended Money Lending Business Act Follow-up Team, as well as a conference on the amendment of the Civil Code on claims.

8. The Bank will conduct a broad range of fundamental research in the economics field, as well as in fields related to the infrastructure of the financial system including financial and information technology, and the history of currency and finance. It will make use of these findings in conducting monetary policy. The Bank will strengthen cooperation with other central banks, as well as academics and research institutes both at home and abroad, so as to steadily raise the quality of such research activities. Furthermore, the Bank will make efforts to 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 concerns about fiscal conditions in Europe that have been mounting more recently, the Bank conducted the following research: fundamental research on the macroeconomy and monetary policy from both theoretical and empirical perspectives; fundamental research on microeconomic aspects of the financial system; and research on risk management and financial engineering. 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 the following domestic and international conferences, yielding fruitful discussion with distinguished academics as well as overseas authorities.

(a) An international conference entitled "Real and Financial Linkage and Monetary Policy" in 2011.

(b) A conference co-hosted by The University of Tokyo in November 2011 on the background to price fluctuations in Japan, focusing on the period since the 1990s. The Bank subsequently released a number of papers related to the conference, namely, the conference proceedings and several working papers (all available only in Japanese).

(3) The Bank worked to improve both user friendliness and the administrative efficiency of its Archives following their designation as national archives based on the act on the management of official documents that came into force in April 2011. Moreover, the Bank's Currency Museum devised ways to improve its operations and enhanced its services by, for example, holding feature exhibitions and making available the digital imaging of ancient documents on its web site. As part of arrangements to reduce electricity usage during summer 2011, the museum was temporarily closed on weekdays and guided tours were instead offered on weekends.

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 2011, the Bank provided no loans pursuant to Articles 37 and 38 of the Bank of Japan Act.

2. In light of the global financial crisis of autumn 2008, there have been increasingly lively international discussions on macroprudence and other issues relevant to maintaining the stability of the financial system. There has been progress

toward establishing new international rules regarding financial regulation and supervision, and also in the relevant efforts being made by individual countries and regions around the world. Furthermore, the scope of international discussions has widened to include issues such as the international monetary system and the resolution frameworks for financial institutions. Given these developments, the Bank will conduct research and planning related to the financial system, giving due consideration to institutional factors unique to each country as well as Japan's past experiences. **The Bank will make use of the findings to actively contribute to policy formulation both at home and abroad.**

- (1) In light of Japan's past experiences, the Bank explained its thinking at international conferences and other such occasions that focused on macroprudence and cross-border frameworks for handling financial institution resolutions; it was also active in providing information in these areas, for example through the release of the *Financial System Report*.
 - (2) In addition, the Bank actively participated in discussions and information exchange within Asia, through its activities at the EMEAP Working Group on Banking Supervision—in which the Bank served as Co-Chair—as well as at various meetings such as the ACC and ASEAN Plus Three, with a view to promoting the implementation of new financial regulations and achieving financial system stability in the region. In this way, the Bank contributed to the expansion of Asia's presence in international discussions.
- 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) countries, the Group of Seven (G-7) countries, the Financial Stability Board (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 contribute to improving and ensuring the stability of the global financial system. It will also play an active role in applying the conclusions of such international discussions in the domestic context.

- (1) The Bank actively participated in discussions at international conferences, such as meetings of the G-20 countries, the G-7 countries, the FSB, and the Basel Committee, on strengthening the robustness of the global financial system. These included discussions on gauging the vulnerability of the global financial system, establishing a concrete framework for regulating systemically important financial institutions, and developing cross-border frameworks for handling financial institution resolutions.
- (2) In light of developing instability in European financial markets, the Bank actively exchanged information with overseas authorities, mainly through supervisory colleges. It also played an active role in applying the conclusions of international discussions on new financial regulations, for example governing bank capital and liquidity, within the domestic regulatory framework, while strengthening ties with supervisory authorities at home and abroad and enhancing dialogue with financial institutions.
- (3) At meetings including those of the G-20 countries and the FSB, the Bank has made use of Japanese expertise in areas such as the feedback loop between financial and economic activity to contribute

constructively toward the drafting of well-balanced reforms aimed at maintaining the stability of the global financial system.

4. The Bank will further refine its methods for macroprudential analysis and assessment of the financial system in Japan and communicate its findings to the public effectively.

- (1) The Bank released "The Bank of Japan's Initiatives on the Macroprudential Front," in which it described its basic macroprudential perspective.
- (2) The Bank integrated the *Financial System Report* with the *Financial Markets Report*, and incorporated an analysis of domestic and overseas financial markets in assessing the stability of the financial system. It also refined its methods of analysis from a macroprudential perspective via the following: increasing the number of financial institutions subject to assessment; enhancing its tools for analyzing the robustness of the financial system, for example by introducing new indicators of financial imbalances and improved macro stress tests; and developing a new Financial Macroeconometric Model to account for the interconnectedness of the financial system and the real economy. The refinements were then communicated to the public.

5. The Bank will ensure that it maintains an accurate grasp of 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 efficiently and effectively by utilizing targeted on-site examinations specially tailored to each institution's risk profile and through training programs for those conducting the examinations. With regard to off-site monitoring, the Bank proceeded with more firmly establishing its framework for liquidity risk monitoring; at the same time, it worked to keep informed of financial institutions' business conditions and risk profiles, taking into account economic and financial developments both at home and abroad as well as revisions to various frameworks. Regarding risk management at financial institutions, the Bank strengthened the feedback between its on-site examinations and off-site monitoring, facilitating necessary improvements in risk management procedures at individual financial institutions; it also compiled and released papers dealing with operational risk management as well as the management with regard to computer system failures.

- (2) Out of consideration for the impact of the Great East Japan Earthquake and subsequent efforts to reduce electricity usage, the Bank, in principle, suspended on-site examinations of financial institutions in the Tohoku and Kanto regions during the first half of fiscal 2011. As a result, the number of financial institutions examined in fiscal 2011 was 68—approximately 30 percent fewer than the 100 examined the previous fiscal year. Also, after exchanging views with financial institutions and collating the results into cases where arrangements were effective during the earthquake and its aftermath as well as those where arrangements were subsequently revised, the Bank updated its research paper on ensuring effective implementation of business continuity arrangements (available only in Japanese).

(3) The CAFT continued to support financial institutions' efforts to improve their management of business operations and risks by hosting seminars and releasing papers on the management of interest rate risk and risk associated with mortgage loans (available only in Japanese), as well as by exchanging views with experts and professional practitioners.

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

(1) The Bank made regular reports on business operations and risk-taking at financial institutions based on findings from its off-site monitoring and on-site examinations; it also made use of these findings in implementing monetary policy. In the *Financial System Report*, the Bank pointed out the challenges facing financial institutions and the financial system in Japan, with a view to producing analysis that would be useful in the implementation of monetary policy.

(2) The Bank utilized its experience in conducting the Growth-Supporting Funding Facility, as well as insights obtained through its on-site examinations, off-site monitoring, and various surveys, to produce a fully-specified institutional design for a new lending arrangement for equity investments and ABL. The Bank also supported financial institutions' efforts to strengthen the foundations for economic growth by, for example, working vigorously to organize seminars on ABL and to release related information.

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

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

(1) To ensure the smooth operation of the BOJ-NET and linked payment and settlement systems, the Bank executed business and system operations related to the BOJ-NET in an accurate and stable manner.

(2) In response to the Great East Japan Earthquake, the Bank sent staff from its Head Office to branches in the disaster-stricken areas, doing its utmost to ensure the execution of business and system operations. In implementing its arrangements to reduce electricity usage during summer 2011, the Bank—while suspending the operation of some of its systems-operation equipment—devised ways to ensure that business as well as payment and settlement system operations continued to be executed smoothly.

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 of autumn 2008, on reviewing payment and settlement practices and reforming the framework of financial regulation and supervision.

- (1) With regard to the comprehensive review of international standards for payment and settlement systems following the global financial crisis of autumn 2008, as well as international initiatives to improve trading and clearing procedures for over-the-counter (OTC) derivatives, the Bank cooperated and coordinated actions with overseas central banks and supervisory authorities toward the following: formulating appropriate international standards; improving the safety and efficiency of payment and settlement systems in line with such standards; and further enhancing the framework for central bank oversight and supervision. In this regard, the Bank conducted analysis on practices in payment and settlement systems both at home and abroad as well as on risk assessment models.
- (2) The Bank proceeded with research and planning toward improving the functioning of Japan's payment and settlement systems from a medium- to long-term perspective, as follows.
 - (a) The Bank, through participating in the study group for enhancing corporate payment infrastructures, discussed with the banking sector how to make effective use of payment systems to this end.
 - (b) The Bank, in consultation with relevant parties both at home and abroad, proceeded with research and planning related to measures to improve Japan's payment and settlement systems, taking account of lessons learned from

past financial crises as well as of the latest developments in settlement infrastructure in Asia, the United States, and Europe.

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

- (1) In cooperation with concerned parties such as financial institutions that are users of the BOJ-NET and the Japanese Banks' Payment Clearing Network (Zengin-Net), the Bank carried out a number of tests of the second phase of the RTGS-XG project, and confirmed that payments were processed smoothly and in line with market guidelines and other practices. Furthermore, by keeping those involved fully informed about the project via, for example, the release of newsletters on the RTGS-XG project (available only in Japanese), the Bank made steady progress with its preparations for the launch, achieving a smooth transition in November 2011. Since the system went into operation, the Bank has monitored the timing of submission, receipt, and settlement of payment instructions, and released the results of its findings (available only in Japanese).

4. **The Bank, together with relevant parties, will proceed steadily with the establishment of the new BOJ-NET. The Bank will work toward implementing the first phase of the new BOJ-NET project—covering auction for money**

market operations and for the issuance of 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 that of JGSs—around fiscal 2015.

- (1) The Bank proceeded steadily with the examination of the functions and system specifications of as well as with the system development process for the new BOJ-NET as follows.
 - (a) The Bank proceeded as scheduled toward finalizing and releasing the details of the functions and system specifications of the new BOJ-NET, reflecting comments obtained from financial institutions and other interested parties (available only in Japanese).
 - (b) Based on the details determined regarding functions and system specifications for the first phase of the new BOJ-NET, the Bank notified interested parties of specifics such as data entry screens and data output sheets, terminal specifications, and the transaction code system. The Bank also began the process of system development for the second phase.
 - (c) The Bank started discussions on details of business operations after the changeover to the new system, including data entry hours.
- 5. The Bank, taking due account of the comprehensive review of international standards for payment and settlement systems, will firmly monitor the safety and efficiency of these systems both at home and abroad and encourage relevant parties to make improvements, in accordance with the Bank's oversight policies.**
 - (1) In cooperation with relevant authorities, the Bank continued with its oversight of payment and settlement systems both at home and abroad.

Specifically, it conducted analyses on risk management practices for various payment and settlement systems, consulting with market participants in finalizing the "Principles for Financial Market Infrastructures;" its findings were compiled and released in the *Payment and Settlement Systems Report*. The Bank also monitored the progress being made in the upgrading of core IT systems within various financial market infrastructures as well as toward the launch of new business operations by a central counterparty (CCP). The Bank also encouraged relevant parties to make necessary improvements, based on such analysis and monitoring.

- 6. With a view to further enhancing the stability and efficiency of financial markets and in consideration of international developments, the Bank will carry out research and planning related to improving financial market structures and adjusting market infrastructure. It will work toward securing improvements in these areas, in discussion and cooperation with relevant parties at home and abroad. Specifically, the Bank, based on experiences during the global financial crisis of autumn 2008, will support market participants' efforts to reduce settlement risk and to enhance financial market functioning by, for example, shortening the JGB settlement cycle, broadening the adoption of good practices for dealing with settlement fails, and enhancing the functioning of corporate bond markets and securitization markets.**
 - (1) The Bank took the following initiatives to reduce settlement risk and enhance financial market functioning.

- (a) In order to reduce settlement risk in financial markets as a whole, the Bank supported market participants' efforts to improve market guidelines and other practices with a view to achieving, in April 2012, the shortening of the JGB settlement cycle from a T+3 cycle to a T+2 cycle for outright transactions. The Bank also assisted market participants in their efforts to identify the issues that need to be addressed before a T+1 cycle can be realized for outright transactions.
- (b) In order to stimulate corporate bond markets, the Bank participated in meetings of the "Study Group to Vitalize the Corporate Bond Market" hosted by the Japan Securities Dealers Association (JSDA) in addition to the JSDA's newly established study group for the corporate bond repo market. As for securitization markets, the Bank took part in the compilation of reports prepared by the JSDA's working group on securitized products. At the same time, the Bank, through its participation in another JSDA's working group, kept abreast of developments in practices for dealing with settlement fails since November 2010.

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

- (1) Following the Great East Japan Earthquake, the Bank collected information in a prompt and appropriate manner, taking all possible measures to maintain the financial intermediary function and secure smooth settlement of funds.
 - (2) The Bank released a paper which outlined its initial responses to the earthquake. It also organized a seminar focusing on business continuity arrangements, and encouraged the strengthening of such arrangements at financial institutions.
 - (3) Furthermore, the Bank commenced a review of its business continuity arrangements in light of lessons learned in responding to the earthquake and its aftermath. The Bank, in cooperation with financial institutions and other relevant parties, also provided support for the conduct of the third joint business continuity exercises involving money markets, securities markets, and foreign exchange markets—taking into account lessons learned from the disaster.
 - (4) The Bank conducted exercises as scheduled, including those performed under earthquake and various other disaster scenarios, as well as those addressing system disruptions. The Bank, through these practical exercises, aims to examine the efficacy of business continuity arrangements and strengthen its contingency measures.
 - (5) The Bank exchanged views with relevant ministries and government agencies as well as financial institutions as part of government-led discussions on legislating measures to respond to an outbreak of the H5N1 avian influenza.
- 8. 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, in collaboration with the Bank of Thailand, implemented a cross-border collateral arrangement for liquidity provision by the Bank of Thailand in Thai Baht utilizing JGSs as collateral.
 - (b) With a view to contributing to improved stability in regional financial markets in East Asia, the Bank reached an agreement with the Bank of Korea on a temporary increase in the maximum amount of the bilateral yen-won swap arrangement.
 - (c) The Bank continued to serve as co-chair of EMEAP working groups. In addition, the Bank played a leading role in efforts to ensure the stability of the currency system in Asia, with the Governor of the Bank chairing the EMEAP Governors' Meetings from January 2012.
 - (d) The Governor of the Bank served as Chair of the ACC. In addition, through governors' meetings and ACC seminars, the Bank maintained a close dialogue with overseas central banks and conducted research and analysis on the currency system in Asia.
 - (e) Under the framework of ASEAN Plus Three, the Bank, together with the Ministry of Finance, worked toward further strengthening financial cooperation in Asia, for example via a study on possible crisis prevention measures for the Chiang Mai Initiative Multilateralization (CMIM), and toward establishing the ASEAN Plus Three Macroeconomic and Research Office (AMRO).

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

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

- (1) The Bank managed its foreign currency assets in a stable and efficient manner, while ensuring appropriate risk management. The Bank also promoted the automated processing of its accounting procedures.

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

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

11. 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, including foreign exchange interventions. The Bank also offered appropriate assistance to overseas central banks, providing services including acceptance of yen deposits to facilitate their investment in yen assets.

D. Matters Relating to the Regional Economic and Financial Environment

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

(1) The Bank kept a firm grasp of the evolving situation in the aftermath of the earthquake by, for example, introducing regional impact assessments in the Japanese text of the *Regional Economic Report*.

(2) The Bank also worked to keep a detailed grasp of developments in reconstruction-related demand, financial conditions, and the maintenance of the financial intermediation function in the disaster-stricken areas.

2. In the course of implementing policy measures such as the Growth-Supporting Funding Facility, the Bank will maintain a sound grasp of economic and financial conditions in each region through close and frequent communication with local financial and business communities. The Bank will make use of its findings in its conduct of monetary policy and other actions.

(1) The Bank, through its implementation of the Growth-Supporting Funding Facility—including the establishment of the new line of credit for equity investments and ABL—maintained a firm grasp of progress made by regional financial institutions to strengthen the foundations for economic growth and to enhance their financial intermediation function.

(2) The Bank also maintained a sound grasp of regional economic and financial conditions via interviews carried out at its Head Office and branches, and produced up-to-date reports. The information gained

was made use of in its conduct of monetary policy and other actions.

3. 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) Findings from the Bank's research and analysis on developments in regional economies were compiled and released each quarter 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.

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

(1) The Bank, through robust on-site examinations and off-site monitoring, gained a sound grasp of business conditions at regional financial institutions as well as of their management of the risks accompanying computer system integration. In the course of

examinations and monitoring, the Bank actively held dialogue with top management at regional financial institutions.

5. 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 nine local seminar sessions in regions across Japan focusing on lessons for risk management from past financial crises and the Great East Japan Earthquake. In addition, the Bank organized two workshops aimed primarily at officers in charge of risk management at regional financial institutions.

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

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

(2) Following the Great East Japan Earthquake, the Bank carried out targeted relief measures, such as increasing flexibility in procedures for coupon payments and redemptions to disaster victims holding ownership rights on lost or damaged subsidy bonds. The Bank also contributed to maintaining the functioning of financial and settlement systems in the disaster-stricken areas by offering treasury funds services at its Head Office and branches on behalf of or in supplement to the services offered by damaged financial institutions.

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 provided a smooth supply of cash in response to increased demand following the Great East Japan Earthquake. For the exchange of banknotes and coins damaged during the earthquake and its aftermath, the Bank sent staff to branches in the disaster-stricken areas and opened a temporary teller window in Morioka City; it also strengthened business continuity arrangements at all related branches. The value of banknotes and coins exchanged due to such earthquake-related damage totaled 3.8 billion yen as of the end of March 2012. In detail, 480 thousand banknotes and 4.24 million coins were exchanged.

(2) 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 surveys on damaged banknotes, putting the results to use in its examination of banknotes.

(3) In carrying out its plans for reducing electricity usage during the summer, the Bank substantially cut the number of weekdays on which it operated banknote examination machines that use a large amount of electricity, operating them instead during weekends and rotating operation between branches; it thus ensured that it had the necessary quantity of banknotes to maintain the circulation and smooth

supply of cash.

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

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

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

c-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 changes in the future workload at its Head Office and branches in view of recent changes in the delivery routes of banknotes between financial institutions and the Bank. The Bank will then consider changes in the division of roles between its Head Office and branches, as well as among branches; it will also consider changes in its operational framework for examining banknotes. Through

these efforts, the Bank will seek to make its operational framework in this area even more stable and efficient.

(1) The Bank worked to maintain a firm grasp of trends in cash circulation, through close dialogue with financial institutions and cash service providers. Based on information gathered, the Bank reviewed the methods for transporting cash between its Head Office and branches, as well as among branches, with a view to improving efficiency; it also strengthened support arrangements among cash handling locations, including arrangements to reduce electricity usage.

(2) With regard to banknote examination, the Bank considered changes in the division of roles between its Head Office and branches, as well as among branches, in addition to its operational framework for examining banknotes.

2. Matters Relating to Treasury Funds and JGS Services

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

(1) The Bank ensured the appropriate provision of treasury funds and JGS services by executing all related business with precision and deliberation; this included targeted relief measures following the Great East Japan Earthquake, such as increasing flexibility in procedures for coupon payments on and redemptions of subsidy bonds owned by disaster victims, and offering treasury funds services on behalf of or in supplement to the services offered by damaged financial institutions.

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 and efforts to reform the JGS market.

- (1) The Bank responded to revisions on product designs of JGBs issued for retail investors (individuals) and also to the introduction of the scheme that enables the government and its agencies to accept book-entry JGSs as collateral by making the requisite adjustments to the JGB book-entry system.
- (2) The Bank dealt with the issuance and redemption of government bonds issued to the Nuclear Damage Liability Facilitation Fund and established operating arrangements for the accounting and funding of the related special account. It also dealt with the establishment of the Reconstruction Agency and the special account related to the agency.
- (3) The Bank, in cooperation with related ministries and government agencies as well as private financial institutions, contributed to the promotion of projects to effect the centralized online payment of salaries for government employees and the online data processing for payments of public pensions.

c. With regard to treasury funds and JGS services, the Bank will further examine possible changes in the division of roles between its Head Office and branches, as well as among branches, taking into account the effects of the expansion of direct electronic payment of taxes, tariffs, and fees to the government, as well as the state of the debate on the centralized online payment of salaries for government employees. Through these efforts, it will seek to make its operational framework in this area even more stable and efficient. It will also conduct a comprehensive interim assessment of all measures to date, followed by a systematic review of related future

initiatives including possible institutional changes.

- (1) The Bank released in May 2011 a paper detailing its efforts and assessing its progress in the online processing of treasury fund services (available only in Japanese). From October 2011, it centralized services related to subsidy bonds within its Head Office and conducted a detailed study into the practicality of concentrating services that use optical character readers (OCR) for sorting and calculating revenue items into particular locations. Meanwhile, taking into account movement towards the centralized online payment of salaries for government employees, the Bank examined possible changes to its operational framework for providing treasury funds and JGS services at its Head Office and branches that would make it even more stable and efficient.

F. Matters Relating to Communication with the Public

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

- (1) The Bank worked to enhance its communication with the public, for example, providing a clear explanation of its thinking on the most recent conduct of monetary policy at press conferences, as well as on other occasions such as speeches and meetings at home and abroad, in interviews including those with overseas media, and via a variety of communication channels including the Bank's web site.
- (2) In accordance with the Bank of Japan Act, the Bank submitted two issues of the *Semiannual Report on*

Currency and Monetary Control to the Diet in fiscal 2011, in June and December.⁶ The Bank's officers and officials, including the Governor, appeared before committees of both houses of the Diet when requested to answer questions. Appearances took place on a total of 41 days in fiscal 2011.

- (3) The Bank hosted various public relations events: public lectures as well as an exhibition about the history of the Japanese currency, the Bank, and the Old Building—designated as an important cultural property—in October and November 2011; also, lectures given on-campus to college students on the functions and operations of the Bank. The Bank made available on its web site a new introductory video about the "BOJ Grand Prix"—an essay and presentation contest primarily for college students—(available only in Japanese). Meanwhile, due in part to the suspension of the Bank's in-house tours to reduce electricity usage in April and from July to September 2011, the number of in-house tour visitors to the Head Office declined to around 26,500 in fiscal 2011, a decrease of 40.9 percent from the previous year.
- (4) The Bank released a steady stream of up-to-date information in both English and Japanese on its web site. The number of page views on its web site declined to around 109 million, a decrease of 4.5 percent from the previous fiscal year; of these page views, around 15 million were made to its English-language web site, a decrease of 12.5 percent. The decline in the number of page views is attributable to the improved accessibility of individual items of

contents after the site was renewed on January 31, 2011, necessitating fewer page clicks.

2. After thoroughly revising its web site in fiscal 2010, the Bank will look to respond better to users' diverse needs and make further enhancements to the effectiveness of its communication with the public. It will also work to enhance the quality and range of contents available on its web site, with a view to promoting better understanding of central banking operations.

- (1) The Bank worked to improve the content available on its web site by, for example, commencing revisions to "*Oshiete! Nichigin*," a question-and-answer section explaining the Bank's policies and business operations in plain terms (available only in Japanese), and preparing to make available back issues of both the *Nippon Ginko Chousa Geppo* (Bank of Japan Monthly Bulletin, available only in Japanese) and the quarterly *Nippon Ginko Chousa Kiho* (Bank of Japan Research Bulletin, available only in Japanese).⁷ The Bank also launched its Twitter accounts in December 2011, with a view to strengthening its communication with the public in normal times as well as in cases of emergency. Furthermore, the Bank revised the public relations pamphlets and brochures distributed to participants in the Bank's in-house tours and to visitors to its offices in Japan, as well as an educational video aimed at junior high school students.

3. The Bank will take the opportunity of internal operational reviews to canvass and exchange opinions with relevant ministries and

6. Excerpts from the summaries of the two issues of the report dealing with developments in fiscal 2011, namely the issues released in December 2011 and June 2012, can be found on pages 32–35. The full texts of these two issues in Japanese as well as the summaries in English, are available on the Bank's web site.

7. The Bank switched from monthly to quarterly publication in October 2004. English translations of some research papers from these publications were released in the *Bank of Japan Quarterly Bulletin*. The Bank discontinued the publication of both the *Nippon Ginko Chousa Kiho* (Bank of Japan Research Bulletin) and the *Bank of Japan Quarterly Bulletin* in January 2007.

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 operations. The Bank will take due note of these in its subsequent conduct of business operations.

- (1) In fiscal 2011, the Bank provided pertinent responses to 11,700 inquiries and comments (excluding letters or e-mails motivated by business purposes and those where the writing or intent was unclear) which it received on a wide range of matters including the conduct of monetary policy; this represented a decrease of 9.5 percent from the previous 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 Office; both types of meeting were established as channels for exchanging views on the Bank's operations. The Bank made further efforts to accurately gauge outside parties' needs with respect to its daily operations, while improving the proceedings for these meetings.

4. The Bank will make appropriate refinements of the statistics it compiles and proceed with arrangements for revising the base year for price indices, in line with the principles of the revised Statistics Act (Act No. 53 of 2007) and in dialogue with international organizations, with the aim of improving user-friendliness. At the same time, the Bank will further streamline statistics compilation by discontinuing publication of statistics that have become less

useful and by outsourcing.

- (1) Regarding statistics, the Bank proceeded with the following actions.
 - (a) With the Bank's Deputy Director-General serving as the vice chairman of the Irving Fisher Committee on Central Bank Statistics, the Bank, together with other central banks on the committee, pushed forward with discussions on improving the international compatibility of financial statistics.
 - (b) The Bank, in cooperation with the BIS and overseas central banks, examined possible improvements to statistics compiled by the BIS, namely, the International Locational Banking Statistics and International Consolidated Banking Statistics.
 - (c) The Bank continued to look into the reclassification of public and private sectors in the Flow of Funds Accounts.
 - (d) As for the *Tankan* (Short-Term Economic Survey of Enterprises in Japan), the Bank made it easier for participating enterprises to respond by ensuring that online surveys and the electronic compilation and processing of survey data all worked reliably. The Bank also looked into the system issues attendant upon revising and abolishing survey items, while taking active steps—for example, by releasing a paper in the *Bank of Japan Review Series* (available only in Japanese)—to engage outside parties in discussions on surveys of medium- to long-term inflation expectations and other such matters.
 - (e) The Bank proceeded with arrangements for revising the base year for the Corporate Goods Price Index (CGPI) from 2005 to 2010. With the cooperation of firms, it conducted a thorough revision of sample prices and quality adjustment

methods, with the aim of improving the user-friendliness of various statistics as well as the accuracy of the GDP statistics and indices of industrial production. The Bank also streamlined statistics compilation and reduced the reporting burden on firms by using other commercial databases for figures on "chemicals & related products."

- (f) With regard to the balance of payments, the Bank proceeded as scheduled with preparations for the conversion and reporting of statistics based on the revised format defined in the sixth edition of the *Balance of Payments and International Investment Position Manual*—the new manual—by the International Monetary Fund (IMF).

5. In support of the activities of the Central Council for Financial Services Information (CCFSI) and local committees, the Bank will continue to contribute to financial literacy education and raise public awareness and understanding of financial and economic issues. To this end, the Bank will thoroughly evaluate the efficacy of the various approaches employed to date, and concentrate future efforts on those that have proved the most effective and efficient.

- (1) As the secretariat of the CCFSI, the Bank engaged actively in the promotion of financial literacy education; for example, it organized Festivals for Promoting Financial Literacy Education at three locations as well as lessons at 27 schools, and held essay competitions for students and teachers. It also released, for the first time in five years, the results of a survey on children's lives and money.
- (2) The Bank, in support of the activities of the CCFSI and local committees, worked toward raising awareness and understanding of financial and

economic issues among the public. Its activities in this regard included the following: the dissemination of information through the CCFSI's web site regarding support for victims of the Great East Japan Earthquake; the inclusion of special features on the earthquake and its aftermath in an issue of the CCFSI's quarterly public relations magazine (available only in Japanese); the full revision of the *Databook on People's Lives and Financial Affairs*, which provides key statistics on people's financial circumstances; and public lectures organized by local committees all across Japan.

- (3) The Bank, as the secretariat of the CCFSI, continued to conduct a survey on households' financial activity (available only in Japanese). In addition, it introduced a survey on the public's financial literacy and capability.

The Bank's Organizational Management in Fiscal 2011

I. Settlement of Accounts and Budget for Expenses

II. IT Investment

III. Human Resources

**IV. Organizational Management Measures Implemented in
Fiscal 2011**

V. Internal Audits

I. SETTLEMENT OF ACCOUNTS AND BUDGET FOR EXPENSES

As for the Bank of Japan's expenses for fiscal 2011, the Bank improved efficiency in overall expenditure, while making, in line with the budget, the disbursements necessary to cover "The Bank of Japan's Strategic Priorities for Fiscal 2011–2013" (the 2011–13 Strategic Priorities). The total amount of the Bank's settlement of accounts for expenses for fiscal 2011 decreased from the previous fiscal year by 1.7 percent

(3.0 billion yen) to 178.3 billion yen. Regarding the Bank's budget for expenses for fiscal 2012, the Bank has carefully examined overall expenditure in compiling a suitable budget for the year while appropriating a significant portion to cover "The Bank of Japan's Strategic Priorities for Fiscal 2012–2014,"¹ including the construction of a new Bank of Japan Financial Network System (BOJ-NET).

II. IT INVESTMENT

The Bank steadily carried out the system development projects necessary to achieve the goals set out in the 2011–13 Strategic Priorities, while working to raise the efficiency and streamline the development of such projects. Specifically, construction of the new BOJ-NET proceeded as scheduled, as did the implementation of

the second phase of the next-generation real-time gross settlement (RTGS-XG) project of the BOJ-NET Funds Transfer System (BOJ-NET FTS). The scale of system development for fiscal 2011 was 12,869 person-months² (including outsourced man-hours of 9,894 person-months).

III. HUMAN RESOURCES

The Bank maintained the number of employees necessary to achieve the goals set out in the 2011–13 Strategic Priorities without breaking the ceiling on the number of full-time employees for fiscal 2011, 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 4,675 at the end of March 2012, down 13 from the

previous fiscal year (Table 1).

Regarding remuneration, the Bank decreased the annual remuneration for its officers in fiscal 2011 by 0.5 percent from the previous fiscal year. In addition, as a provisional and exceptional measure for fiscal 2012 and 2013, the Bank cut its officers' remuneration by between 10 and 30 percent in support of rebuilding efforts following the disaster caused by the Great East Japan Earthquake.³ As for its employees, the Bank kept

1. For the text of the Strategic Priorities for fiscal 2012–2014, see Appendix 2 on pages 88–94.

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

3. A cut in officers' 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.

the levels of salaries unchanged in fiscal 2011 for the 16th consecutive year; it also kept the levels of total

bonuses for 2011 unchanged from the previous year.

Table 1

Number of Full-Time Employees as of the End of March 2012

number of people; figures in parentheses are as of the end of March 2011

Total	4,675 (4,688)
Head Office ¹	2,677 (2,700)
Branches	1,925 (1,914)
Local offices ¹	49 (50)
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 IMPLEMENTED IN FISCAL 2011

With a view to implementing measures following the Great East Japan Earthquake as well as addressing the issues and moving forward with the action plans stated in the 2011–13 Strategic Priorities, the Bank implemented the following measures with respect to organizational management.

A. Stable and Efficient Business Operations

The Bank continued to ensure that all operations were executed with precision and deliberation. In particular, it ensured that the necessary operational procedures were put in place in a swift and appropriate manner to implement policy measures effectively. Meanwhile, the Bank responded promptly and flexibly to various challenges it faced following the Great East Japan Earthquake, and devised timely organizational management measures, such as sending staff to branches and local offices in the disaster-stricken areas as necessary.

With a view to the stable execution of its business operations, the Bank assessed its business processes so as to identify where operational risks, including those associated with information security, existed and how

such risks were being controlled. It then worked toward further improving the appropriateness of its risk management by revising its business processes as necessary.

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

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

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

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.

C. Performance Reviews

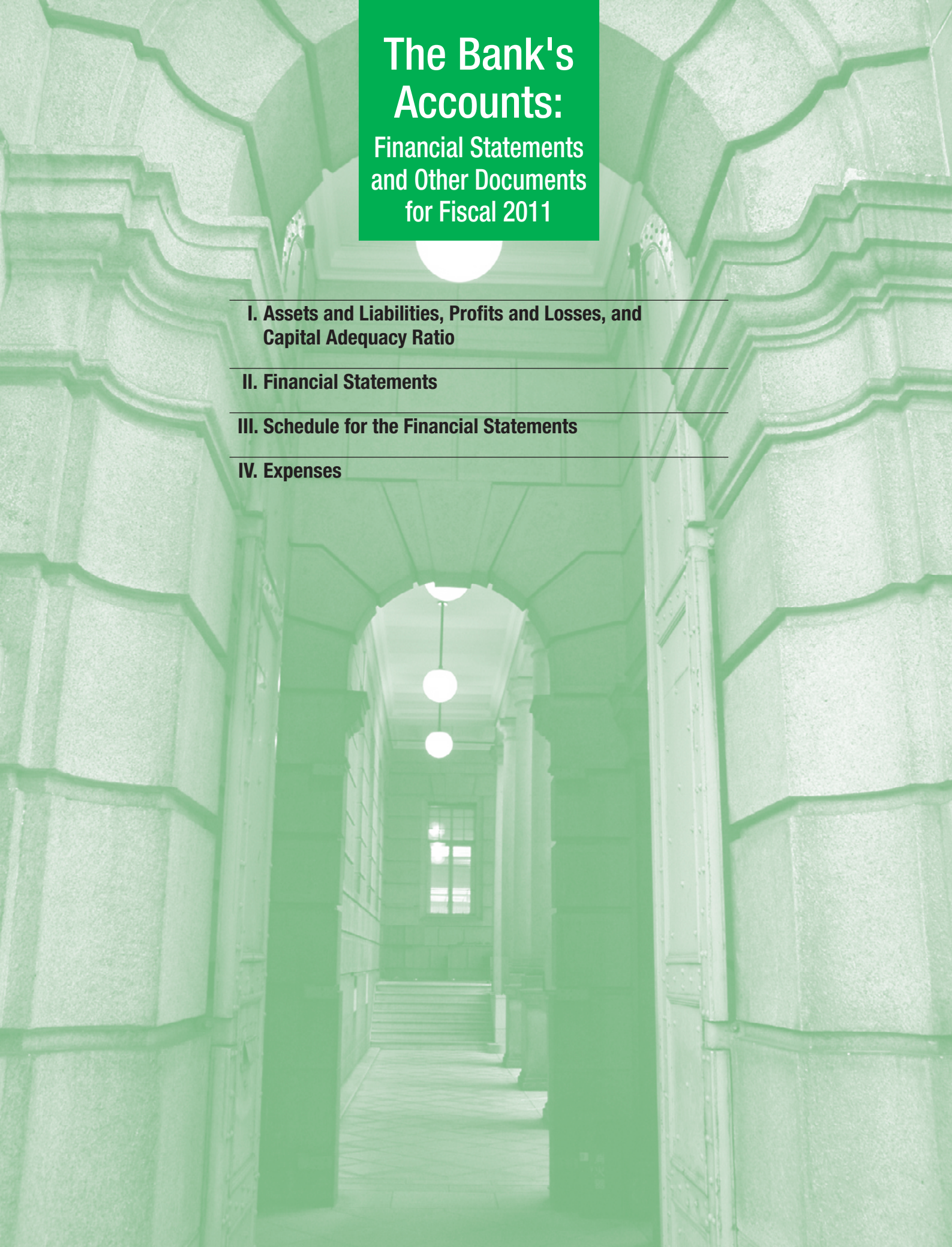
With regard to progress made in the improvement of business operations and organizational management described in the Strategic Priorities, the Bank, in addition to regular and comprehensive reviews, will conduct performance reviews of major projects some time after their completion. The Bank will examine,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

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 2011, the Internal Auditors' Office audited 5 departments at its Head Office (the Payment and Settlement Systems Department, the Research and

Statistics Department, the International Department, the Currency Issue Department, and the Institute for Monetary and Economic Studies), 3 overseas representative offices (London, Paris, and Frankfurt), 13 branches (Kushiro, Hakodate, Akita, Maebashi, Niigata, Shizuoka, Nagoya, Kyoto, Kobe, Okayama, Hiroshima, Matsue, and Kagoshima), and 4 local offices (Mito, Obihiro, Tottori, and Miyazaki). In addition, in fiscal 2011 the Bank carried out target inspections on progress made in developing the new BOJ-NET as well as on the compilation of the Bank's statistics.



The Bank's Accounts:

Financial Statements
and Other Documents
for Fiscal 2011

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

II. Financial Statements

III. Schedule for the Financial Statements

IV. Expenses

On May 29, 2012, the Bank of Japan released the "Financial Statements for the 127th Fiscal Year" (in Japanese only), which contains the Bank's financial statements (the inventory of property, balance sheet, and statement of income) for the 127th fiscal year, i.e., fiscal 2011 (April 1, 2011–March 31, 2012), and the schedule for the financial statements for fiscal 2011.

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 2011 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 2011 (the end of March 2012) shows that total assets decreased by 2.0 percent (2,906.2 billion yen) from the previous fiscal year-end to 139,456.9 billion yen, mainly due to a decrease in loans and bills discounted, offsetting an increase in Japanese government securities (JGSs)¹. Total liabilities decreased by 2.4 percent (3,390.9 billion yen) from the previous fiscal year-end to 136,241.5 billion yen, mainly due to a decrease in current deposits (Table 1).

Detailed developments in the Bank's balance sheet in fiscal 2011 are as follows.

Looking at assets at the fiscal year-end, holdings of JGSs increased by 12.9 percent from the previous fiscal year-end to 87,247.1 billion yen, reflecting the fact that the amount of JGSs purchased and underwritten by the Bank exceeded the amount of those redeemed and sold. Loans and bills discounted decreased by 30.5 percent from the previous fiscal year-end to 38,995.4 billion yen, given the Bank's ample provision of funds that fiscal year in response to the Great East Japan Earthquake. Meanwhile, the amount outstanding of assets purchased and loans provided through the Asset Purchase Program (hereafter the Program)² was 48,877.7 billion yen.

Turning to liabilities, current deposits decreased by 15.5 percent from the previous fiscal year-end to 34,432.3 billion yen, reflecting the Bank's ample provision of funds that fiscal year in response to the Great East Japan Earthquake. Meanwhile, the amount outstanding of banknotes issued (banknotes in circulation) was generally at

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

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

around the same level as at the previous fiscal year-end, standing at 80,842.8 billion yen.

With regard to the Bank's statement of income for fiscal 2011, operating profits increased by 481.8 billion yen to 536.0 billion yen mainly due to smaller net foreign exchange-related losses³ (Table 2).

Net income for the term—after subtracting corporate income tax and inhabitants and enterprise taxes—increased by 476.9 billion yen from the previous fiscal year to 529.0 billion yen. After transferring 26.4 billion yen to the legal reserve (5 percent of net income for the fiscal year) and paying dividends totaling 5 million yen (5 percent of the face value of shares), the Bank paid the remainder of its net income to the government (502.6 billion yen).

The capital adequacy ratio, after the appropriation of net income, declined from its previous fiscal year-end level of 7.36 percent to 7.22 percent at the end of fiscal 2011 (Table 3).

3. Losses on foreign currency assets resulting from revaluation for fluctuations in foreign exchange rates.

Table 1

Principal Assets and Liabilities¹

bil. yen

Item	End of fiscal 2010 (March 31, 2011)	End of fiscal 2011 (March 31, 2012)
Total Assets	142,363.1 (+16.9) <+20,538.9>	139,456.9 (-2.0) <-2,906.2>
Of which:		
Receivables under resale agreements	628.5 (-87.4) <-4,354.7>	... (...) <-628.5>
Japanese government securities	77,299.2 (+5.8) <+4,233.0>	87,247.1 (+12.9) <+9,947.9>
Commercial paper	274.2 (...) <+274.2>	1,594.8 (5.8 times) <+1,320.5>
Corporate bonds	203.5 (+18.2) <+31.3>	1,990.6 (9.8 times) <+1,787.1>
Pecuniary trusts (stocks held as trust property)	1,495.3 (+4.9) <+69.7>	1,428.2 (-4.5) <-67.0>
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	185.1 (...) <+185.1>	847.8 (4.6 times) <+662.7>
Pecuniary trusts (Japan real estate investment trusts held as trust property)	17.8 (...) <+17.8>	73.6 (4.1 times) <+55.7>
Loans and bills discounted	56,136.0 (+56.9) <+20,352.1>	38,995.4 (-30.5) <-17,140.5>
Foreign currency assets	4,690.2 (-6.6) <-332.5>	5,872.3 (+25.2) <+1,182.1>
Total Liabilities	139,632.5 (+17.5) <+20,835.6>	136,241.5 (-2.4) <-3,390.9>
Of which:		
Banknotes	80,923.0 (+4.6) <+3,570.2>	80,842.8 (-0.1) <-80.2>
Deposits (excluding those of the government)	40,790.0 (+73.6) <+17,291.5>	35,896.3 (-12.0) <-4,893.7>
Deposits of the government	2,355.3 (-22.0) <-663.2>	1,832.4 (-22.2) <-522.9>
Payables under repurchase agreements	12,298.6 (+5.6) <+647.1>	14,397.1 (+17.1) <+2,098.4>

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. "..." indicates that figures are not applicable.

[Reference to Table 1]

Assets Purchased and Loans Provided through the Asset Purchase Program^{1,2}

bil. yen

Item	End of fiscal 2010 (March 31, 2011)	End of fiscal 2011 (March 31, 2012)
Total Amount Outstanding	31,760.6	48,877.7
Japanese government securities	2,250.6	9,768.3
Commercial paper	274.2	1,594.8
Corporate bonds	203.5	1,990.6
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	185.1	847.8
Pecuniary trusts (Japan real estate investment trusts held as trust property)	17.8	73.6
Loans by funds-supplying operations against pooled collateral	28,829.2	34,602.4

Notes: 1. Figures do not add up to the total due to rounding.

2. For the details of the Program, see note 2 on page 62.

Table 2

Principal Profits and Losses¹

bil. yen

Item	Fiscal 2010 (April 1, 2010–March 31, 2011)	Fiscal 2011 (April 1, 2011–March 31, 2012)
Operating profits/losses	54.2 (-85.2) <-312.3>	536.0 (9.9 times) <+481.8>
Of which: "Core" operating income ²	781.0 <-32.2>	763.8 <-17.2>
Net government bond-related gains/losses ³	... <...>	1.2 <+1.2>
Net foreign exchange-related gains/losses ⁴	-481.0 <-262.4>	-60.6 <+420.4>
Net gains/losses on pecuniary trusts (stocks held as trust property)	11.6 <-14.9>	-27.6 <-39.3>
Special profits/losses⁵	1.5 <+0.9>	9.2 <+7.6>
Of which:		
Net transfer to/from provision for possible losses on bonds transactions	... <...>	... <...>
Net transfer to/from provision for possible losses on foreign exchange transactions	... <...>	... <...>
Net transfer to/from provision for unrealized losses on index-linked exchange-traded funds	-2.1 <-2.1>	2.1 <+4.3>
Net transfer to/from provision for unrealized losses on Japan real estate investment trusts	-0.1 <-0.1>	0.1 <+0.2>
Net income before taxes	55.8 (-84.8) <-311.3>	545.3 (9.8 times) <+489.5>
Provision for corporate income tax, inhabitants taxes, and enterprise taxes	3.6 <+3.6>	16.2 <+12.5>
Net income ⁶	52.1 (-85.8) <-314.9>	529.0 (10.1 times) <+476.9>

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

3. Net gains/losses on sale of JGBs.

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

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

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 Ratio¹

bil. yen, except where otherwise noted

Item	End of fiscal 2009 (March 31, 2010)	End of fiscal 2010 (March 31, 2011)	End of fiscal 2011 (March 31, 2012)	Changes from a year earlier	[Reference] End of the first half of fiscal 2011 (September 30, 2011)
Capital accounts (A)	2,678.4	2,686.2	2,712.7	+26.4	2,686.2
Capital	0.1	0.1	0.1	...	0.1
Legal reserve and others ²	2,678.3	2,686.1	2,712.6	+26.4	2,686.1
Provisions (B)	3,037.8	3,037.8	3,037.8	...	3,037.8
Provision for possible loan losses (excluding special provision for possible loan losses)
Provision for possible losses on bonds transactions	2,243.3	2,243.3	2,243.3	...	2,243.3
Provision for possible losses on foreign exchange transactions	794.5	794.5	794.5	...	794.5
Capital base³ (C) = (A) + (B)	5,716.3	5,724.1	5,750.5	+26.4	5,724.1
Annual average of banknotes issued (D)	76,488.8	77,681.6	79,646.4	+1,964.8	79,145.4
Capital adequacy ratio (C)/(D) × 100 (percent)	7.47	7.36	7.22	-0.14	7.23

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, 2012

Item	Value in yen	Unit (except where otherwise noted)
ASSETS		
Gold	441,253,409,037	
Cash	358,139,466,709	
Japanese government securities	87,247,192,944,581	Face value at 86,386,897,150,000 yen
Commercial paper	1,594,876,498,444	Face value at 1,595,000,000,000 yen
Corporate bonds	1,990,643,768,227	Face value at 1,972,300,000,000 yen
Pecuniary trusts (stocks held as trust property)	1,428,289,344,745	
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	847,854,505,850	
Pecuniary trusts (Japan real estate investment trusts held as trust property)	73,634,787,553	
Loans and bills discounted	38,995,460,000,000	
Loans on deeds	20,000,000,000	1
Electronic loans	38,975,460,000,000	1,430
Foreign currency assets	5,872,387,245,527	
Foreign currency deposits	67,373,884,694	
Foreign currency securities	4,594,177,572,539	
Foreign currency mutual funds	39,207,482,843	
Foreign currency pecuniary trusts	136,412,645,451	
Foreign currency loans	1,035,215,660,000	
Deposits with agents	32,401,238,412	Deposits with 92 agents
Other assets	367,430,843,764	
Bills and checks in process of collection	43,514,872	5
Capital subscription to the Deposit Insurance Corporation, and the Agricultural and Fishery Cooperative Savings Insurance Corporation	225,000,000	2
Capital subscription to an international financial institution	15,278,374,364	1
Provision of funds to the Deposit Insurance Corporation's "Jusen account"	100,000,000,000	1
Withdrawn cash to be returned to the government	59,321,645,761	6
Accrued interest receivable	159,830,148,482	
Others	32,732,160,285	
Tangible fixed assets	207,222,664,639	
Buildings	102,398,056,480	644,551.51 square meters
Land	82,879,147,996	635,565.34 square meters
Lease assets	7,802,912,201	Number of lease property: 23,546
Construction in progress	2,163,999,280	
Other tangible fixed assets	11,978,548,682	Number of movable property: 10,803
Intangible fixed assets	148,989,783	
Utility rights	148,989,783	
Total assets	139,456,935,707,271	
LIABILITIES		
Banknotes	80,842,816,101,358	
Deposits (excluding those of the government)	35,896,359,874,131	
Current deposits	34,432,345,287,416	1,160
Other deposits	1,464,014,586,715	128
Deposits of the government	1,832,410,092,242	
Treasury deposit	150,001,109,560	
Domestic designated deposit	1,264,751,940,556	
Other government deposits	417,657,042,126	
Payables under repurchase agreements	14,397,136,807,129	55
Other liabilities	35,850,139,023	
Remittances payable	5,808,606,169	
Unearned interest and discounts	115,068	
Taxes payable	12,767,000,000	
Lease liabilities	8,181,400,388	
Others	9,093,017,398	
Provision for retirement benefits	199,163,179,949	
Provision for possible losses on bonds transactions	2,243,348,993,013	
Provision for possible losses on foreign exchange transactions	794,500,000,000	
Total liabilities	136,241,585,186,845	
NET ASSETS		
Capital	100,000,000	
Legal reserve	2,686,170,445,279	
Special reserve	13,196,452	
Net income	529,066,878,695	
Total net assets	3,215,350,520,426	
Total liabilities and net assets	139,456,935,707,271	

2. Balance sheet as at March 31, 2012

yen

ASSETS	
Gold	441,253,409,037
Cash	358,139,466,709
Japanese government securities	87,247,192,944,581
Commercial paper	1,594,876,498,444
Corporate bonds	1,990,643,768,227
Pecuniary trusts (stocks held as trust property)	1,428,289,344,745
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	847,854,505,850
Pecuniary trusts (Japan real estate investment trusts held as trust property)	73,634,787,553
Loans and bills discounted	38,995,460,000,000
Loans on deeds	20,000,000,000
Electronic loans	38,975,460,000,000
Foreign currency assets	5,872,387,245,527
Foreign currency deposits	67,373,884,694
Foreign currency securities	4,594,177,572,539
Foreign currency mutual funds	39,207,482,843
Foreign currency pecuniary trusts	136,412,645,451
Foreign currency loans	1,035,215,660,000
Deposits with agents	32,401,238,412
Other assets	367,430,843,764
Bills and checks in process of collection	43,514,872
Capital subscription to the Deposit Insurance Corporation, and the Agricultural and Fishery Cooperative Savings Insurance Corporation	225,000,000
Capital subscription to an international financial institution	15,278,374,364
Provision of funds to the Deposit Insurance Corporation's "Jusen account"	100,000,000,000
Withdrawn cash to be returned to the government	59,321,645,761
Accrued interest receivable	159,830,148,482
Others	32,732,160,285
Tangible fixed assets	207,222,664,639
Buildings	102,398,056,480
Land	82,879,147,996
Lease assets	7,802,912,201
Construction in progress	2,163,999,280
Other tangible fixed assets	11,978,548,682
Intangible fixed assets	148,989,783
Utility rights	148,989,783
Total assets	139,456,935,707,271
LIABILITIES	
Banknotes	80,842,816,101,358
Deposits (excluding those of the government)	35,896,359,874,131
Current deposits	34,432,345,287,416
Other deposits	1,464,014,586,715
Deposits of the government	1,832,410,092,242
Treasury deposit	150,001,109,560
Domestic designated deposit	1,264,751,940,556
Other government deposits	417,657,042,126
Payables under repurchase agreements	14,397,136,807,129
Other liabilities	35,850,139,023
Remittances payable	5,808,606,169
Unearned interest and discounts	115,068
Taxes payable	12,767,000,000
Lease liabilities	8,181,400,388
Others	9,093,017,398
Provision for retirement benefits	199,163,179,949
Provision for possible losses on bonds transactions	2,243,348,993,013
Provision for possible losses on foreign exchange transactions	794,500,000,000
Total liabilities	136,241,585,186,845
NET ASSETS	
Capital	100,000,000
Legal reserve	2,686,170,445,279
Special reserve	13,196,452
Net income	529,066,878,695
Total net assets	3,215,350,520,426
Total liabilities and net assets	139,456,935,707,271

3. Statement of income for fiscal 2011 (April 1, 2011–March 31, 2012)

yen

Operating income	872,845,525,795
Interest on loans and discounts	43,735,904,473
Interest on loans	43,735,904,473
Interest on receivables under resale agreements	19,322,735
Interest and discounts on Japanese government securities	619,933,365,487
Interest on commercial paper	1,715,187,714
Interest and discounts on corporate bonds	1,054,518,198
Gains on sale of Japanese government securities	2,475,152,500
Gains on foreign currency assets	170,483,115,094
Gains on foreign currency securities	158,908,110,082
Gains on foreign currency mutual funds	2,257,190,787
Gains on foreign currency pecuniary trusts	7,134,305,347
Interest on foreign currency deposits and loans	2,183,508,878
Other operating income	33,428,959,594
Gains on pecuniary trusts (index-linked exchange-traded funds held as trust property)	5,884,290,385
Gains on pecuniary trusts (Japan real estate investment trusts held as trust property)	2,353,355,399
Dividends	655,855,990
Fees and commissions	10,756,240,395
Other income	13,779,217,425
Operating expenses	336,762,072,993
Interest on payables under repurchase agreements	17,010,030,431
Losses on foreign currency assets	60,622,806,626
Foreign exchange losses	60,622,806,626
General and administrative expenses and costs	191,631,400,711
Cost of production of banknotes	49,921,440,000
Administrative expenses for treasury business and Japanese government securities	18,011,635,083
Personnel expenses	49,174,474,092
Expenses for transportation and communications	4,501,279,718
Expenses for maintenance and repairs	1,702,222,300
Other general and administrative expenses and costs	47,869,605,212
Taxes excluding corporate income tax, inhabitants taxes, and enterprise taxes	4,045,974,575
Depreciation and amortization	16,404,769,731
Other general and administrative expenses	67,497,835,225
Losses on pecuniary trusts (stocks held as trust property)	27,630,904,808
Fees and commissions paid	410,242,933
Other expenses	39,456,687,484
Operating profits	536,083,452,802
Special profits	9,462,989,913
Gains on disposal of fixed assets	6,539,956,664
Transfer from provision for unrealized losses on index-linked exchange-traded funds	2,158,071,673
Transfer from provision for unrealized losses on Japan real estate investment trusts	105,203,418
Other special profits	659,758,158
Special losses	234,787,154
Losses on disposal of fixed assets	234,787,154
Net income before taxes	545,311,655,561
Provision for corporate income tax, inhabitants taxes, and enterprise taxes	16,244,776,866
Net income	529,066,878,695

4. Summary of significant accounting policies

a. Securities

Yen-denominated bonds and commercial paper (CP)⁴ 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,⁵ 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 trusts⁶ 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.

4. 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.

5. Includes bonds issued by real estate investment corporations.

6. 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. Assets deriving from swap transactions with the European Central Bank (ECB) are translated into yen at the foreign exchange rates used in these swap transactions.

d. Transfers to/from provisions

(1) Provision for possible loan losses

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

(2) Provision for retirement benefits

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

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	74
More than one year	125
Total	199

b. Lessor

	mil. yen
Within one year	1
More than one year	47
Total	49

Explanatory Notes to Accounting for Retirement Benefits¹

1. Projected benefit obligation		yen
Projected benefit obligation	(A)	-200,161,285,000
Fair value of plan assets	(B)	...
Unfunded projected benefit obligation	(C) = (A) + (B)	-200,161,285,000
Unrecognized actuarial differences	(D)	998,105,051
Unrecognized prior service cost	(E)	...
Net amount recorded on the balance sheet	(F) = (C) + (D) + (E)	-199,163,179,949
Prepaid pension cost	(G)	...
Provision for retirement benefits	(F) - (G)	-199,163,179,949
2. Pension expenses		yen
Service costs		4,755,484,000
Interest costs		4,006,486,000
Expected return on plan assets		...
Amortization of actuarial differences		3,367,619,454
Amortization of prior service cost		...
Others (such as extra retirement benefits)		...
Pension expenses		12,129,589,454
3. Assumptions		
Discount rate		2.0%
Expected rate of return on plan assets		...
Method of attributing the projected benefits to periods of service		Straight-line method
Amortization period of actuarial differences		10 years
Amortization period of service cost		...

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

5. Auditors' opinion⁷

May 1, 2012

Auditors' Opinion on the Bank of Japan's Financial Statements for Fiscal 2011

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 2011 indicated below. In our opinion, the financial statements present fairly the state of property and the results of operations for fiscal 2011.

The financial statements comprise the following:
Inventory of property as at March 31, 2012;
Balance sheet as at March 31, 2012; and
Statement of income for fiscal 2011.

Makoto Hosomi
Michio Masukawa
Kazuhito Osugi

Auditors, Bank of Japan

6. Appropriation of net income for fiscal 2011

yen

Net income	529,066,878,695
Appropriations:	
Transfer to legal reserve	26,453,343,935
Dividends, 5 percent of share face value	5,000,000
Payment to the government	502,608,534,760
Total	529,066,878,695

7. 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 2011	Balance at the end of fiscal 2011	Changes during fiscal 2011
1. Gold	441,253,409,037	441,253,409,037	0
2. Cash¹	396,384,964,711	358,139,466,709	-38,245,498,002
3. Receivables under resale agreements²	628,576,844,424	0	-628,576,844,424
Purchases of Japanese government securities under resale agreements	59,713,729,340	0	-59,713,729,340
Purchases of commercial paper under resale agreements	568,863,115,084	0	-568,863,115,084
4. Japanese government securities³	77,299,238,610,531	87,247,192,944,581	9,947,954,334,050
Treasury discount bills	18,176,277,522,044	16,560,545,604,150	-1,615,731,917,894
Japanese government bonds	59,122,961,088,487	70,686,647,340,431	11,563,686,251,944
2-year Japanese government bonds	5,933,576,958,981	12,319,777,647,237	6,386,200,688,256
5-year Japanese government bonds	10,568,070,162,399	12,773,871,135,794	2,205,800,973,395
10-year Japanese government bonds	25,305,862,896,744	26,367,456,958,344	1,061,594,061,600
20-year Japanese government bonds	14,406,541,546,503	15,228,485,644,043	821,944,097,540
Floating-rate Japanese government bonds	1,548,209,008,815	2,277,172,298,365	728,963,289,550
Inflation-indexed bonds	748,539,331,956	998,406,118,309	249,866,786,353
Others	612,161,183,089	721,477,538,339	109,316,355,250
5. Commercial paper⁴	274,284,916,549	1,594,876,498,444	1,320,591,581,895
Dematerialized commercial paper	274,284,916,549	1,594,876,498,444	1,320,591,581,895
6. Corporate bonds⁵	203,520,447,472	1,990,643,768,227	1,787,123,320,755
7. Pecuniary trusts (stocks held as trust property)⁶	1,495,361,637,857	1,428,289,344,745	-67,072,293,112
Stocks	1,477,598,204,957	1,409,968,361,495	-67,629,843,462
Dividends receivable and others	17,763,432,900	18,320,983,250	557,550,350
8. Pecuniary trusts (index-linked exchange-traded funds held as trust property)⁷	185,124,542,019	847,854,505,850	662,729,963,831
Index-linked exchange-traded funds	185,124,542,019	847,854,505,850	662,729,963,831
9. Pecuniary trusts (Japan real estate investment trusts held as trust property)⁸	17,842,044,774	73,634,787,553	55,792,742,779
Japan real estate investment trusts	17,738,077,118	72,751,330,737	55,013,253,619
Distributions receivable	103,967,656	883,456,816	779,489,160
10. Loans and bills discounted	56,136,010,000,000	38,995,460,000,000	-17,140,550,000,000
Loans on deeds	20,000,000,000	20,000,000,000	0
Of which: Loans pursuant to "Principal Terms and Conditions for Provision of Subordinated Loans"	20,000,000,000	20,000,000,000	0
Electronic loans	56,116,010,000,000	38,975,460,000,000	-17,140,550,000,000
Loans by complementary lending facility	20,000,000,000	7,000,000,000	-13,000,000,000
Loans by funds-supplying operations against pooled collateral ⁹	56,096,010,000,000	38,968,460,000,000	-17,127,550,000,000
11. Foreign currency assets	4,690,254,535,525	5,872,387,245,527	1,182,132,710,002
Foreign currency deposits ¹⁰	160,070,724,844	67,373,884,694	-92,696,840,150
Foreign currency securities ^{11,12}	4,363,039,530,620	4,594,177,572,539	231,138,041,919
Foreign currency mutual funds	37,075,252,296	39,207,482,843	2,132,230,547
Foreign currency pecuniary trusts	130,069,027,765	136,412,645,451	6,343,617,686
Foreign currency loans ¹³	0	1,035,215,660,000	1,035,215,660,000
12. Deposits with agents¹⁴	17,422,382,852	32,401,238,412	14,978,855,560

- Notes:
1. Coins reserved for circulation.
 2. Monetary claims arising from the purchase of JGSs and CP under resale agreements.
 3. Includes the amount outstanding of JGSs purchased through the Program.
 4. Purchased through the Program and comprises the following types in dematerialized or physical form: (1) CP issued by domestic corporations; (2) CP issued by foreign corporations with guarantees (dematerialized only); (3) asset-backed CP; and (4) CP issued by real estate investment corporations.
 5. Purchased through the Program and includes corporate bonds issued by real estate investment corporations.
 6. Comprises stocks purchased from financial institutions through a trust bank, and dividends receivable and others.
 7. Comprises beneficiary interests in index-linked exchange-traded funds purchased through a trust bank through the Program and distributions receivable.
 8. Comprises investment equities issued by real estate investment corporations purchased through a trust bank through the Program and distributions receivable.
 9. Includes the amount outstanding of loans made under the fund-provisioning measure to support strengthening the foundations for economic growth as well as that of loans made through funds-supplying operations against pooled collateral conducted through the Program. The amount outstanding at the fiscal year-end includes that from the funds-supplying operation to support financial institutions in disaster areas.
 10. Deposits held at foreign central banks and the Bank for International Settlements (BIS).
 11. Includes securities issued by foreign governments.
 12. 1,293,113,897,780 yen of the amount outstanding of the foreign currency securities at the fiscal year-end comprises loans due to lending/borrowing of securities.
 13. Loans arising from U.S. dollar funds-supplying operations against pooled collateral.
 14. 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 2011	Balance at the end of fiscal 2011	Changes during fiscal 2011
13. Other assets	365,313,650,180	367,430,843,764	2,117,193,584
Bills and checks in process of collection ¹⁵	117,578,105	43,514,872	-74,063,233
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 ¹⁶	15,278,374,364	15,278,374,364	0
Provision of funds to the Deposit Insurance Corporation's "Jusen account" ¹⁷	100,000,000,000	100,000,000,000	0
Provision of funds to the New Financial Stabilization Fund ¹⁸	20,000,000,000	0	-20,000,000,000
Withdrawn cash to be returned to the government ¹⁹	59,722,449,486	59,321,645,761	-400,803,725
Refund on accrued tax	426,959,100	0	-426,959,100
Accrued interest receivable	145,811,600,135	159,830,148,482	14,018,548,347
Others	23,731,688,990	32,732,160,285	9,000,471,295

Notes: 15. Checks and bills received as cash and in process of collection.

16. A subscription to the BIS.

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

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

19. 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 2011	Increase during fiscal 2011	Decrease during fiscal 2011	Of which:	Balance at the end of fiscal 2011	Cumulative total of depreciation
				Depreciation		
14. Tangible fixed assets²⁰	212,411,411,943	15,299,496,587	20,488,243,891	15,806,133,043	207,222,664,639	321,662,742,972
Buildings ^{21,22}	107,239,745,656 (644,091.90)	4,207,857,090 (3,313.75)	9,049,546,266 (2,854.14)	8,974,767,780 (...)	102,398,056,480 (644,551.51)	290,608,538,742 (...)
Land ²¹	82,882,078,902 (675,646.03)	0 (214.94)	2,930,906 (40,295.63)	... (...)	82,879,147,996 (635,565.34)	... (...)
Lease assets ^{23,24}	6,923,888,970 (22,558)	4,100,611,634 (6,725)	3,221,588,403 (5,737)	3,189,142,354 (...)	7,802,912,201 (23,546)	6,056,495,409 (...)
Construction in progress ²⁵	1,267,061,671	5,315,174,166	4,418,236,557	...	2,163,999,280	...
Other tangible fixed assets ^{26,27}	14,098,636,744 (10,901)	1,675,853,697 (210)	3,795,941,759 (308)	3,642,222,909 (...)	11,978,548,682 (10,803)	24,997,708,821 (...)

Notes: 20. "..." indicates that figures are not applicable.

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

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

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

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

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

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

27. 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 2011	Increase during fiscal 2011	Decrease during fiscal 2011	Of which:	Balance at the end of fiscal 2011	Cumulative total of depreciation
				Depreciation		
15. Intangible fixed assets	159,121,719	6,612,508	16,744,444	16,744,444	148,989,783	798,036,960
Utility rights	159,121,719	6,612,508	16,744,444	16,744,444	148,989,783	798,036,960

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

yen

Item	Balance at the beginning of fiscal 2011	Balance at the end of fiscal 2011	Changes during fiscal 2011
Total Amount Outstanding	31,760,648,261,394	48,877,755,891,952	17,117,107,630,558
Treasury discount bills	1,349,944,574,326	3,454,098,850,384	2,104,154,276,058
Japanese government bonds	900,731,736,254	6,314,247,481,494	5,413,515,745,240
2-year Japanese government bonds	775,267,202,960	5,478,998,224,479	4,703,731,021,519
5-year Japanese government bonds	45,319,750,074	368,335,952,423	323,016,202,349
10-year Japanese government bonds	80,144,783,220	466,913,304,592	386,768,521,372
Commercial paper	274,284,916,549	1,594,876,498,444	1,320,591,581,895
Dematerialized commercial paper	274,284,916,549	1,594,876,498,444	1,320,591,581,895
Corporate bonds	203,520,447,472	1,990,643,768,227	1,787,123,320,755
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	185,124,542,019	847,854,505,850	662,729,963,831
Pecuniary trusts (Japan real estate investment trusts held as trust property)	17,842,044,774	73,634,787,553	55,792,742,779
Loans by funds-supplying operations against pooled collateral	28,829,200,000,000	34,602,400,000,000	5,773,200,000,000

2. Details of liabilities and net assets

yen

Item	Balance at the beginning of fiscal 2011	Balance at the end of fiscal 2011	Changes during fiscal 2011
1. Banknotes	80,923,031,080,006	80,842,816,101,358	-80,214,978,648
10,000 yen notes	74,106,346,750,000	74,046,285,135,000	-60,061,615,000
5,000 yen notes	2,762,411,017,500	2,722,972,037,500	-39,438,980,000
2,000 yen notes	214,223,106,000	205,497,932,000	-8,725,174,000
1,000 yen notes	3,684,625,819,000	3,714,154,138,500	29,528,319,500
Other banknotes ⁷	155,424,387,506	153,906,858,358	-1,517,529,148
2. Deposits (excluding those of the government)	40,790,089,920,000	35,896,359,874,131	-4,893,730,045,869
Current deposits	40,755,630,259,393	34,432,345,287,416	-6,323,284,971,977
Current deposits of financial institutions ²	36,667,105,843,680	32,381,102,346,600	-4,286,003,497,080
Other current deposits of nonfinancial institutions ³	4,088,524,415,713	2,051,242,940,816	-2,037,281,474,897
Other deposits ⁴	34,459,660,607	1,464,014,586,715	1,429,554,926,108
3. Deposits of the government	2,355,376,115,233	1,832,410,092,242	-522,966,022,991
Treasury deposit	150,001,081,406	150,001,109,560	28,154
Domestic designated deposit ⁵	1,748,997,626,741	1,264,751,940,556	-484,245,686,185
Other government deposits ⁶	456,377,407,086	417,657,042,126	-38,720,364,960
4. Payables under repurchase agreements⁷	12,298,663,762,233	14,397,136,807,129	2,098,473,044,896
Sales of Japanese government bonds under repurchase agreements to the government	10,199,920,220,270	12,552,159,163,630	2,352,238,943,360
Sales of treasury discount bills under repurchase agreements to foreign central banks and other foreign entities	2,098,743,541,963	1,844,669,684,721	-254,073,857,242
Other sales of Japanese government securities under repurchase agreements	0	307,958,778	307,958,778
Of which: Under the securities lending facility	0	307,958,778	307,958,778
5. Other liabilities	28,946,842,127	35,850,139,023	6,903,296,896
Remittances payable	12,521,435,090	5,808,606,169	-6,712,828,921
Unearned interest and discounts	164,382	115,068	-49,314
Taxes payable	1,122,000,000	12,767,000,000	11,645,000,000
Lease liabilities	7,260,491,051	8,181,400,388	920,909,337
Others	8,042,751,604	9,093,017,398	1,050,265,794

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

2. Deposits held by financial institutions including institutions such as *tanshi* companies (money market brokers) and securities finance companies.

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

4. Deposits held by foreign central banks and others.

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

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

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

yen

Item	Balance at the beginning of fiscal 2011	Increase during fiscal 2011	Decrease during fiscal 2011	Balance at the end of fiscal 2011
6. Provisions⁸	3,236,447,900,641	12,129,589,454	11,565,317,133	3,237,012,172,962
Provision for retirement benefits	196,335,632,537	12,129,589,454	9,302,042,042	199,163,179,949
Provision for possible losses on bonds transactions	2,243,348,993,013	0	0	2,243,348,993,013
Provision for possible losses on foreign exchange transactions	794,500,000,000	0	0	794,500,000,000
Provision for unrealized losses on index-linked exchange-traded fund holdings	2,158,071,673	0	2,158,071,673	0
Provision for unrealized losses on Japan real estate investment trust holdings	105,203,418	0	105,203,418	0
7. Net assets	2,678,462,596,268	7,821,045,463	0	2,686,283,641,731
Capital	100,000,000	0	0	100,000,000
Legal reserve ⁹	2,678,349,399,816	7,821,045,463	0	2,686,170,445,279
Special reserve ¹⁰	13,196,452	0	0	13,196,452

Notes: 8. Appropriated in accordance with the Bank's significant accounting policies.

9. A reserve maintained to cover possible losses and to pay dividends under Article 53, paragraphs 1 and 2 of the Bank of Japan 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 2011

a. Operating income

Interest on loans and discounts	
Interest on loans	43,239,552,290 yen from electronic loans and 496,352,183 yen from loans on deeds.
Interest on receivables under resale agreements	241,536 yen from interest income on purchase of Japanese government securities under resale agreements and 19,081,199 yen from interest income on purchase of commercial paper under resale agreements.
Interest and discounts on Japanese government securities	619,933,365,487 yen from interest income on Japanese government securities after adjustment.
Interest on commercial paper	1,715,187,714 yen from interest income on commercial paper after adjustment.
Interest and discounts on corporate bonds	1,054,518,198 yen from interest income on corporate bonds after adjustment.
Gains on sale of Japanese government securities	1,260,000,000 yen from gains on sales of treasury discount bills and 1,215,152,500 yen from gains on sales of Japanese government bonds.
Gains on foreign currency assets	
Gains on foreign currency securities	Total of 94,511,453,158 yen from interest and discounts on foreign currency securities and 660,283,194 yen from lending fees on them; and 63,736,373,730 yen of gains arising from sale, redemption, and revaluation at end-March 2012 of foreign currency securities.
Gains on foreign currency mutual funds	2,257,190,787 yen
Gains on foreign currency pecuniary trusts	7,134,305,347 yen
Interest on foreign currency deposits and loans	2,183,508,878 yen
Other operating income	
Gains on pecuniary trusts (index-linked exchange-traded funds held as trust property)	5,884,290,385 yen mainly from distributions.
Gains on pecuniary trusts (Japan real estate investment trusts held as trust property)	2,353,355,399 yen mainly from distributions.
Dividends	655,855,990 yen for dividends from shares of the Bank for International Settlements held by the Bank.
Fees and commissions	10,756,240,395 yen for fees and commissions for operations regarding Japanese government securities, the BOJ-NET, foreign exchange transactions, and other operations.
Other income	13,779,217,425 yen from transfer from provision for retirement benefits and other miscellaneous income.

b. Operating expenses

Interest on payables under repurchase agreements	17,010,030,431 yen for interest payment on sale of Japanese government securities under repurchase agreements.
Losses on foreign currency assets	
Foreign exchange losses	60,622,806,626 yen from losses on foreign currency assets resulting from fluctuations in foreign exchange rates during the fiscal year and arising from revaluation at the end of the fiscal year.
General and administrative expenses and costs	
Cost of production of banknotes	49,921,440,000 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	18,011,635,083 yen from fees and commissions paid to agents of the Bank for administration of treasury business and Japanese government securities.
Personnel expenses	417,617,800 yen for remuneration of the officers; 39,425,161,250 yen for remuneration of the employees; and 9,331,695,042 yen for retirement allowances.
Expenses for transportation and communications	1,808,113,294 yen for expenses for transportation and 2,693,166,424 yen for expenses for communications.
Expenses for maintenance and repairs	1,702,222,300 yen on offices and other premises.
Other general and administrative expenses and costs	1,134,625,693 yen for the cost of expendable supplies; 1,748,169,255 yen for expenses for electricity and water supply; 9,228,459,482 yen for leasing fees for buildings and equipment; 8,837,756,776 yen for expenses for maintenance of buildings and equipment; and 26,920,594,006 yen for miscellaneous expenses.
Taxes excluding corporate income tax, inhabitants taxes, and enterprise taxes	4,045,974,575 yen for taxes and public charges (including fixed-asset tax and urban development tax).
Depreciation and amortization	16,404,769,731 yen on buildings and lease assets.
Other general and administrative expenses	
Losses on pecuniary trusts (stocks held as trust property)	27,630,904,808 yen of losses arising from revaluation due to impairment losses.
Fees and commissions paid	410,242,933 yen
Other expenses	39,456,687,484 yen for interest on domestic designated deposit; interest on excess reserve balances under the complementary deposit facility; interest payment on currency swap transactions; transfers to provision for retirement benefits; and other expenses.

c. Special profits

Gains on disposal of fixed assets	6,539,956,664 yen for gains on sale of the Bank's welfare facilities and other properties.
Transfer from provision for unrealized losses on index-linked exchange-traded funds	2,158,071,673 yen
Transfer from provision for unrealized losses on Japan real estate investment trusts	105,203,418 yen
Other special profits	659,758,158 yen of gains arising from repayment of operating profits on the primary account of the New Financial Stabilization Fund upon its dissolution.

d. Special losses

Losses on disposal of fixed assets	234,787,154 yen for losses on disposals of automatic banknote examination machines and other properties.
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e. Net income

Net income before taxes	545,311,655,561 yen
Provision for corporate income tax, inhabitants taxes, and enterprise taxes	16,244,776,866 yen
Net income	529,066,878,695 yen

IV. EXPENSES

The total amount of the Bank's settlement of accounts for expenses for fiscal 2011 (the 127th fiscal year) decreased by 1.7 percent (3.0 billion yen) to 178.3 billion yen compared to the previous fiscal year. This was mainly due to decreases in the following items: the "cost of fixed-asset purchases," because the amount of large-scale improvements to the Bank's premises decreased; the "cost of production of banknotes," due to a cost reduction; and "other general and administrative expenses and costs," particularly in "leasing fees for buildings and equipment" and "expenses for maintenance of buildings and equipment."

1. Annual report on settlement of accounts for fiscal 2011

yen

Item	Initial budget	Use of contingency funds	Diversion of funds	Adjusted budget ¹	Settlement of accounts	Surpluses	Changes from the previous year's settlement of accounts
Cost of production of banknotes	49,951,295,000	0	0	49,951,295,000	49,921,440,000	29,855,000	-238,562,000
Administrative expenses for treasury business and Japanese government securities	19,336,182,000	0	0	19,336,182,000	18,011,635,083	1,324,546,917	-204,364,996
Personnel expenses	50,691,916,000	0	0	50,691,916,000	49,174,474,092	1,517,441,908	-84,499,720
Remuneration of the officers	420,555,000	0	0	420,555,000	417,617,800	2,937,200	8,433,700
Remuneration of the employees	40,580,024,000	0	0	40,580,024,000	39,425,161,250	1,154,862,750	-145,785,232
Retirement allowances	9,691,337,000	0	0	9,691,337,000	9,331,695,042	359,641,958	52,851,812
Expenses for transportation and communications	5,158,733,000	0	0	5,158,733,000	4,501,279,718	657,453,282	-169,859,918
Expenses for transportation	2,135,163,000	0	0	2,135,163,000	1,808,113,294	327,049,706	9,315,730
Expenses for communications	3,023,570,000	0	0	3,023,570,000	2,693,166,424	330,403,576	-179,175,648
Expenses for maintenance and repairs	2,043,867,000	0	0	2,043,867,000	1,702,222,300	341,644,700	-83,551,116
Other general and administrative expenses and costs	54,949,984,000	0	0	54,949,984,000	47,869,605,212	7,080,378,788	-224,668,349
Cost of expendable supplies	1,412,604,000	0	0	1,412,604,000	1,134,625,693	277,978,307	-73,123,093
Expenses for electricity and water supply	2,077,535,000	0	0	2,077,535,000	1,748,169,255	329,365,745	-166,248,167
Leasing fees for buildings and equipment	10,739,615,000	0	0	10,739,615,000	9,228,459,482	1,511,155,518	-1,241,139,129
Expenses for maintenance of buildings and equipment	9,828,059,000	0	0	9,828,059,000	8,837,756,776	990,302,224	-345,145,068
Miscellaneous expenses	30,892,171,000	0	0	30,892,171,000	26,920,594,006	3,971,576,994	1,600,987,108
Subtotal	182,131,977,000	0	0	182,131,977,000	171,180,656,405	10,951,320,595	-1,005,506,099
Cost of fixed-asset purchases	10,064,812,000	0	0	10,064,812,000	7,089,597,836	2,975,214,164	-2,044,079,789
Of which:							
Subject to the approval of the Minister of Finance ²	2,995,277,000	0	0	2,995,277,000	2,622,956,894	372,320,106	-494,648,118
Contingency funds	1,000,000,000	0	0	1,000,000,000	0	1,000,000,000	0
Total	193,196,789,000	0	0	193,196,789,000	178,270,254,241	14,926,534,759	-3,049,585,888
Of which:							
Subject to the approval of the Minister of Finance ²	186,127,254,000	0	0	186,127,254,000	173,803,613,299	12,323,640,701	-1,500,154,217

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

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

2. Expenses by area of business operation for fiscal 2011¹

mil. yen

Area of business operation	Expenses	Changes from a year earlier	Share of total (percent)
Issuance of banknotes	80,747	-2,480	42.1
Monetary policy	22,375	+344	11.7
Financial system policy	17,461	-1,631	9.1
Payment and settlement systems	30,463	+1,509	15.9
Services relating to the government ²	40,586	-844	21.2
Total	191,631	-3,101	100.0

Notes: 1. Calculated based on "general and administrative expenses and costs" (191.6 billion yen) in the statement of income for fiscal 2011 (the 127th 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

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

■ **Appendix 2: The Bank of Japan's Strategic Priorities for Fiscal 2012–2014**

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 2011 and at the beginning of fiscal 2012.

I. Audits of the Bank's Financial Statements and Other Documents⁷

A. Financial Statements and Other Documents for Fiscal 2010

From April through to early May 2011, the Auditors audited the Bank's financial statements and other documents, specifically, the inventory of property, the balance sheet, the statement of income, the annual report on settlement of accounts, the appropriation of net income, and the schedule for the financial statements for fiscal 2010 (the 126th fiscal year) as well as the statement of income for the second half of fiscal 2010.

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

B. Financial Statements and Other Documents for the First Half of Fiscal 2011

From October through to early November 2011, 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 2011 (the 127th 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 2011.

C. Financial Statements and Other Documents for Fiscal 2011

From April through to early May 2012, the Auditors audited the Bank's financial statements and other documents, specifically, the inventory of property, the balance sheet, the statement of income, the annual report on settlement of accounts, the appropriation of net income, and the schedule for the financial statements for fiscal 2011 as well as the statement of income for the second half of fiscal 2011.

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 2011 as well as the results of operations for the second half of fiscal 2011.

II. Audits of Cash, Securities, and Books

In fiscal 2011, the Auditors conducted a total of 56 on-site audits on 7 departments at the Bank's Head Office and 31 branches, examining cash and securities in their custody as well as their books.

7. 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 2011, the Auditors conducted on-site audits on 31 branches, 10 local offices in Japan, and 2 overseas representative offices to assess business operations and expenses. They also conducted a total of 163 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 374 examinations of key documents and 4 special on-site visits to the Bank's premises.

APPENDIX 2: THE BANK OF JAPAN'S STRATEGIC PRIORITIES FOR FISCAL 2012–2014

I. Introduction

"The Bank of Japan's Strategic Priorities for Fiscal 2012–2014" describes the basic principles for the Bank's business operations and organizational management during the three-year period.

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

II. Background

Various structural changes have been taking place in Japan's economic and financial environment, including globalization, the growing significance of emerging and commodity-exporting economies to the world economy, and technological innovations in fields such as information and communications technology. While these structural changes may well contribute to global economic growth, the accompanying economic and financial developments have been marked by complexity and volatility. This may cause imbalances to accumulate in the economy, triggering large-scale economic adjustments. The current global economic adjustment apparent particularly in the advanced economies is a case in point, and careful attention should be paid, for example, to developments in the world economy and global financial markets in the face of the European debt problem.

Japan's economy is faced with the challenge of strengthening its medium- to long-term growth potential at a time when a shrinking population, a low birth rate, and population aging have been causing its growth rate to trend downward. The country also has some more immediate tasks to deal with, such as restoration and rebuilding after the Great East Japan Earthquake and addressing concerns about the electric power supply. In this situation, in order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, it is necessary that the Bank continue to maintain accommodative financial conditions and ensure financial market stability, as well as provide support to strengthen the foundations for economic growth. Regional differences in economic structure as well as consequent disparities in profitability and financial strength among regional financial institutions are likely to remain.

Meanwhile, international discussion on maintaining financial system stability has deepened in response to the global financial crisis following the Lehman shock. There has been progress toward establishing new rules for financial regulation and supervision that are consistent on an international basis, as well as in the relevant efforts being made by individual countries and regions.

The Bank needs to respond appropriately to these changes in its environment; at the same time, in order to provide a stable foundation for financial and economic activity, it also needs to continue conducting its central banking operations properly.

The Bank must maintain the stability and efficiency of its central banking operations, while ensuring that working arrangements offer sufficient diversity for employees to improve their work-life

balance¹ in response to changes in Japan's social structure. As a public organization, the Bank is also required by the public to constantly maintain the fairness and efficiency with which it runs its business.

III. Management Principles

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

A. Stability and Efficiency in All Business Operations

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

B. Learning in Action

The Bank should continue to enhance its research activities on a wide range of economic and financial issues, since conducting high-quality research is a significant precondition for successfully achieving its mission. In its conduct of central banking operations, the Bank must take into account the surrounding circumstances, innovations in financial and information technology, and changes in public needs. Continued

research and planning is needed to achieve further improvements in central banking services and thereby respond effectively to any changes in circumstances. It is also important for the Bank to conduct performance reviews and make revisions as appropriate. It is vital for the Bank to continue to foster an organizational culture, shared with other central banks, that encourages continuous "learning" in this broad sense.

C. Enhancement of Communication Channels

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

IV. Issues and Action Plans

In accordance with the three management principles described in Section III above, the Bank has continued to address a wide range of issues and has moved forward with a number of action plans.²

In the wake of the Great East Japan Earthquake on March 11, 2011, the Bank, recognizing that maintaining confidence in the normal functioning of financial

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

2. For the Bank's evaluation of the progress made during fiscal 2011 toward achieving its Strategic Priorities for fiscal 2011–2013, see "Progress in Addressing Issues and Implementing Action Plans" on pages 38–56.

infrastructure was a top priority, made efforts to provide ample funds to the financial markets and to ensure that payment and settlement systems, which form the foundations of people's lives and economic activity, continued to be fully functional; it also decided to further enhance monetary easing. In addition, the Bank took measures on its premises as necessary to meet the need to conserve electric power following the disaster. The Bank's responses to the disaster included the temporary suspension of some of its business operations, such as some on-site examinations of financial institutions and in-house tours.

Given the Bank's performance review as well as the recent developments in Japan's economic and financial environment described in Section II, the Bank will address new issues and implement new action plans during fiscal 2012–2014, taking into account the experience gained from responding to events such as the earthquake. The following provides an overview of these new issues and action plans.

A. Matters Relating to the Conduct of Monetary Policy

In order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, the Bank will pursue powerful monetary easing through the comprehensive monetary easing measures that it has in place and will also engage in efforts, as central bank, to support strengthening the foundations for Japan's economic growth. At the same time, the Bank will do its utmost to ensure financial market stability. In support of these policy operations, the Bank will 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 and also with regard to the 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.

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

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

B. Matters Relating to the Financial System

International discussion on maintaining financial system stability deepened in light of the global financial crisis following the Lehman shock. More specific progress has been made toward establishing new international rules regarding financial regulation and supervision, as well as in corresponding efforts by individual countries and regions around the world. 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 past experience. The Bank will make use of the findings to actively contribute to policy formulation both at home and abroad.

The business environment surrounding financial institutions has continued to change, and there remain disparities among institutions in terms of their profitability and financial strength. Under these circumstances, the Bank will ensure that it accurately grasps the business conditions at financial institutions by continuing to conduct its on-site examinations and off-site monitoring efficiently and effectively, while strengthening the feedback between them. The Bank

will also encourage financial institutions to step up efforts to improve their management of risks through activities organized by the Bank's Center for Advanced Financial Technology (CAFT).

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

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.

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

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

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

At the same time, 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, in accordance with the set of basic oversight policies adopted by the Bank in keeping with the "Principles for Financial Market Infrastructures," the new international standards issued by the Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO).

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

Based on its experience following the Great East Japan Earthquake and the government's reappraisal of potential damage scenarios, 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.

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

D. Matters Relating to the Regional Economic and Financial Environment

The Bank will maintain a sound grasp of regional

economic and financial conditions, including the progress of restoration and 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.

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

E. Matters Relating to Banknotes, Treasury Funds, and Japanese Government Securities (JGS) Services

The Bank will continue to work toward securing confidence in banknotes and coins, and will conduct further research on anti-counterfeiting technologies as part of this effort.

With regard to banknote examination and services relating to treasury funds and JGSs, the Bank will examine the likely changes in the workload at its Head Office and branches in view of recent changes in the delivery routes of banknotes between financial

institutions and the Bank, as well as the progress being made in the online processing of treasury funds. Based on this examination, and also taking account of lessons learned in responding to the earthquake, the Bank will proceed with its reappraisal of the division of roles between its Head Office and branches, as well as among branches, in addition to its operational frameworks for banknote examination and services related to treasury funds and JGSs. Through these efforts, the Bank will seek to make its operational frameworks in these areas even more stable and efficient.

F. Matters Relating to Communication with the Public

In the course of implementing measures in a number of areas, the Bank will work to improve the effectiveness of its communication with the public, so as to gain broad public understanding 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.

V. Organizational Management

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

A. Stable and Efficient Business Operations

The Bank will continue to ensure that all operations are backed by accurate practical knowledge and executed with precision and deliberation. In particular, it will ensure that the necessary operational procedures are put in place in a swift and appropriate manner to implement policy measures effectively. The Bank will assess its business processes in order to identify where operational risks—including those associated with

information security—exist, and how such risks are controlled. It will then revise its business processes as necessary and work toward further strengthening its risk management.

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

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

B. Human Resources

From fiscal 2012 to 2014, the Bank will apply itself to further increasing the overall efficiency of its business operations, while securing the staff needed to enhance its capabilities in both policy formulation and the system development necessary for successful policy implementation. In addition, the Bank will continue to promote working arrangements that take into account employees' work-life balance, while holding down total personnel expenses.

With these precepts guiding its human resource management, the Bank has set the ceiling on the number of full-time employees for fiscal 2012 at 4,900.

With a view to enhancing communication channels

and strengthening its capacity to respond smoothly to changes in circumstances both at home and abroad, it has become increasingly important for the Bank to acquire and train employees who possess the practical skills to build and manage relationships both inside and outside Japan in executing the Bank's business operations and organizational management. To achieve this and to further raise employee motivation, the Bank will also continue to be more active in sending/receiving employees to/from outside institutions, in addition to improving job rotation and human resource development programs.

C. Budget for Expenses

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

In keeping with these principles, the Bank has set its budget for expenses for fiscal 2012 (the 128th fiscal year) as shown in the Attachment.

D. Performance Reviews

The Bank will evaluate the progress made in the improvement of business operations and organizational management described in the Strategic Priorities at the end of every fiscal year. It will release the results of this evaluation in the *Gyomu Gaikyo Sho* (Outline of Business Operations).

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

BUDGET FOR EXPENSES FOR FISCAL 2012

The Bank of Japan's budget for expenses for fiscal 2012 (the 128th fiscal year) is as follows (Table 1).¹ While appropriating a significant portion of the budget to deal with the issues and implement the action plans outlined in the Strategic Priorities, the Bank has also thoroughly examined and streamlined each item of expenditure.

Specifically, the budget for expenses for fiscal 2012 was more or less unchanged from the previous fiscal year, an increase of 0.8 percent, of which the amount subject to the approval of the Minister of Finance decreased by 0.1 percent. "Other general and administrative expenses and costs" and "cost of fixed-asset purchases" increased by 2.6 percent and 11.4 percent, respectively, mainly in accordance with efforts to establish the new BOJ-NET and expenses related to the improvements to the Bank's premises. On the other hand, reductions were made in the following range of items: 0.4 percent in the cost of production of banknotes; 2.3 percent in administrative expenses for treasury business and Japanese government securities; 0.3 percent in personnel expenses; 4.4 percent in expenses for transportation and communications; and 2.3 percent in expenses for maintenance and repairs.

7. 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 2012, the Bank sought approval on March 23, 2012 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 2012 (The 128th Fiscal Year)

Item	Initial budget (thous. yen)	Change from the previous year (percent)
Cost of production of banknotes	49,744,700	-0.4
Administrative expenses for treasury business and Japanese government securities	18,883,466	-2.3
Personnel expenses	50,527,703	-0.3
Remuneration of the officers	352,302	-16.2
Remuneration of the employees	40,238,721	-0.8
Retirement allowances	9,936,680	2.5
Expenses for transportation and communications	4,929,556	-4.4
Expenses for transportation	1,994,695	-6.6
Expenses for communications	2,934,861	-2.9
Expenses for maintenance and repairs	1,997,675	-2.3
Other general and administrative expenses and costs	56,378,377	2.6
Cost of expendable supplies	1,325,974	-6.1
Expenses for electricity and water supply	2,224,085	7.1
Leasing fees for buildings and equipment	11,048,024	2.9
Expenses for maintenance of buildings and equipment	9,824,164	-0.0
Miscellaneous expenses	31,956,130	3.4
Subtotal	182,461,477	0.2
Cost of fixed-asset purchases	11,211,125	11.4
Of which: Subject to the approval of the Minister of Finance ¹	2,449,636	-18.2
Contingency funds	1,000,000	0.0
Total²	194,672,602	0.8
Of which: Subject to the approval of the Minister of Finance ¹	185,911,113	-0.1

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

2. Of the budget for expenses, those related to computerization amounted to 35,242,000 thousand yen, a 2.6 percent increase from the previous year, and are included in expenses for communications, leasing fees for buildings and equipment, expenses for maintenance of buildings and equipment, and miscellaneous expenses.

Budget estimates of computerization expenses assume required outsourcing man-hours of approximately 11,402 person-months (one person-month describes the workload equivalent to one person working for one month in system development), and total man-hours of approximately 14,414 person-months if the workload of the Bank's employees is included.

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